Docket #0867 Date Filed: 8/19/2014

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	Chapter 11
	:	
MPM Silicones, LLC, et al.,[1]	:	Case No. 14-22503 (RDD)
	:	
Debtors.	:	(Jointly Administered)

DEBTORS' OMNIBUS REPLY TO CRAMDOWN OBJECTIONS TO THE DEBTORS' JOINT CHAPTER 11 PLAN OF REORGANIZATION

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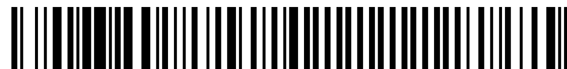
[1] The last four digits of the taxpayer identification numbers of the Debtors follow in parentheses: (i) Juniper Bond Holdings I LLC (9631); (ii) Juniper Bond Holdings II LLC (9692); (iii) Juniper Bond Holdings III LLC (9765); (iv) Juniper Bond Holdings IV LLC (9836); (v) Momentive Performance Materials China SPV Inc. (8469); (vi) Momentive Performance Materials Holdings Inc. (8246); (vii) Momentive Performance Materials Inc. (8297); (viii) Momentive Performance Materials Quartz, Inc. (9929); (ix) Momentive Performance Materials South America Inc. (4895); (x) Momentive Performance Materials USA Inc. (8388); (xi) Momentive Performance Materials Worldwide Inc. (8357); and (xii) MPM Silicones, LLC (5481). The Debtors' executive headquarters are located at 260 Hudson River Road, Waterford, NY 12188.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Pursuant to this Court's *Order Establishing a Timeline for Confirmation and Adversary Proceeding Related Discovery* [Docket No. 551] (the "**Scheduling Order**"), the debtors and debtors in possession in the above-captioned cases (collectively, the "**Debtors**"), by and through their undersigned counsel, submit this omnibus reply (the "**Reply**")[2] in response to the cramdown objections (the "**Objections**")[3] to sections 5.4(b)(ii) and 5.5(b)(ii) (the "**Cramdown Provisions**") of the *Joint Chapter 11 Plan of Reorganization for Momentive Performance Materials Inc. and Its Affiliated Debtors* [Docket No. 857] (as the same may be amended, modified and/or supplemented, the "**Plan**"). In support of the Reply, the Debtors rely upon and incorporate by reference: (a) the *Debtors' (I) Memorandum of Law in Support of Confirmation of the Plan and (II) Omnibus Reply to Objections with Respect to Plan and Related Adversary Proceedings* [Docket No. 814] (the "**Confirmation Brief**"); (b) the expert report of William Q. Derrough of Moelis & Company, dated July 28, 2014 (the "**Derrough Report**") (Ex. A); (c) the rebuttal report of William Q. Derrough of Moelis & Company, dated August 4, 2014 (the "**Derrough Rebuttal Report**") (Ex. B); and (d) the declarations of (i) William H. Carter, Chief Financial Officer of Momentive Performance Materials Inc. (the "**Carter Declaration**") (Ex. C), (ii) William Q. Derrough of Moelis & Company (the "**Derrough Declaration**") (Ex. D) and (iii) Eric Thaler, Senior Vice President and General Manager of Basics of Momentive Performance Materials Inc. (the "**Thaler Declaration**") (Ex. E). In further support of the Reply, the Debtors respectfully state:

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[2] Capitalized terms not defined herein have the meanings given them in the Confirmation Brief (as defined below), the Plan or the Disclosure Statement.

[3] The Debtors received an objection from Wilmington Trust, NA, as Indenture Trustee (the "**1.5 Lien Trustee**") for the 10% Senior Secured Notes due 2020 (the "**1.5 Lien Notes**") [Docket No. 813] (the "**1.5 Lien Objection**"). Debtors also received an objection from BOKF, NA, as First Lien Trustee (the "**First Lien Trustee**," and combined with the 1.5 Lien Trustee, the "**Trustees**") for the 8.875% First-Priority Senior Secured Notes due 2020 (the "**First Lien Notes**," and with the 1.5 Lien Notes, the "**Prior Notes**") [Docket No. 820] (the "**First Lien Objection**").

PRELIMINARY STATEMENT

1. Just four months after commencement of these chapter 11 cases, the Debtors are preparing for confirmation of the Plan—a fortunate circumstance that is the result of extensive, arm's length negotiations among the Debtors, the Plan Support Parties, and other significant parties in interest, including the Creditors' Committee. Despite the fact that the Plan meets each of the requirements of section 1129 of the Bankruptcy Code, the First Lien Noteholders and the 1.5 Lien Noteholders (together, the "**Noteholders**"), in an attempt to extract more than their share of value, object to the Cramdown Provisions (as defined herein) of the Plan. The Trustees are wrong and their cramdown objections, which are their last opportunity to derail the restructuring of the Debtors, must be overruled for the reasons set forth herein.

2. The crux of the Trustees' Objections to the Plan is that the Replacement Notes should receive the same interest rate as a third-party lender providing new financing to the Debtors. This is incorrect. The Bankruptcy Code, as interpreted by the Supreme Court in Till v. SCS Credit Corp., instead provides for a "formula" approach to determine interest rates on replacement notes for secured creditors, not a market analysis, where the plan is otherwise feasible. 541 U.S. 465 (2004). The Till formula is not intended to put current creditors on par with market lenders, but instead to provide for a base interest rate plus some compensation for the risk that such replacement notes are not repaid as scheduled. This Court has previously indicated its intent to "follow[] the Supreme Court." (See In re MPM Silicones, LLC, No. 14-22503, Hr'g Tr., June 19, 2014 ("June 19 Hr'g Tr.") (Ex. F) at 172:6-172:25.) As such, the Debtors apply the formula approach provided in Till to determine the appropriate cramdown interest rates on the Replacement Notes.

3. The Trustees blanketly assert that Debtors' expert, William Q. Derrough, did not rely upon any "empirical evidence" or "other analysis" in determining the appropriate Cramdown Rates under the Till formula approach. The Trustees' contentions on this score are puzzling. Contrary to Trustees' assertions, Mr. Derrough objectively and thoroughly analyzed both components of the Till formula: (a) the appropriate base interest rate; and (b) the appropriate Add-On Risk Premium.[4] To test the reasonableness of the proposed Add-On Risk Premium, Mr. Derrough analyzed "the nature of the security, and the duration and feasibility of the reorganization plan," as required by Till. See Till, 541 U.S. at 479. Tailoring the Add-On Risk Premium analysis to the specific facts and circumstances at issue here, Mr. Derrough analyzed the following six overarching factors: (1) sustainable capital structure; (2) likelihood of repayment or financing; (3) capital structure sustainability in downside (sensitivity) scenarios; (4) sufficient liquidity; (5) collateral; and (6) business fundamentals. Based upon all of the foregoing factors, Mr. Derrough determined that the Replacement Notes would adequately compensate the Noteholders for any risks attendant to extending credit to the reorganized Debtors.

4. The Trustees take issue with Mr. Derrough's analysis, contending that the Debtors' proposed Add-On Risk Premium under the Till formula is inadequately low because Debtors have faced and will continue to face a number of business and operational challenges. While this may be true, the Debtors have projected the financial performance of the Company upon emergence from bankruptcy (the "**Financial Projections**") (Ex. G).[5] As demonstrated

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[4] The concept of Add-On Risk Premium is defined in the Derrough Report at page 6.

[5] The Financial Projections are also annexed to the Disclosure Statement (as defined herein) as Exhibit 3 [Docket No. 173].

below and in the Carter Declaration (Ex. C), the Financial Projections were prepared through a rigorous, scrutinized process. The Financial Projections took into consideration the relevant business and operational challenges facing the Debtors. As demonstrated below, William Carter, Chief Financial Officer of both Momentive Performance Materials Holdings Inc. ("**MPM Holdings**") and Momentive Performance Materials Inc. ("**MPM**"), maintains—for good reason—that the Debtors' Financial Projections are reasonable and that Debtors will be able to satisfy all of their financial obligations, including to the Replacement Notes. Mr. Derrough, fully informed about the Debtors' Financial Projections and the business and operational challenges cited in Trustees' Objections, likewise concluded that the Cramdown Rate adequately accounts for risk to the Noteholders.

5. The Trustees further object to use of a Treasury rate as the applicable base rate for the Till formula, apparently because Till applied the prime rate under the circumstances of that case. As demonstrated below, Till and other courts do not require use of the prime rate as the base rate in all circumstances—the prime rate is not a one-size-fits all solution. To the contrary, Mr. Derrough has opined that a prime rate does not "fit" as the appropriate base rate under the financing scenarios at issue here. Rather, a seven-year Treasury rate appropriately matches the maturity of the Replacement First Lien Notes and the Replacement 1.5 Lien Notes (combined, the "**Replacement Notes**").

6. The Trustees further argue that the Debtors' proposed cramdown interest rates do not reflect the present value of their Allowed Claims. As demonstrated below, the Till formula is designed to calculate the present value of the Noteholders' Allowed Claims and no separate present value analysis is required.

7. The Trustees' cramdown Objections should be overruled and the Plan confirmed because the Plan's Cramdown Provisions meet all requirements of section 1129(b) of the Bankruptcy Code.

BACKGROUND

8. On April 13, 2014 (the "**Petition Date**"), MPM Silicones, LLC and each of the other Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. The Debtors are continuing in the possession of their respective properties and the management of their respective businesses as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. These chapter 11 cases have been consolidated for procedural purposes only. On April 22, 2014, the Committee was appointed in these cases. As of the date hereof, no trustee or examiner has been appointed in any of the Debtors' cases.

9. The events leading up to the Petition Date are set forth in the April 13, 2014 Declaration of William H. Carter, Chief Financial Officer of Momentive Performance Materials Inc., in Support of Chapter 11 Petitions and First Day Pleadings [Docket No. 16].

10. On May 12, 2014, the Debtors filed their initial versions of the Plan and related disclosure statement [Docket No. 173] (as the same may be amended, modified and/or supplemented, the "**Disclosure Statement**"). The Debtors filed revised versions of the Plan and Disclosure Statement on June 18, 2014 [Docket Nos. 435 and 457, respectively] and June 23, 2014 [Docket Nos. 515 and 516, respectively]. The Debtors filed a further revised version of the Plan on August 18, 2014 [Docket No. 857].

11. On June 23, 2014, the Court entered an Order [Docket No. 508] approving the Disclosure Statement (the "**Disclosure Statement Order**"). The Disclosure Statement, among other things, (i) approved the Disclosure Statement as containing adequate information within

the meaning of section 1125 of the Bankruptcy Code, (ii) approved the form and manner of various notices, ballots and the procedures for tabulating votes, and (iii) establishing July 28, 2014 at 4:00 p.m. (prevailing Eastern Time) as the general deadline by which all ballots were to be received by Kurtzman Consultants LLC ("**KCC**").

12. On August 5, 2014, the Debtors' filed the balloting tabulation prepared by KCC [Docket No. 789] (the "**Voting Certification**"). As indicated in the Voting Certification, the First Lien Noteholders and the 1.5 Lien Noteholders voted to reject the Plan through negative votes of approximately 91.91% and 80.12% in amount of their Claims, respectively, and 88.56% and 80.68% in number, respectively.

13. As a result, the Plan provides that the First Lien Noteholders and the 1.5 Lien Noteholders will receive Replacement First Lien Notes and Replacement 1.5 Lien Notes (combined, the "**Replacement Notes**"), respectively. As described in the Disclosure Statement, the First Lien Noteholders and the 1.5 Lien Noteholders will receive Replacement First Lien Notes and Replacement 1.5 Lien Notes with annual interest rates equal to the Treasury rate plus 1.50% ("**First Lien Cramdown Rate**") and 2.00% ("**1.5 Lien Cramdown Rate**," and with the First Lien Cramdown Rate, the "**Cramdown Rates**"), respectively, or of such greater rate determined by the Bankruptcy Court is necessary to satisfy the provisions of the Bankruptcy Code. See Disclosure Statement, Exhibit 7.

14. On July 18, 2014, the Debtors filed their Plan Supplement [Docket No. 707] (including all exhibits thereto and as amended, modified, and/or supplemented from time to time, the "**Plan Supplement**") which included drafts of the indentures for the Replacement First Lien Notes (the "**Replacement First Lien Indenture**") and the Replacement 1.5 Lien Notes (the "**Replacement 1.5 Lien Indenture**").

15. On August 12, 2014, the First Lien Trustee and the 1.5 Lien Trustee each filed its Objections to the Cramdown Provisions of the Plan.

REPLY TO OBJECTIONS

I. THE PLAN SATISFIES THE "CRAMDOWN" FRAMEWORK PROVIDED IN SECTION 1129(B) OF THE BANKRUPTCY CODE.

16. Notwithstanding the fact that the Noteholders voted to reject the Plan, the Plan should be confirmed because it satisfies the requirements of section 1129(b) of the Bankruptcy Code.

A. The Legal Standards under Section 1129(b).

17. Under section 1129(b), a bankruptcy court may cramdown a plan over the dissenting vote of an impaired class of creditors so long as the plan does not "discriminate unfairly" and is "fair and equitable" with respect to the non-accepting class. See 11 U.S.C. § 1129(b)(1); Boston Post Rd. Ltd. P'ship v. FDIC (In re Bos. Post Rd. Ltd. P'ship), 21 F.3d 477, 480 (2d Cir. 1994), cert. denied, 513 U.S. 1109 (1995); In re Zenith Elecs. Corp., 241 B.R. 92, 105 (Bankr. D. Del. 1999) (explaining that "[w]here a class of creditors or shareholders has not accepted a plan of reorganization, the court shall nonetheless confirm the plan if it 'does not discriminate unfairly and is fair and equitable'").

18. Section 1129(b) of the Bankruptcy Code does not prohibit differences in treatment between the classes only "unfair discrimination.". Courts generally have found that a plan unfairly discriminates, in violation of section 1129(b) of the Bankruptcy Code, only if similarly situated claims are treated differently without a reasonable basis for the disparate treatment. See In re Johns-Manville Corp., 68 B.R. 618, 636 (Bankr. S.D.N.Y. 1986) (the unfair discrimination standard "ensures that a dissenting class will receive relative value equal to the value given to all other similarly situated classes"); In re Young Broad., Inc., 430 B.R. 99, 139-

40 (Bankr. S.D.N.Y. 2010) ("Under 1129(b)(1), a plan unfairly discriminates when it treats similarly situated classes differently without a reasonable basis for the disparate treatment.").

19. The Plan at issue in this case does not discriminate unfairly against the Noteholders, as no other holders of similarly situated Claims are receiving different treatment under the Plan. Stated otherwise, Class 4 (the First Lien Noteholders) consists of all Claims arising under the First Lien Indenture and Class 5 (the 1.5 Lien Noteholders) consists of all Claims arising under the 1.5 Lien Indenture. Notably, the Trustees do not assert that the Plan is unfairly discriminatory.

20. Under section 1129(b), a plan also must be "fair and equitable" with respect to an impaired class of secured creditors that rejects a plan. In order to meet this requirement, a plan must satisfy the criteria set forth in one of the three scenarios outlined in section 1129(b)(2)(A):

> (i) (I) that the holders of such claims retain the liens securing such claims, whether the property subject to such liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims; and
>
> (II) that each holder of a claim of such class receive on account of such claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date of the plan, of at least the value of such holder's interest in the estate's interest in such property;
>
> (ii) for the sale, subject to section 363(k) of this title, of any property that is subject to the liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of such sale, and the treatment of such liens on proceeds under clause (i) or (iii) of this subparagraph; or
>
> (iii) for the realization by such holders of the indubitable equivalent of such claims.

11 U.S.C. § 1129(b)(2)(A)(i)-(iii).

21. The Plan satisfies the fair and equitable requirement of the Bankruptcy Code because the treatment of the Noteholders meets the standards set forth in section 1129(b)(2)(A)(i).[6] Under this alternative, a dissenting class of secured creditors must: (a) retain their liens on the same collateral, to the extent of the allowed amount of such claims; and (b) receive deferred cash payments of a value equal, as of the effective date of the plan, the total value of the secured creditors' interests in the estates' interests in such collateral. See 11 U.S.C. § 1129(b)(2)(A)(i); see also Till, 541 U.S. at 469 (explaining that section 1129(b)(2)(A)(i)(II) requires that a secured creditor whose claims are paid out over time through a chapter 11 plan must be paid in installments "calibrated to ensure that, over time, the creditor receives disbursements whose present value equals or exceeds that of the allowed claim."). Legislative history indicates that the phrase "of a value, as of the effective date of the plan" requires a court to determine the present value equal to the amount of the claim. See 124 Cong. Rec. 32, 407 (1978) (statement of Rep. Edwards); United Sav. Ass'n v. Timbers of Inwood Forest Assocs., Ltd., 484 U.S. 365, 377 (1988) (noting that the phrase "value, *as of the effective date of the plan*" under section 1129(b)(2)(A)(i)(II) requires a present value analysis).

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[6] The Debtors also assert that the treatment of the Noteholders under the Plan satisfies the standards set forth in section 1129(b)(2)(A)(iii), which requires providing the creditors with such treatment as would permit their to realize the "indubitable equivalent" of their claims . Although "indubitable equivalent" is not defined by the Bankruptcy Code, courts generally will find the requirement satisfied where a plan protects such creditor's principal and provides for the present value of the creditors' claim. See, e.g., In re Sparks, 171 B.R. 860, 866 (Bankr. N.D. Ill. 1994) (a plan provides the indubitable equivalent of a claim to the creditor where it "(1) provides the creditor with the present value of its claim, and (2) insures the safety of its principle [sic]." (citations omitted).

Here, the Debtors submit that providing the Noteholders with the Replacement Notes with the same collateral and relative priority as the Prior Notes more than adequately protects the creditors' principal. Further, as demonstrated below, the Debtors appropriately utilized the Till formula approach to designate the Cramdown Rates, and thus, the Noteholders are receiving the present value of their Allowed Claims. Accordingly, the Debtors have also provided the Noteholders with the indubitable equivalent of their claims.

22. Here, the Plan satisfies the first requirement of section 1129(b)(2)(A)(i) as the Trustees will each retain their liens on their prepetition collateral in the amount of their respective allowed claims pursuant to the Term Sheet and Indenture for Replacement First Lien Notes and the Term Sheet and Indenture for the Replacement 1.5 Lien Notes. See Disclosure Statement, Exhibits 7 and 8; see also Plan Supplement, Exhibits M and N. Notably, neither of the Trustees question whether the Plan allows them to each retain their liens on the prepetition collateral.

23. The Trustees argue, however, that the Debtors failed to meet the second requirement of section 1129(b)(2)(A)(i). As demonstrated below, the Plan meets the second requirement because the Cramdown Rates, as set under the formula solution provided in Till, provide the Noteholders deferred cash payments aggregating the present value of their Allowed Claims.

B. The Till Formula Does Not Require the Cramdown Rates to Equal the Market Rates of Interest.

24. As a gating issue, the Trustees incorrectly argue that the Cramdown Rates must equal market rates of interest. In Till, the United States Supreme Court held that the correct method for determining a cram down interest rate was a "formula" approach. 541 U.S. at 465. Acknowledging that the Bankruptcy Code provides little or no guidance as to the method that should be utilized in calculating the interest rate for cram down, the Court found that the "formula rate best meets the purposes of the [Code]" because it "entails a straightforward, familiar, and objective inquiry, and minimizes the need for potentially costly additional evidentiary hearings." Id. at 468, 478. The streamlined formula approach also furthers the Supreme Court's stated objective that "Congress intended bankruptcy judges and trustees to *follow essentiality the same approach* when choosing an appropriate interest rate under any of

[the Bankruptcy Code] provisions" that "require a court to discount[t] a stream of deferred payments back to the[ir] present dollar value." Id. at 474 (italicized emphasis added; ellipses and brackets in original; citation omitted). Till does not state that a market interest rate analysis is required or even preferred. See In re Lilo Props., LLC, No. 10-11303, 2011 Bankr. LEXIS 4407 at, *6 (Bankr. D. Vt. Nov. 4, 2011) (applying the Till formula without an analysis of whether there was an efficient market); see also MPM Silicones, LLC, Case No. 14-22503 (RDD), Adv. Proc. No. 14-08227, Hr'g Tr. at 172:13-19 (Bankr. S.D.N.Y. June 19, 2014) ("MR. MOELLER-SALLY: But the Supreme Court said what it said [in Till] in terms of applying an interest rate in the absence of market rate. THE COURT: No. If you read footnote 14, what they said is, a real market is zero. Now, we as bankruptcy lawyers may disagree with that. But we're not the Supreme Court; the Supreme Court has spoken.").

25. The Supreme Court's decision in *Till* was not limited to the facts of that case. As this Court has expressly noted:

> [T]he Supreme Court wasn't just talking about trucks in the Till case. I think they were talking about cram-down of secured creditors in all scenarios, in fact, they say that.

In re The Great Atl. & Pacific Tea Co., No. 10-24549 ("A&P"), Hr'g Tr., Nov. 14, 2011 (Ex. H), at 70:9-70:19 (emphasis added).

26. The Trustees make much of footnote 14 in Till, which states "when picking a cram down rate in a Chapter 11 case, it *might* make sense to ask what rate an efficient market would produce." Till, 541 U.S. at 476 n. 14 (internal citations omitted) (emphasis added). Again, there is no stated requirement or preference to perform a market analysis. Further, we agree with this Court that footnote 14 must be read in conjunction with and be reconciled with footnote 18 in Till. A&P Hr'g Tr. (Ex. H), at 70:9-19 (Bankr. S.D.N.Y. Nov. 14, 2011)

("[W]hile some courts have applied footnote 14 in the Till case to say, oh, no, you've got to do a market analysis in a Chapter 11, that's completely antithetical to footnote 18 in the Till case, which says that, in fact, if the Court was really confident that a plan would work, and there wouldn't be any risk of it failing down the road, then the proper discount rate would be the prime rate."). Footnote 18 in Till provides that "if the court could somehow be certain a debtor would complete his plan, the prime rate would be adequate to compensate any secured creditors forced to accept cramdown loans." Under the scenario described in footnote 18, no further analysis would be required beyond selecting a base interest rate, let alone a market analysis. Till, 541 U.S. at 479 n. 18.

27. Debtors calculated the Cramdown Rates applying the straightforward and objective formula approach provided under Till. Debtors' expert, Mr. Derrough, undertook the following, two-step analysis as required under Till: The first step is to choose a base rate, which is selected "taking [a] cue from ordinary lending practices," and which "reflects the financial market's estimate of the amount a commercial bank should charge a creditworthy commercial borrower to compensate for the opportunity costs of the loan, the risk of inflation, and the relatively slight risk of default." Till, 541 U.S. at 479. The second step of the formula approach requires the Bankruptcy Court to adjust the base rate to "account for the risk of nonpayment posed by borrowers in their financial position." Id. at 465. Mr. Derrough refers to this upward adjustment as the "**Add-On Risk Premium**."

C. The Treasury Rate is the Appropriate Till Base Rate Under the Circumstances Here.

28. As to the first step of the Till formula approach, the Debtors and Mr. Derrough selected a seven-year Treasury rate that matches the maturity of the Replacement Notes. The Trustees contend that a bankruptcy court should always use the prime rate as the base rate under

Till and therefore the Debtors' and Mr. Derrough's selection of the Treasury rate as the base rate is inappropriate. The Trustees' contention is wrong. Neither Till nor binding case law in the Second Circuit require the prime rate to be used as the "one size fits all" base rate. Indeed, post-Till courts have used Treasury rates as the cramdown base rate. E.g., In re Village at Camp Bowie I, L.P., 454 B.R. 702, 712-713 (Bankr. N.D. Tex. 2011) (using five-year Treasury rate as cramdown base rate, noting "Till's direction to use a formula approach to fixing an interest rate does not require, from case to case, use of the prime rate"); Federal Nat'l Mortg. Ass'n v. Village Green I, GP, 483 B.R. 807, 820 (W.D. Tenn. 2012); In re Bastankhah, No. 10-40058, 2012 Bankr. LEXIS 256, at *8 (Bankr. S.D. Tex. Jan. 18, 2012) (using five-year Treasury rate as cramdown base rate).[7] Further, in issuing the Till decision, the Supreme Court did not state that it was revising or even criticizing the line of cases basing cramdown interest rates off of benchmark rates other than the prime rate. For example, the Second Circuit in General Motors Acceptance Corp. v. Valenti (In re Valenti), 105 F.3d 55, 64 (2d Cir. 1997), held that the appropriate rate of interest was the rate of interest on a U.S. Treasury instrument having a maturity equivalent to the repayment schedule under the plan, plus a premium reflecting the risk to the creditor in receiving deferred payments under the plan. Valenti applied substantively the same formula later promulgated in Till and used a Treasury rate as the benchmark rate. See also Mercury Capital v. Connecticut Assocs., L.P., 354 B.R. 1, 11-12 (D. Conn. 2006); In re Dingley,

[7] The First Lien Trustee argues that In re Bastankhah, 2012 Bankr. LEXIS 256 (Bankr. S.D. Tex. Jan. 18, 2012) is no longer good law in light of the Fifth Circuit's alleged holding in Wells Fargo Bank N.A. v. Texas Grand Hotel Realty, LLC (In re Texas Grand Hotel Realty, LLC), 710 F.3d 324 (5th Cir. 2013) that courts in the Fifth Circuit are required to undertake their Till formula analysis by utilizing the national prime rate. First Lien Objections ¶ 56. Texas Grand did not opine on whether Till requires the use of the national prime rate over the Treasury rate; it merely affirmed, pursuant to a clear error standard, a bankruptcy court's decision to use the national prime rate as the applicable base rate for determining the appropriate cramdown rate of interest under section 1129(b)(2)(A)(i)(I). Texas Grand, 710 F.3d at 337. Even if the First Lien Trustee's reading of Texas Grand was accurate, which it is not, the Fifth Circuit's decision is not binding on this Court.

189 B.R. 264, 271 (Bankr. N.D.N.Y. 1995) (applying the Treasury bond rate of interest as benchmark to determine cramdown rate); In re Bloomingdale Partners, 155 B.R. 961, 978 (Bankr. N.D. Ill. 1993) ("The appropriate Treasury bond will be used to establish the risk-free rate. Treasury bond rates already reflect the market's adjustment for the risk of inflation, allowing us to focus on the risks peculiar to this proposed transaction") (internal citation omitted); In re Oaks Partners, Ltd., 135 B.R. 440, 442 (Bankr. N.D. Ga. 1991) (Treasury rate is appropriate risk-free rate).

29. Addressing the nature of the particular securities at issue here, Mr. Derrough opined that Treasury rate is the appropriate benchmark or base rate for longer term debt obligations, such as the Replacement Notes. See Derrough Declaration at ¶ 15. The seven-year maturity for the bills underlying the seven-year Treasury rate matches approximately the timeframe for the maturity of the Replacement Notes. Id. The Treasury rate can be "differentiated" or calculated to match different maturities of different loan instruments. Id. Indeed, Mr. Derrough calculated a slightly different Treasury rate for each of the First Lien Replacement Notes and 1.5 Lien Replacement because the two sets of Replacement Notes have slightly different maturities. See Derrough Declaration at ¶ 15; see also Derrough Report at 6 ("The applicable Treasury Rates likewise contemplates bond investments over the duration matching the respective Replacement Notes (i.e. the seven-year treasury rate for the Replacement First Lien Notes and an interpolated rate between the seven-year treasury rate and the ten-year treasury rate for the Replacement 1.5 Lien Notes) – which are long-term investments."). Use of the seven-year Treasury rate as a benchmark in this case is more than a "convenience" due to happenstance similarities between the seven-year Treasury rate and the Replacement Notes, as 1.5 Lien Trustee suggests. 1.5 Lien Objection ¶ 57. The prime rate as a benchmark simply

cannot account for differences in maturity timeframes and is a short-term, floating rate that is not used in practice as a benchmark for bonds with longer-term maturities and fixed rate coupons. Derrough Declaration at ¶ 15.

30. Even Christopher Kearns, expert for 1.5 Lien Indenture Trustee, agrees that the Treasury rate is an appropriate benchmark rate for the Replacement Notes. The Expert Report of Christopher J. Kearns, dated July 28, 2014 (the "**Kearns Report**") calculates a market-based risk premium, concluding that an "arm's length spread over Treasuries of 5.33%, which is 7.53% on a fixed rate basis . . . ." Kearns Report at 48 (Ex. I). When asked at his deposition why he had selected the Treasury rate as a benchmark for the Replacement Notes, Mr. Kearns said that "yields on bonds are compared to Treasuries because it is readily apparent in a marketplace on how to match a yield on a given bond to the Treasury rate using a similar maturity." Kearns Dep. at 145:23-147:6 (Ex. J). Mr. Kearns further explained that "[u]sing Treasury takes the interpolation of forward curves out of the calculation of the spread, because . . . there are U.S. Treasury rates available through the fed for maturity of one, two, three, five, seven-year, ten-year and longer-term, which also enables one to interpolate — as I've done on the seven-and-a-half year — between the 7s and the 10s. So there is, you know — there is data readily available for Treasury rates with various maturities which takes the mystery out of attempting to estimate forward curves." Id. at 148:2-25.

31. Courts calculating cramdown rates have also matched the benchmark rate to the term of the cramdown payment stream at issue. E.g., Camp Bowie, 454 B.R. at 712-13 (using five-year Treasury rate as benchmark in the case of a proposed five-year payout under the plan of reorganization and rejecting prime rate as the benchmark); In re Bastankhah, 2012 Bankr. LEXIS

256, at *8 (using five-year Treasury rate as benchmark where plan contemplated payment over five years).

32. For the foregoing reasons, this Court should rule that the Treasury rate is an appropriate benchmark or base rate for determination of the cramdown interest rate for the Replacement Notes.

D. The Debtors' Proposed Risk Premiums Are Reasonable and Meet the Till Criteria.

33. In the second step of the Till formula approach, Mr. Derrough determined an appropriate Add-On Risk Premium to be added to the base rates for each of the Replacement Notes. Mr. Derrough analyzed six overarching factors based on Till's guidance that "the appropriate size of th[e] risk adjustment depends, of course, on such factors as the circumstances of the estate, the nature of the security, and the duration and feasibility of the reorganization plan." Till at 479. Specifically, Mr. Derrough analyzed: (1) the sustainability of the Debtors' capital structure post-confirmation; (2) the likelihood of repayment of the Debtors' refinancing; (3) sustainability of the capital structure in downside scenarios; (4) the Debtors' liquidity; (5) the collateral support for the Replacement Notes; and (6) the Debtors' business fundamentals. See Derrough Report at 7. After taking these factors into account, Mr. Derrough concluded that a risk premium of 150 basis points and 200 basis points—as proposed in the Plan—is appropriate under the circumstances for the First Lien Replacement Notes and the 1.5 Lien Replacement Notes, respectively. See id..

34. Mr. Derrough determined that the Plan creates a substantial equity cushion for the Replacement Notes. In this regard, Mr. Derrough noted that the Plan calls for significant de-leveraging through equitization or cancelation of over $3 billion in debt and provides the post-bankruptcy Company with new cash equity of $600 million. Derrough Report at 8. Mr.

Derrough found it significant that Debtors were able to receive commitments from sophisticated investors for a substantial amount ($600 million) of new equity. Id. Overall, Mr. Derrough's firm's valuation of the Reorganized Debtors calculates an equity cushion of $814 million to $1,264 million, representing a range of 40.7% to 51.6% of total enterprise value. Id. In addition, Mr. Derrough considered the fact that the Replacement Notes would be secured by liens on a large amount of Debtors' assets and that the indentures for the Replacement Notes contain limitations on the Debtors' ability to incur additional debt that is secured by the same collateral assets. See Derrough Report at 11.

35. Mr. Derrough determined that it is reasonable to expect that the Replacement Notes can be serviced and to expect repayment or refinancing at maturity of the Replacement Notes. Id. This determination was supported by Mr. Derrough's thorough familiarity with of the Debtors' Financial Projections for the post-emergence period. Id. at 9-10. This determination was further supported by the fact that the Debtors received multiple proposals from large banks and other sophisticated parties to provide financing in connection with bankruptcy, indicating that the Debtors would be well positioned to refinance the Replacement Notes if need be. Id. at 10.

36. Mr. Derrough performed a downside sensitivity analysis and determined that the capital structure proposed under the Plan, including servicing the Replacement Notes, is sustainable even after a 20% reduction in the Debtors' projected EBITDA (earnings before interest, taxes, depreciation, and amortization) for *each year* over the course of the next five years. Id. at 10-11.

37. Mr. Derrough's conclusion was further supported by the fact that the Debtors are projected to maintain significant liquidity over the next five years, starting with $409 million in liquidity upon emergence from bankruptcy. Id. at 11.

38. Other courts' cramdown analysis further support that Debtors' proposed Add-On Risk Premiums are reasonable and adequate. As Till noted, "other courts have generally approved risk adjustments of 1% to 3%." Till, 541 U.S. at 479 (citing In re Valenti, which collected cases demonstrating this range); see also In re Marfin Ready Mix Corp., 220 B.R. 148 (Bankr. E.D.N.Y. 1998) (requiring debtor to pay a rate of interest on the allowed secured claim, which, pursuant to Valenti, was equal to the applicable Treasury rate plus a 1% to 3% risk premium); In re Vescio, No. 96-10153, 2000 WL 33965102, at *2 (Bankr. D. Vt. Nov. 2, 2000) (establishing a rebuttable presumption that 1 percent and 3 percent constitute the outer limits of the range of reasonable risk premiums and approving debtors' proposed cramdown interest rate of 8.235 percent, representing the 1.875 percent risk premium on top of a Treasury rate of 6.36 percent).

39. Trustees raise a smattering of alleged business and operational challenges faced by Debtors to argue that the Debtors' proposed Add-On Risk Premiums are inadequate. See First Lien Objection, ¶¶ 60-73; see generally 1.5 Lien Objection, ¶¶ 61-63. The various, alleged challenges to Debtors' business and operations raised by the Trustees do not justify increasing the Add-On Risk Premiums above the range endorsed by the Supreme Court in Till and applied by other courts in the bankruptcy context. See Till, 541 U.S. at 479.

40. The Trustees "miss the forest for the trees." The Trustees ignore the fact that the Debtors' Financial Projections and, in turn, Mr. Derrough's analysis, account for significant business and operational challenges in the past and continuing into the coming years. Indeed, the

Financial Projections took into consideration virtually all of the industry-wide and company-specific business and operational challenges the Trustees cite in their Objections. Cf. Carter Declaration ¶¶ 13, 15-16, 19, 22, 23-26, 30, 36 & 38 (Ex. C) and Financial Projections pp. 2-7 (Ex. G) with First Lien Objection ¶¶ 60-64 & 69-73.

41. The Debtors' Financial Projections were prepared through a rigorous, scrutinized process that included significant input from senior management and business leaders as well as qualitative and quantitative review and comment from Moelis & Company ("Moelis"), the Debtors' financial advisor and Mr. Derrough's firm. See Carter Declaration, ¶ 9. The Debtors' aim in preparing the Financial Projections was to prepare well-informed, reasonably achievable financial projections. Id.

42. When preparing the Financial Projections, the Debtors were "aware that the Company's actual performance has trailed budgeted performance in the past nine out of ten years." Id. at ¶ 19. Indeed, the Debtors took into consideration the knowledge they gained over recent years regarding market and Company-specific circumstances that caused the Company to trail its budgeting. Id.

43. William Carter, Chief Financial Officer of MPM Holdings and MPM, believes that the Financial Projections, notwithstanding past and future business challenges, are reasonably likely to be met and that the Debtors will be able to satisfy all of their financial obligations under the Plan, including with respect to the Replacement Notes. Mr. Carter's belief is based on at least 19 key factors cited in the Carter Declaration at ¶¶ 19-38. Chiefly, Mr. Carter cited the following factors: (i) the rigorous, well-informed, and scrutinized process through which the Financial Projections were prepared (id. ¶¶ 9-17); (ii) significant deleveraging of Debtors due to extinguishment of debt under the Plan (id. ¶¶ 9-17); (iii) anticipated improved

capital structure that will provide sufficient cash flow to invest in capital expenditures and research and development at levels sufficient to support projected growth (id. ¶ 32); (iv) anticipated increase in Debtors' cash and cash-equivalent assets (id. ¶ 34); (v) reasonable assumptions were used to build the Financial Projections, such annual growth below global gross domestic product growth rates, EBITDA under historical peak levels, continued capacity additions in the silicones industry, negative EBITDA for certain years for the "Basics" and "Quartz" units (id. ¶¶ 20-21, 28-29); (vi) a series of measures to cut costs and improve efficiencies at Debtors (id. ¶ 36); and (vii) a revised organizational structure at Debtors (id. ¶ 36).

44. Eric Thaler, Senior Vice President and General Manager of Basics and former Chief Technology Officer for MPM, elaborates in great detail on the Debtors' continued growth in the specialty, high-end product market that is associated with lower competition, better pricing leverage for Debtors, and overall better margins. Thaler Declaration ¶¶ 5-34 (Ex. E). Mr. Thaler explains in particular Debtors' plan for research and development and new product development. See generally id.

45. For the foregoing reasons, this Court should rule that the Debtors' proposed Add-On Premiums for the Replacement Notes are reasonable and appropriate.

E. The Till Formula Approach Includes a Present Value Analysis and the Debtor is Not Required to Undertake a Separate Present Value Analysis.

46. The Trustees contend that neither the Debtors nor their expert have conducted a present value analysis for the purposes of section 1129(b)(2)(A)(i)(II). (See First Lien Objection, ¶¶ 43-51; see also 1.5 Lien Objection ¶¶ 9, 43, 47.) This argument is easily debunked. Simply put, the Supreme Court's formula approach as provided Till *is the method* for calculation of present value for the purposes of cramming down a secured class of creditors. Till states that "[p]lans that invoke the cramdown power often provide for installment payments over

a period of years rather than a single payment. In such circumstances, the amount of each payment must be calibrated to ensure that, over time, the creditor receives disbursements whose total present value equals or exceeds that of the allowed claim." Till, 541 U.S at 475. In turn, Till provides a formula approach precisely for the purpose of determining payments that must be made to creditors over time. Id. at 484-85. In adopting the formula approach, Till rejected cramdown approaches that provided creditors *more than* "present value." Id. at 476 ("These considerations lead us to reject the coerced loan, presumptive contract rate, and cost of funds approaches. Each of these approaches . . . aims to make each individual creditor whole rather than to ensure the debtors' payments have the required present value.")

47. Trustees mistakenly search for a present value analysis separate from Mr. Derrough's Till formula analysis. Till does not require debtors to first determine the result under the formula approach and subsequently perform a present value analysis—or vice versa.

II. THE TERMS OF THE REPLACEMENT FIRST LIEN NOTES AND THE REPLACEMENT 1.5 LIEN NOTES ARE SUBSTANTIALLY SIMILAR TO THOSE IN THE FIRST LIEN NOTES AND THE 1.5 LIEN NOTES.

48. The Trustees further object that the non-interest rate terms of the Replacement Notes are not the same as those in the Prior Notes. (First Lien Objection ¶ 67; 1.5 Lien Objection ¶¶ 50-53.) However, there is no requirement in section 1129(b) or applicable case law that all terms in the Replacement Notes must be same as those in Prior Notes. See generally In re TCI 2 Holdings, LLC, 428 B.R. 117, 159-160 (Bankr. D.N.J. 2010) (explaining that in the context of section 1129(b)(2)(A)(i), "[t]here is no requirement that the lender's prepetition security agreement or mortgage, with all of its various terms and obligations, be used in order for the lender to retain its lien."). Further, even though Trustees focus on a few terms that have changed, the Replacement Notes contain virtually every material term in the Prior Notes.

Annexed hereto as Exhibits K and L are tabular summaries of the material terms that have remained the same between the Prior Notes and Replacement Notes.

III. THE PROVISIONS OF THE PLAN SATISFY THE "FAIR AND EQUITABLE TEST."

49. Finally, the Trustees argue that the Plan fails to satisfy a "non-technical" reading of the "Fair and Equitable Test." See 1.5 Lien Note Trustee Objection, ¶ 64; see also generally First Lien Trustee Objection, ¶ 77. The Plan not only meets the "technical" cramdown requirements provided in section 1129(b) and Till, the Cramdown Provisions are fair and equitable principally for the same reasons stated in section I. supra, demonstrating the Debtors' ability to service the Replacement Notes in all reasonable likelihood. The Noteholders can reasonably expect to receive the full and complete present value of their Allowed Claims in view of: (i) Debtors' reasonable and tested Financial Projections, (ii) Debtors' equity cushion post-emergence, (iii) substantial collateral for the Replacement Notes, (iv) Debtors' substantial liquidity post-emergence, and (v) Debtors' expected ability to raise new debt if needed to service the Replacement Notes. Finally, Debtors' comparison of the non-interest rate terms of the Replacement Notes as compared to the Prior Notes is unsupported and unconvincing. The law does not require that all terms in the Replacement Notes must be same as those in Prior Notes and, indeed, the terms of the Replacement Notes and Prior Notes are substantially similar.

CONCLUSION

WHEREFORE, for the reasons set forth herein, the Debtors respectfully request that the Court approve the relief requested in the Motion and overrule the Objections.

Dated: August 19, 2014
New York, New York

WILLKIE FARR & GALLAGHER LLP
Counsel for the Debtors and
Debtors in Possession

By: /s/ Matthew A. Feldman
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Joseph T. Baio
Roger Netzer
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Exhibit A

Filed Under Seal Pursuant to Protective Order

Exhibit B

Filed Under Seal Pursuant to Protective Order

Exhibit C

Filed Under Seal Pursuant to Protective Order

Exhibit D

Filed Under Seal Pursuant to Protective Order

Exhibit E

Filed Under Seal Pursuant to Protective Order

Exhibit F

1
2 UNITED STATES BANKRUPTCY COURT
3 SOUTHERN DISTRICT OF NEW YORK
4 -x
5 In the Matters of:
6 MPM SILICONES, LLC, et al., Case No.
7 Debtors. 14-22503-rdd
8 -x
9 MOMENTIVE PERFORMANCE MATERIALS INC., et al.,
10 Plaintiffs, Adv. Proc. No.
11 -against- 14-08227-rdd
12 THE BANK OF NEW YORK MELLON TRUST COMPANY,
13 N.A., solely as Trustee for the MPM Escrow
14 LLC and MPM Finance Escrow Corp. 8.875%
15 First Priority Senior Secured Notes due 2020,
16 Defendant.
17 -x
18 United States Bankruptcy Court
19 300 Quarropas Street
20 White Plains, New York
21 June 19, 2014
22 10:19 AM
23 B E F O R E:
24 HON. ROBERT D. DRAIN
25 U.S. BANKRUPTCY JUDGE

1
2 Application to Employ and Retain Ernst & Young LLP as Tax
3 Advisor for the Debtors and Debtors-in-Possession Pursuant to
4 Sections 327(a), 330, 331 and 1107(b) of the Bankruptcy Code
5 Nunc Pro Tunc to the Petition Date, filed by Matthew Allen
6 Feldman on behalf of MPM Silicones, LLC., et al. (document
7 #313)
8
9 Debtors' Application to Employ and Retain KPMG LLP as Tax
10 Advisor Nunc Pro Tunc to the Petition Date (related document(s)
11 314)
12
13 Application to Employ and Retain PricewaterhouseCoopers LLP as
14 Independent Auditors and Tax Consultants for the Debtors and
15 Debtors-in-Possession Pursuant to Sections 327(a), 330, 331 and
16 1107(b) of the Bankruptcy Code, filed by Matthew Allen Feldman
17 on behalf of MPM Silicones, LLC., et al. (document #316)
18
19 Debtors' Motion for Orders (I) Authorizing the Debtors to
20 Assume the Restructuring Support Agreement and (II) Authorizing
21 and Approving the Debtors' (A) Entry Into and Performance Under
22 the Backstop Commitment Agreement, (B) Payment of Related Fees
23 and Expenses, and (C) Incurrence of Certain Indemnification
24 Obligations (document #147)
25

1
2 Debtors' Motion for Order: (I) Approving Disclosure Statement;
3 (II) Establishing Date of Confirmation Hearing; (III)
4 Establishing Procedures for Solicitation and Tabulation of
5 Votes to Accept or Reject Plan, Including (A) Approving Form
6 and Manner of Solicitation Packages, (B) Approving Form and
7 Manner of Notice of Confirmation Hearing, (C) Establishing
8 Record Date and Approving Procedures for Distribution of
9 Solicitation Packages, (D) Approving Forms of Ballots, (E)
10 Establishing Deadline for Receipt of Ballots, and (F) Approving
11 Procedures for Vote Tabulations; (IV) Establishing Deadline and
12 Procedures for Filing Objections to Confirmation of Plan; (V)
13 Approving Rights Offering Procedures; and (VI) Granting Related
14 Relief
15
16 Re: Adv. Proc. 14-08227-rdd:
17 Motion to Approve / Debtors' Motion for an Order Establishing a
18 Time Line for Confirmation- and Adversary Proceeding-Related
19 Discovery (document #317)
20
21 Motion to Intervene / Motion of Apollo Global Management, LLC
22 and Certain of its Affiliated Funds for an Order Permitting
23 Intervention in Adversary Proceeding No. 14-08227 (RDD), filed
24 by Philip Dublin on behalf of Apollo Global Management, LLC
25 (document #9)

1
2 Motion to Intervene / Motion of Ad Hoc Committee of Second Lien
3 Noteholders for Entry of Order Pursuant to 11 U.S.C. Section
4 1109(b) and Fed.R.Civ.P. 24(a) Granting Right to Intervene in
5 Adversary Proceeding Commenced by Debtors, filed by Dennis F.
6 Dunne on behalf of Ad Hoc Committee of Second Lien Noteholders
7 (document #10)
8
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19
20 Transcribed by: Penina Wolicki
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25 operations@escribers.net

1 the end and reserve the ability to adjourn it from the 21st and
2 22nd to some date in September if I learn, in the July period,
3 that you legitimately need some more time. I'm not sure you
4 will. I mean, you're at the top of the capital structure. So
5 valuation issues aren't that important.
6 And I'm on record on this, and I'll say it again, I
7 believe in following the Supreme Court. And the Supreme Court
8 in Till said what it said.
9 MR. MOELLER-SALLY: The Supreme Court in Till said
10 what it said --
11 THE COURT: So I'm not going to have a twenty-day
12 trial on discount rates; I'm not going to do that.
13 MR. MOELLER-SALLY: But the Supreme Court said what it
14 said in terms of applying an interest rate in the absence of
15 market rate.
16 THE COURT: No. If you read footnote 14, what they
17 said is, a real market is zero. Now, we as bankruptcy lawyers
18 may disagree with that. But we're not the Supreme Court; the
19 Supreme Court has spoken. There's a range: one to three
20 percent plus a risk premium. My colleagues have followed it in
21 the Southern District, and I'm on record for several years.
22 And the case law is turning in that way at the circuit level.
23 I don't see how the Fourth Circuit could have overruled the
24 Supreme Court. But luckily the Second Circuit hasn't, and the
25 Supreme Court has said.

1 So I don't think that's a big issue. There may be
2 some issues on valuation and the like, but the discount rate
3 isn't the issue. You could take that up to the Supreme Court
4 and see if they wanted to change their mind.
5 MR. MOELLER-SALLY: And perhaps we will, Your Honor.
6 THE COURT: Okay.
7 MR. MOELLER-SALLY: The question for today, though,
8 let's go back to the discovery schedule --
9 THE COURT: No, I --
10 MR. MOELLER-SALLY: -- the question for today is,
11 again, we agree with you, the confirmation and the adversary
12 should go on at the same time.
13 THE COURT: Right.
14 MR. MOELLER-SALLY: So the question is, while it may
15 make sense to dual track, there might be different teams doing
16 it and things like that. If we're ultimately dealing with the
17 same range of end dates --
18 THE COURT: Right.
19 MR. MOELLER-SALLY: -- we've got to deal with the
20 realities --
21 THE COURT: Look --
22 MR. MOELLER-SALLY: -- of discovery.
23 THE COURT: -- this is relevant for today, because
24 there are deadlines in the RSA.
25 MR. MOELLER-SALLY: That's correct.

1
2 C E R T I F I C A T I O N
3
4 I, Penina Wolicki, certify that the foregoing transcript is a
5 true and accurate record of the proceedings.
6
7
8
9
10 Penina Wolicki
11 ______________________________________
12 PENINA WOLICKI
13 AAERT Certified Electronic Transcriber CET**D 569
14
15 eScribers
16 700 West 192nd Street, Suite #607
17 New York, NY 10040
18
19 Date: June 23, 2014
20
21
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Digitally signed by eScribers, LLC
DN: cn=eScribers, LLC gn=eScribers, LLC
c=United States l=US o=eScribers ou=eScribers
e=operations@escribers.net
Reason: I attest to the accuracy and integrity of this document
Location:
Date: 2014-06-23 18:50-04:00

Exhibit G

DEBTORS' FINANCIAL PROJECTIONS AND ASSUMPTIONS

A. Introduction

The Debtors have prepared the Projections (as defined below) to assist the Bankruptcy Court in determining whether the Plan meets the "feasibility" requirements of section 1129(a)(11) of title 11 of the United States Code (the "**Bankruptcy Code**"). The Debtors believe that the Plan meets such requirements. In connection with the negotiation and development of the Plan, and for the purpose of determining whether the Plan meets the feasibility standard outlined in the Bankruptcy Code, the Debtors analyzed their ability to satisfy their financial obligations while maintaining sufficient liquidity and capital resources during the Projection Period (as defined below). With this consideration in mind, the Debtors' management and advisors prepared consolidated financial projections (the "**Projections**") for the years ending December 31, 2014 through December 31, 2018 (the "**Projection Period**"). The Projections have been prepared on a consolidated basis, consistent with the Company's financial reporting practices, and include all Debtor and non-Debtor entities.

The Debtors do not, as a matter of course, publish their projections, strategies, or forward-looking projections of the financial position, results of operations, and cash flows. Accordingly, the Debtors do not anticipate that they will, and disclaim any obligation to, furnish updated projections to the holders of Claims or equity interests after the date of this Disclosure Statement, or to include such information in documents required to be filed with the Securities and Exchange Commission ("**SEC**") or to otherwise make such information public. The assumptions disclosed herein are those that the Debtors believe to be significant to the Projections and are "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

The Projections present, to the best of the Debtors' knowledge and belief, the Reorganized Debtors' projected financial position, results of operations, and cash flows for the Projection Period and reflect the Debtors' assumptions and judgments of the projections based on an estimated emergence date of September 30, 2014 (the "**Assumed Emergence Date**"). Although the Debtors are of the opinion that these assumptions are reasonable under current circumstances, such assumptions are subject to inherent uncertainties, including but not limited to, material changes to the economic environment, underlying commodity prices, transportation fees and spreads, supply and demand of underlying commodities, the competitive environment and other factors affecting the Debtors' businesses. The likelihood, and related financial impact, of a change in any of these factors cannot be predicted with certainty. Consequently, actual financial results could differ materially from the Projections. The Projections assume the Plan will be implemented in accordance with its stated terms. The Projections should be read in conjunction with the assumptions and qualifications contained herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in either the Disclosure Statement or the Plan, as applicable.

THE PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARD COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("**GAAP**") IN THE UNITED STATES. FURTHERMORE, THE PROJECTIONS HAVE NOT BEEN AUDITED OR REVIEWED BY A REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM.

THE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE BASED UPON A VARIETY OF ESTIMATES AND ASSUMPTIONS WHICH MAY NOT BE REALIZED AND ARE SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES WHICH ARE BEYOND THE CONTROL OF THE DEBTORS. CONSEQUENTLY, THE PROJECTIONS SHOULD NOT BE REGARDED AS A REPRESENTATION OR WARRANTY BY THE DEBTORS, OR ANY OTHER PERSON, AS TO THE ACCURACY OF THE PROJECTIONS OR THAT THE PROJECTIONS WILL BE REALIZED. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE PRESENTED IN THE PROJECTIONS. HOLDERS OF CLAIMS OR EQUITY INTERESTS MUST MAKE THEIR OWN ASSESSMENT AS TO THE REASONABLENESS OF SUCH ASSUMPTIONS AND THE RELIABILITY OF THE PROJECTIONS IN MAKING THEIR DETERMINATION OF WHETHER TO ACCEPT OR REJECT THE PLAN.

B. Summary of Significant Assumptions

The Projections were developed by the Debtors' management using detailed assumptions for the revenues and costs of each business unit. The Debtors considered the following factors in developing the Projections:

(i) current and projected market conditions in each of the Company's respective markets;
(ii) capital expenditure levels to support management's growth assumptions;
(iii) no material acquisitions or divestitures;
(iv) continuation of the Shared Services Agreement; and
(v) the Debtors' emergence from chapter 11 on the Assumed Emergence Date.

Sales volumes were forecast at the business unit level based on compounded annual growth rates ranging from 1.0% to 3.2%. These ranges were developed under the assumption that global GDP is forecasted to grow between 3.6% and 4.1% annually from 2014 to 2018, with advanced economies growing at a slower rate than emerging economies. The Debtors also adjusted growth rates for instances where capacity constraints would limit growth in emerging economies, third party capacity growth created excess market supply, and other market specific conditions that might affect sales volumes.

The Projections also assume a compounded annual growth rate for price increases across the Company's products of 0.9% to 2.9%. These price increases are forecasted to be

substantially offset by a forecasted compounded annual growth in raw material costs of approximately 0.7% to 2.5%.

The Projections have been prepared using accounting policies consistent with those applied in the Company's historical financial statements. Such accounting policies include the following:

(i) The Projections include the accounts of the Debtors and their majority-owned non-Debtor subsidiaries in which minority shareholders hold no substantive participating interest, and variable interest entities in which the Debtors are the primary beneficiaries. Intercompany accounts and transactions are eliminated in consolidation. The Debtors' share of net earnings of 20% to 50% owned companies, for which it has the ability to exercise significant influence over operating and financial policies (but not control), are included in Net Income. Investments in the other companies are carried at cost.

(ii) The Debtors' ownership interest in Zhejiang Xinan Momentive Performance Materials Co., Ltd ("**Zhejiang**"), a joint venture in China is accounted for under the equity method of accounting. Zhejiang manufactures siloxane, one of the Debtors' key intermediate materials.

(iii) Accounts receivable are stated at fair value and do not include adjustments for rebates or other customer discounts, which are recorded in other liabilities. Accounts receivables are presented net of allowances for bad debt.

(iv) Inventories are stated at book value and are accounted for on a first-in, first-out method. Projected costs include direct material, direct labor and applicable manufacturing overheads, which are based on normal production capacity. An allowance is provided for excess and obsolete inventories based on management's review of inventories on-hand compared to estimated future usage and sales. Inventories are presented net of an allowance for excess and obsolete inventory.

(v) Land, buildings and machinery and equipment are stated at book value. Depreciation is calculated on a straight-line basis over the estimated remaining useful lives of the properties as of the Effective Date (the average estimated useful lives for buildings and machinery are 20 years and 15 years, respectively). Assets under capital leases are amortized over the lesser of their useful life or the lease term. Major renewals and betterments are capitalized. Maintenance, repairs, minor renewals and turnarounds (periodic maintenance and repairs to major units of manufacturing facilities) are expensed as incurred. The Debtors capitalize certain costs, such as software coding, installation and testing that are incurred to purchase or create and implement computer

software for internal use. Amortization is recorded on a straight-line basis over the estimated useful life periods, which range from 1 to 5 years.

(vi) Separately identifiable intangible assets that are used in the operations of the business (e.g., patents and technology, customer lists and contracts) are recorded at fair value. Costs to renew or extend the term of identifiable intangible assets are expensed as incurred. Intangible assets with determinable lives are amortized on a straight-line basis over the shorter of the legal or useful life of the assets, which range from 1 to 20 years. Goodwill is carried at fair value and is not amortized in the Projections.

(vii) The Projections assume that COD income resulting from the execution of the Plan will result in the extinguishment of net operating loss carryforwards and other tax attributes on the Debtors' balance sheet. It is assumed, however, that during the Projection Period the Debtors will continue to have net losses in the United States and therefor will only be required to pay de minimus amounts of cash taxes. The Projections include, on an annual basis, $23.4 million of foreign cash taxes and $0.2 million United States cash taxes.

(viii) The foregoing assumptions and resulting computations were made solely for purposes of preparing the Projections. The FASB has issued Accounting Standards Codification (''**ASC**'') Topic 852 Reorganizations (''**FASB ASC 852**''). The Debtors will be required to determine the amount by which their reorganization value as of the Effective Date exceeds, or is less than, the fair value of their assets as of the Effective Date. Such determination will be based upon the fair values as of that time, which could be materially higher or lower than the values assumed in the foregoing computations and may be based on, among other things, a different methodology with respect to the valuation of Debtors' reorganization value. In all events, such valuation, as well as the determination of the fair value of Debtors' assets and the determination of their actual liabilities, will be made as of the Effective Date, and the changes between the amounts of any or all of the foregoing items as assumed in the Projections and the actual amounts thereof as of the Effective Date may be material.

The Projections have been prepared to reflect a simplified ''fresh-start'' presentation, assuming the Debtors emerge on the Assumed Emergence Date. The Projections assume enterprise value, net debt, and reorganization equity value of approximately $2,200 million, $1,179 million, and $1,021 million respectively. The Projections reflect an upward adjustment to goodwill and other intangible assets of $301 million, accounting for the reorganization value of assets and liabilities in excess of amounts allocable to identifiable assets. See Disclosure Statement, Exhibit 6.

(ix) Assumptions and projections contained herein are derived from the Debtors' business plan dated April 29, 2014.

C. Business Description

The Company operates two major business divisions: the silicones division (the "**Silicones Division**") and the quartz division (the "**Quartz Division**"). As reflected in the chart below, the Company's business divisions are divided into "sectors," which are further divided into "business units." The Silicones Division represents 92% of Company's business in terms of sales and 87% of EBITDA. The Silicones Division manufactures a multi-functional family of materials used in a variety of products, which serve as a critical ingredient in various construction, transportation, healthcare, personal care, electronic, consumer and agricultural uses. The Quartz segment manufactures quartz, specialty ceramics and crystal products for use in high-technology industries.

Segment	Sector	Business Unit
Silicones	Formulated Products	Electronics, Coatings, Elastomers, Sealants
	Additives	Specialty Fluids, Silanes, Urethane Additives
	Basics	Basics
	Silicone Overhead Costs	
Quartz	Quartz	Semi-conductor, Non-semi

Income Statement Assumptions - Revenue

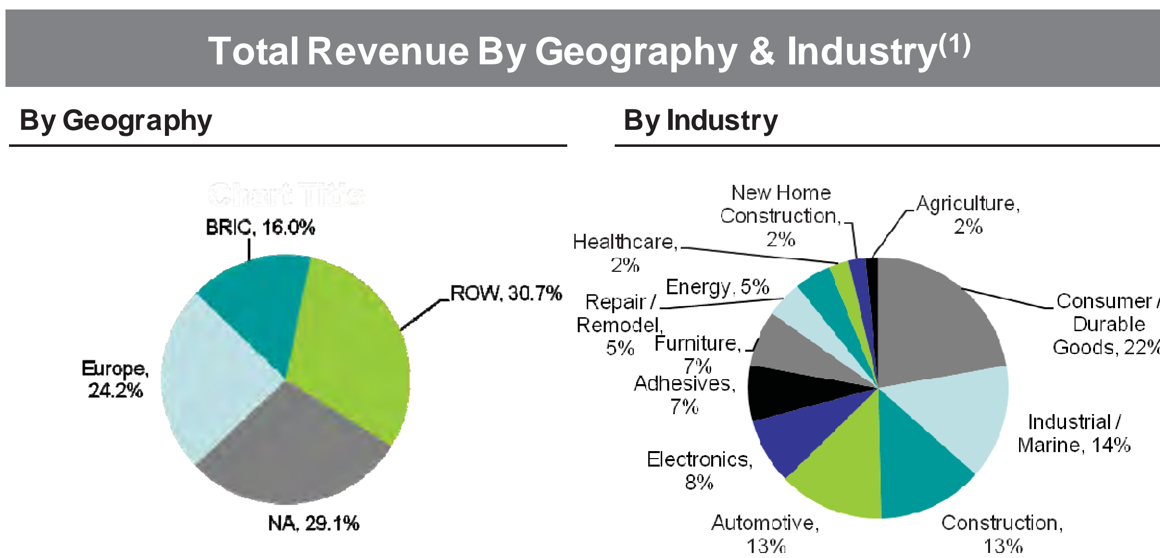
A. Sales

To develop the Projections, the Debtors evaluated market conditions by business unit, projected global demand growth, and price points in each product category. Key factors considered in determining volume forecasts included: i) reviewing estimated global GDP growth; ii) reviewing global manufacturing capacity additions (both for Debtors and other third

parties); iii) conducting a detailed competitor analysis; iv) analyzing market trends; and v) identifying the Company's competitive position in each sector.

Significant capacity additions (primarily in Asia) in late 2011 and 2012 have increased global siloxane capacity by 19% and caused a structural supply/demand imbalance, increasing competition, driving commoditization of certain specialty products, and putting downward pressure on pricing. Over the medium term, the Debtors expect industry fundamentals to improve as global demand begins to catch up with incremental capacity additions and capacity utilization improves. Additionally, the Debtors expect that further capacity additions will supplement production for commoditized products such as siloxane and that the market will recover significantly faster within the higher value-added market segments where the Debtors have focused their product development. As a result, after price declines in 2012 and 2013, the Debtors' forecast includes a compounded annual growth rate for prices of 0.9% to 2.9% to reflect the continued normalization of global capacity.

The Company's business is diversified across both end markets and geographies, limiting its exposure to purchasing shifts from one geography or industry. The Company's revenue is split almost evenly between North America (29% of 2013 revenue), Europe (24%), Brazil, Russia, India and China (combined, "**BRIC**") (16%) and the rest of the world ("**ROW**") (31%). No single industry accounts for more than 22% of the Company's sales.



(1) Based on 2013 revenue of $2.4 billion

The Company has a diverse customer base of over 4,500 customers between its two business segments. The Company's top 20 customers accounted for approximately 22% of total revenues, with no single customer accounting for more than 3% of revenues. The Company has strong long-standing relationships with many of its customers.

Income Statement Assumptions - Expenses

A. Cost of Goods Sold

The Company's cost of goods sold is primarily related to raw material costs and the costs of processing materials for conversion into finished goods.

Cost of goods sold as a percentage of sales during the Projection Period is approximately 73% to 74% for the Silicones Division and 57% to 60% for the Quartz Division. The primary raw materials for the Silicones Division are silicon metal, siloxane, and methanol. The primary raw material for the Quartz Division is quartz sand.

The Debtors generally enter into contractual relationships with suppliers to set pricing levels for a period of time, which is typically not greater than a year. Raw material costs could therefore be significantly affected by changes to commodity prices during the Projection Period. The Debtors took into account current commodity trends and capacity growth when developing the forecast for raw materials pricing. The Projections assume a compounded annual growth rate for raw material costs of 2.2% to 2.5%, with the exception of the "Basics" business unit, which is expected to grow at 0.7%.

Processing costs include wages and benefits costs, supplies, maintenance costs, utility costs and other costs that can be directly attributed to the production of the Company's products. Processing cost has both a fixed and variable cost component.

i. Variable costs are related to raw material volumes processed and utilities costs. Variable cost increases are primarily driven by the Company's ability to efficiently utilize its production capacity.

ii. The majority of fixed costs are related to wages and benefits paid to the Company's employees and maintenance of the Company's facilities. The Projections do not contemplate a material change to the Company's manufacturing footprint or labor force. Fixed costs are projected to grow at net compounded annual growth rate of approximately 2.3%, to reflect the impact of inflation and productivity gains.

B. Sales, General and Administrative ("SGA")

SGA costs are the sum of all direct and indirect selling expenses and administrative expenses of the Debtors. Selling expenses include warranty costs, rebates, advertising costs, employee wages and benefits, commissions, and office expenses. General and administrative expenses include wages and benefits of non-sales personnel, rent, corporate overhead, allocations of expenses under the Shared Services Agreement, insurance and office related expenses. The Projections assume that there is no modification to the existing structure of the Shared Services Agreement and that pre-petition levels of services and benefits are maintained.

SGA costs are primarily fixed and projected at the business unit level. The Projections assume a compounded annual growth rate of 2.6% for expenses due to inflation.

C. Research and Development

A key aspect of the Company's success relies on the continued development of new applications for its existing products and additional technological advances leading to new products which will allow the Company to provide leading edge technology to its customers. Without this innovation, the Debtors would be in a competitive disadvantage which would result in a decrease in the Debtors' top-line growth.

Research and development expenses include, among other things, salaries, wages, benefits, rent, license and permits, and office supplies. Research and development expenses are primarily fixed and are forecasted by the applicable business unit in the Projections. During the Projection Period, research and development costs are approximately 2.8% to 3.0% of segment revenue. The projections assume a net compounded annual growth rate for expenses of approximately 2.3%, to reflect the impact of inflation and productivity gains.

D. Depreciation and Amortization

Depreciation and amortization expenses are forecast using straight line depreciation methods for fixed assets and intangible assets during the Projection Period. Depreciation for capital expenditures during the Projection Period are forecasted on a straight-line basis over a period of 7.5 years. Depreciation for existing property, plant and equipment is based on the book value of those assets, spread on a straight-line basis over the remaining useful life for each of those assets. Amortization is based on the expected life of each of the Debtors' intangible assets and is forecasted on a straight-line basis during the Projection Period. No new intangible assets are recorded during the Projection Period. Goodwill is not assumed to be amortized in the Projections.

E. Extinguishment of Debt

Extinguishment of debt is primarily comprised of obligations compromised pursuant to the Plan. Extinguishment of debt includes the compromise of $873 million of value related to the MPM Holdings PIK Note, $395 million in value related to the Senior Subordinated Notes and $985 million related to the impairment of the Second Lien Notes.

F. Restructuring Expense and Other

Restructuring expense is related to advisory transaction fees, issuance fees for the New First Lien Term Loan and the New ABL Facility, and fees for restructuring professionals.

In Millions $	Q2	Q3	Total
Success Fees & Financing Fees	$ -	$ 55.50	$ 55.50
Restructuring Professional Fees	11.00	11.00	22.00
Total Fees	**$ 11.00**	**$ 66.50**	**$ 77.50**

G. Interest

Interest expense is based upon projected debt level and applicable interest rates, for the debt obligations as outlined in the Plan. Interest expense includes the amortization of non-cash transaction fees associated with the Debtors' emergence from these chapter 11 cases.

H. Taxes

Outside of the United States, local effective tax rates are used to forecast income tax expense. Additionally, the Projections assume that COD income resulting from the execution of the Plan will result in the extinguishment of net operating loss carryforwards and other tax attributes on the Debtors' balance sheet. It is assumed, however, that during the Projection Period the Debtors will continue to have net losses in the United States and therefor will only be required to pay de minimus amounts of cash taxes. The Projections include, on an annual basis, $23.4 million of foreign cash taxes and $0.2 million United States cash taxes.

Balance Sheet Assumptions[1]

A. Cash, Cash Equivalents and Restricted Cash

The Projections contain anticipated minimum cash balances required to provide liquidity in the Company's operations. Excess cash is assumed to build up on the balance sheet and is not used to pay down the New First Lien Term Loan during the Projection Period, however contractual payment for amortization of the New First Lien Term Loan is included.

B. Accounts Receivable

Growth in accounts receivable during the Projection Period relates to expected revenue growth. The Projections assume that year end days sale's outstanding is approximately 49 days.

C. Inventory

The Projections assume improvement of 2 days per year, from year end days on-hand of 71 in 2014 to 63 in 2018. This assumes the implementation of a new system to optimize supply

[1] The Balance Sheet Assumptions should be read in conjunction with the Projected Pro Forma Consolidated Balance Sheet Assumptions.

chain management and results consistent with management's past experiences. Reduction of days on-hand partially offset by growth in inventory levels due to increase in revenue and material cost.

D. Other Current Assets

This includes pre-paid expenses, property tax credits, duty drawbacks and other miscellaneous receivables.

E. Property, Plant and Equipment

Changes in property, plant and equipment are primarily driven by capital spending plans, which is derived from the requirements to support the Company's revenue growth. The Projections assume expenditures of $120 to $145 million per year for growth, maintenance, and environmental, health and safety assets. All assets acquired during the Projection Period are depreciated on a straight line basis over 7.5 years.

F. Other Long Term Assets

Other Long Term Assets relate to the value of unamortized financing costs relating to the Debtors' pre-petition debt agreements, investments in subsidiaries, and long term deferred tax obligations. Deferred financing costs related to pre-petition debt obligations will be extinguished as part of the Plan. Deferred costs related to new debt issuances under the Plan are included in the forecast for Other Long Term Assets.

G. Net Intangible Assets

Net intangible assets include goodwill, patents, trademarks, non-patented technology and value of workforce in place. Such intangibles are projected to amortize over the remainder of their useful life. No amortization is assumed for goodwill.

H. Accounts Payable

The Projections reflect the improvement of the Company's days payable from an average of 34 days pre-petition to 41 days by the end of 2015. Pre-petition accounts payable are assumed to be reinstated or paid in full at the Effective Date.

I. Accrued Expenses and Other Liabilities

This is primarily comprised of employee payroll and benefit obligations, warranty, rebates, income and other tax obligations.

J. Debt Obligations

Upon consummation of the Plan, the Debtors are assumed to have the following debt obligations:

(i) An undrawn Libor+2.8% $270 million New ABL Facility to provide liquidity for general operating purposes;
(ii) A Libor+4.0% $1.0 billion New First Lien Term Loan;
(iii) A Libor+6.0% $250 million Incremental Facility; and
(iv) Approximately $42 million of revolving debt obligations in India and China at a rate of approximately 6.9%.

For the purposes of the Projections the Debtors did not include any payments related to make-whole premiums to the First Lien Notes or the 1.5 Lien Notes.

K. Other Long Term Liabilities

This includes pension obligations, OPEB, non-qualified employee plan and deferred tax obligations.

L. Stockholder Equity

Stockholder equity at the Effective Date includes the effect of $600 million of new invested capital from the proceeds of the Rights Offerings as well as the conversion of the Second Lien Notes into new equity.

Cash Flow Assumptions

A. Cash Flow from Operations

During the Projection Period, it is expected that the Company will generate $69 million from working capital. In the 15 months from the Assumed Emergence Date until December 2015, the Company expects to generate $81 million from working capital as the Company restores pre-petition terms with its vendors. From 2016 until 2018, the Company anticipates investing $12 million in working capital, which is expected to increase revenue over the Projection Period. Key components of working capital usage include inventory build-up and incremental accounts receivable related to incremental sales.

B. Cash Flow from Investing

Cash usage is primarily driven by the initial step-up in capital spending in FY2014E to $120 million to return to more normalized spending levels. The FY2014E investment is targeted at increasing plant reliability. During FY2015E to FY2018E, capital expenditures are projected to grow from $125 million to $145 million.

C. Cash Flows from Financing

Usage of cash primarily reflects amortization repayments to the New First Lien Term Loan.

The ''SOURCES AND USES'' set forth below presents the estimated sources and uses of funds for the consummation of the restructuring transactions contemplated in the Plan (the "**Restructuring Transactions**"). The actual amounts are subject to adjustment and may differ at the time of the consummation of the Restructuring Transactions, depending on several factors, including differences in estimated transaction fees and expenses, differences between actual and projected operating results and any differences in the contemplated debt financings when consummated, including whether or not the First Lien Notes and 1.5 Lien Notes are repaid in full in cash, or replaced by the Replacement First Lien Notes or the Replacement 1.5 Lien Notes.

MPM Silicones, LLC., et al., Projected Pro Forma Consolidated Statements of Operations Estimated Cash Sources and Uses at the Assumed Emergence Date (UNAUDITED) (DOLLARS IN MILLIONS)

Assumed emergence date of 9/30/2014; $ in millions

Sources	
New Equity Investment[1]	$600.0
New First Term Loan	1,000.0
Replacement of 1.5 Lien Notes[2]	250.0
Release of Utility Deposit	2.1
Cash from Balance Sheet	41.9
Total Sources	**$1,894.0**

Uses	
Repayment of ABL Facility	$72.9
Repayment of Cash Flow Facility	20.7
Repayment of First Lien Notes	1,100.0
Replacement of 1.5 Lien Notes[2]	250.0
Repayment of DIP Financing	300.0
Transaction Fees[3]	55.5
Payment of Accrued Interest (First Lien & 1.5 Lien)	56.2
Payment of Pre-petition Accounts Payable[4]	30.0
Distribution of HoldCo Cash to MPM Holdings PIK Note	8.7
Total Uses	**$1,894.0**

1) Reflects the gross value of issuance of new equity in the Reorganized Debtors pursuant to the Rights Offering.
2) Funds flow assumes the replacement of the existing 1.5 Lien Notes with securities of equal face value at a rate of Libor +6.0%.
3) See note regarding transaction fees under restructuring and other expenses.
4) Payment of pre-petition accounts payable assumes the payment of outstanding trade payable amounts not paid during the pendency of the Chapter 11 cases pursuant to certain orders of the Bankruptcy Court allowing the Debtors to pay certain prepetition claims (the "**First Day Orders**"). To the extent the Debtors pay fewer claims under the First Day Orders than is currently projected, this amount will increase, while the amounts needed for repayment of the DIP ABL Facility would be expected decrease. To the extent the Debtors choose to assume accounts payable liabilities at the transaction date rather than satisfy those liabilities in cash, the amount of cash used from the balance sheet would decrease.

The Projected Pro Forma Consolidated Balance Sheet as of the Assumed Emergence Date presents: (a) the projected consolidated financial position of the Debtors as of September 30, 2014, prior to the consummation of the transactions contemplated in the Plan; (b) the pro forma adjustments to such projected consolidated financial position required to reflect the Restructuring Transactions; and (c) the pro forma projected consolidated financial position of Debtors as of the Assumed Emergence Date, after giving effect to the Restructuring Transactions. The Restructuring Transactions set forth in the columns captioned ‘‘Plan Settlement,’’ “New Debt”, “New Equity” “Cancellation of Debt” and ‘‘Fresh-Start’’ reflect the anticipated effects of the Restructuring Transactions.

MPM Silicones, LLC., et al., Projected Pro Forma Consolidated Balance Sheet (UNAUDITED) (DOLLARS IN MILLIONS)

		Restructure Transactions					
Period End Date	Pre-Emergence (i) 9/30/2014	Plan (ii) Settlement	New (iii) Debt	New (iv) Equity	Cancellation (v) of Debt	Fresh Start (vi) Adjusments	Pro-Forma Bal. 9/30/2014
($ in millions)							
Assets							
Cash, Cash Equivalents and Restricted Cash	$ 155.0	$ (1,608.4)	$ 966.5	$ 600.0	$ -	$ -	$ 113.1
Accounts Receivable	316.3	-	-	-	-	-	316.3
Inventories	400.6	-	-	-	-	-	400.6
Other Current Assets	77.5	(2.1)	-	-	-	-	75.4
Total Current Assets	**$ 949.4**	**$ (1,610.5)**	**$ 966.5**	**$ 600.0**	**$ -**	**$ -**	**$ 905.4**
PP&E	934.7	-	-	-	-	-	934.7
Other Long-term Assets	(40.9)	-	33.5	30.0	-	-	22.6
Intangible Assets, Net	808.5	-	-	-	-	301.4	1,109.9
Total Assets	**$ 2,651.7**	**$ (1,610.5)**	**$ 1,000.0**	**$ 630.0**	**$ -**	**$ 301.4**	**$ 2,972.7**
Liabilities and Equity							
Trade Payables	$ 153.4	$ -	$ -	$ -	$ -	$ -	$ 153.4
Accrued Expenses & Other Liabilities	133.6	16.0	-	-	-	-	149.6
Accrued Interest	62.7	(56.2)	-	-	-	-	6.5
Total Current Liabilities	**$ 349.7**	**$ (40.2)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 309.5**
ABL Facility	72.9	(72.9)	-	-	-	-	-
DIP Term Loan	300.0	(300.0)	-	-	-	-	-
Cash Flow Facility	20.7	(20.7)	-	-	-	-	-
First Lien Notes	1,100.0	(1,100.0)	-	-	-	-	-
New First Lien Term Loan	-	-	1,000.0	-	-	-	1,000.0
1.5 Lien Notes	250.0	-	-	-	-	-	250.0
Foreign Local Debt	42.0	-	-	-	-	-	42.0
Total Debt	**$ 1,785.6**	**$ (1,493.6)**	**$ 1,000.0**	**$ -**	**$ -**	**$ -**	**$ 1,292.0**
Liabilities Subject to Compromise	2,698.4	(54.7)	-	(391.1)	(2,252.5)	-	-
Other LT Liabilities	350.0	-	-	-	-	-	350.0
Total Liabilities	**$ 5,183.6**	**$ (1,588.5)**	**$ 1,000.0**	**$ (391.1)**	**$ (2,252.5)**	**$ -**	**$ 1,951.5**
Existing Stockholder's Equity	(2,531.9)	(22.0)	-	-	2,252.5	301.4	-
New Equity Issued	-	-	-	1,021.1	-	-	1,021.1
Total Stockholder's Equity	**(2,531.9)**	**(22.0)**	**-**	**1,021.1**	**2,252.5**	**301.4**	**1,021.1**
Total Liabilities & Stockholder's Equity	**$ 2,651.7**	**$ (1,610.5)**	**$ 1,000.0**	**$ 630.0**	**$ -**	**$ 301.4**	**$ 2,972.7**

(i) The pre-emergence balance sheet reflects forecast results for the period ending September 30, 2014, prior to the execution of the transactions contemplated in the Plan.

(ii) Reflects the cash payments required pursuant to the Plan, including payment of administrative claims, repayment of amounts drawn under the Debtor-in-Possession financing, secured lender claims and 503(b)(9) claims. Back-to-back letters of credit are assumed to be issued under the New ABL Facility to collateralize existing letters of credit outstanding under the DIP Facilities as of the Effective Date. As outstanding undrawn letters of credit are not reflected on the balance sheet, no adjustment is required to record the issuance of new letters of credit. The Plan also assumes that the Second Lien Notes will be converted to equity with a value of $391 million, including the intrinsic value of the rights under the Rights Offering. As part of the Plan, $16 million of “Liabilities Subject to Compromise,” consisting of reorganized tax claims and amounts due to affiliates are reclassified Accrued Expenses and Other Liabilities.

(iii) Reflects the issuance of New Notes, totaling $1 billion. Proceeds of transaction used to fund the cash payments contemplated in the Plan (Sources & Uses table below identifies the Use of Funds). The Plan assumes that the $250 million of the 1.5 Lien Notes

will be replaced with new securities of the same face value. Fees associated with the issuance of new debt are reflected in Other Long-term Assets.

(iv) Reflects the issuance of new equity in the Reorganized Debtors pursuant to the Rights Offerings and the conversion of the Second Lien Notes into Equity valued at $391 million including the intrinsic value of the rights under the Rights Offering. Fees associated with the issuance of equity are reflected in Other Long-term Assets.

(v) Reflects the cancellation of selected remaining external debt, Liabilities Subject to Compromise and other liabilities.

(vi) At the time of filing this Exhibit 3 to the Disclosure Statement, the Company has not completed a fair value assessment of its assets and liabilities. The Projections adjust the Debtors' equity and goodwill balances to reflect an equity value that eliminates the equity of existing stockholders.

The ‘‘PROJECTED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS’’ presents the projected consolidated results of operations of the Company for the period commencing October 1, 2014, after giving effect to the Restructuring Transactions to occur on the Assumed Emergence Date, and for the fiscal years ending December 2014, 2015, 2016, 2017 and 2018. 2014 is a partial year consisting of the fiscal periods after the Debtors’ emergence from these chapter 11 cases.

MPM Silicones, LLC., et al., Projected Pro Forma Consolidated Statements of Operations (UNAUDITED) (DOLLARS IN MILLIONS)

Period Ending Date	**Partial Year Oct-Dec 2014 12/31/2014**	**12/31/2015**	**12/31/2016**	**12/31/2017**	**12/31/2018**
($ in millions)					
Total Revenue	**$659.7**	**$2,654.7**	**$2,786.7**	**$2,869.6**	**$2,962.8**
Cost of Sales, Excluding Depreciation	(493.5)	(1,913.4)	(1,995.9)	(2,058.7)	(2,126.7)
Gross Profit	**$166.2**	**$741.3**	**$790.8**	**$810.9**	**$836.1**
SG&A Expense	(87.7)	(371.2)	(381.7)	(391.4)	(401.4)
R&D Expense	(19.8)	(76.7)	(78.6)	(80.5)	(82.5)
Other Income	1.3	3.6	3.7	3.8	3.9
Depreciation & Amortization	(48.3)	(200.6)	(215.6)	(232.0)	(249.4)
Operating Profit	**$11.7**	**$96.4**	**$118.6**	**$110.8**	**$106.8**
Extinguishment of Debt [1]	2,252.5	-	-	-	-
Restructuring Expenses [1]	(22.0)	-	-	-	-
Interest Expense, Net	(20.3)	(77.6)	(83.2)	(95.5)	(104.5)
Restructuring and Other Costs	(3.5)	(15.0)	(15.0)	(15.0)	(15.0)
Earnings Before Tax Expenses	**$2,218.4**	**$3.9**	**$20.4**	**$0.3**	**($12.7)**
Income Tax Expense	(5.9)	(23.6)	(23.6)	(23.6)	(23.6)
Net Income	**$2,212.5**	**($19.7)**	**($3.2)**	**($23.3)**	**($36.3)**
EBITDA [2]	**$ 60.0**	**$ 297.1**	**$ 334.3**	**$ 342.8**	**$ 356.2**

1) Extinguishment of debt and restructuring expenses related to the restructure transactions would likely be recorded in the Company's Q3 financials but are shown here for presentation purposes.
2) EBITDA is calculated as Operating Income plus Depreciation, Amortization and Restructuring Expenses.

The ‘‘PROJECTED PRO FORMA CONSOLIDATED BALANCE SHEETS’’ presents the projected consolidated financial position of the Company as of September 30, 2014, after giving effect to the consummation of the Restructuring Transactions, and as of each of fiscal year ending December 2014, 2015, 2016, 2017 and 2018.

MPM Silicones, LLC., et al., Projected Pro Forma Year End Consolidated Balance Sheets (UNAUDITED) (DOLLARS IN MILLIONS)

Period End Date	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
($ in millions)					
Assets					
Cash, Cash Equivalents and Restricted Cash	$ 151.1	$ 231.1	$ 298.6	$ 361.8	$ 423.3
Accounts Receivable	366.0	372.0	391.4	402.2	414.6
Inventories	384.0	388.9	393.9	393.4	393.3
Other Current Assets	75.4	75.4	75.4	75.4	75.4
Total Current Assets	**$ 976.6**	**$ 1,067.4**	**$ 1,159.3**	**$ 1,232.9**	**$ 1,306.6**
PP&E	934.3	899.6	860.0	809.0	745.6
Other Long-term Assets	20.9	14.2	7.5	0.8	(5.9)
Intangible Assets, Net	1,098.9	1,057.9	1,016.9	975.9	934.9
Total Assets	**$ 3,030.7**	**$ 3,039.1**	**$ 3,043.7**	**$ 3,018.6**	**$ 2,981.3**
Liabilities and Equity					
Trade Payables	$ 235.0	$ 273.3	$ 291.4	$ 299.8	$ 308.9
Accrued Expenses & Other Liabilities	152.4	152.4	152.4	152.4	152.4
Accrued Interest	9.2	9.0	8.6	8.3	8.2
Total Current Liabilities	**$ 396.5**	**$ 434.7**	**$ 452.5**	**$ 460.6**	**$ 469.5**
New First Lien Term Loan	997.5	987.5	977.5	967.5	957.5
1.5 Lien Notes	250.0	250.0	250.0	250.0	250.0
Foreign Local Debt	33.6	33.6	33.6	33.6	33.6
Other LT Liabilities	350.0	350.0	350.0	350.0	350.0
Total Liabilities	**$ 2,027.6**	**$ 2,055.7**	**$ 2,063.5**	**$ 2,061.6**	**$ 2,060.6**
Existing Stockholder's Equity	1,003.1	983.4	980.2	956.9	920.7
Total Stockholder's Equity	**1,003.1**	**983.4**	**980.2**	**956.9**	**920.7**
Total Liabilities & Stockholder's Equity	**$ 3,030.8**	**$ 3,039.1**	**$ 3,043.7**	**$ 3,018.7**	**$ 2,981.3**

The ‘‘PROJECTED PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS’’ presents the projected cash flows of the Company commencing October 1, 2014, after the consummation of the Restructuring Transactions, and for the fiscal years ending December 2014, 2015, 2016, 2017 and 2018. 2014 is a partial year consisting of the fiscal periods after the Debtors’ emergence from these chapter 11 cases.

MPM Silicones, LLC., et al., Projected Pro Forma Consolidated Statements of Cash Flows (UNAUDITED) (DOLLARS IN MILLIONS)

Period Ending Date	Partial Year **Oct-Dec 2014** **12/31/2014**	**12/31/2015**	**12/31/2016**	**12/31/2017**	**12/31/2018**
($ in millions)					
Cash Flow from Operations					
Net Income	$ 2,212.5	$ (19.7)	$ (3.2)	$ (23.3)	$ (36.3)
Add: Depreciation	48.3	200.6	215.6	232.0	249.4
Other Non-Cash Charges	23.7	6.7	6.7	6.7	6.7
Less: Extinguishment of Debt [1]	(2,252.5)	-	-	-	-
Change in Working Capital	53.8	27.3	(6.6)	(2.2)	(3.3)
Net Cash Flow from Operating Activities	**$ 85.8**	**$ 214.9**	**$ 212.5**	**$ 213.2**	**$ 216.5**
Cash Flow from Investments					
Capital Expenditures	(36.8)	(125.0)	(135.0)	(140.0)	(145.0)
Proceeds from Sale of Assets	-	-	-	-	-
Net Cash Flow from Investing Activities	**$ (36.8)**	**$ (125.0)**	**$ (135.0)**	**$ (140.0)**	**$ (145.0)**
Cash Flow from Financing Activities					
Debt Borrowing / (Repayment)	(10.9)	(10.0)	(10.0)	(10.0)	(10.0)
Financing Fees	-	-	-	-	-
Direct Placement & Rights Offering	-	-	-	-	-
Net Cash Flow from Financing Activities	**$ (10.9)**	**$ (10.0)**	**$ (10.0)**	**$ (10.0)**	**$ (10.0)**
Net Increase / (Decrease) in Cash and Cash Equivalents	**$ 38.0**	**$ 79.9**	**$ 67.5**	**$ 63.2**	**$ 61.5**
Starting Balance	113.1	151.1	231.1	298.6	361.8
Net Increase / (Decrease) in Cash and Cash Equivalents	38.0	79.9	67.5	63.2	61.5
Ending Balance	**$ 151.1**	**$ 231.1**	**$ 298.6**	**$ 361.8**	**$ 423.3**

1) Extinguishment of debt related to the restructure transactions would likely be recorded in the Company's Q3 financials but are shown here for presentation purposes.

Exhibit H

1
2 UNITED STATES BANKRUPTCY COURT
3 SOUTHERN DISTRICT OF NEW YORK
4 Case No. 10-24549(RDD)
5 -x
6
7 In the matter of:
8
9 THE GREAT ATLANTIC & PACIFIC TEA
10 COMPANY, INC., et al.
11
12 Debtors.
13
14 - - - - - - - - - - - - -- - - - - - - - - - x
15
16 United States Bankruptcy Court
17 300 Quarropas Street, Room 118
18 White Plains, New York
19
20 November 14, 2011
21 4:14 PM
22
23 B E F O R E:
24 HON. ROBERT D. DRAIN
25 U.S. BANKRUPTCY JUDGE

1
2 10-24549-rdd The Great Atlantic & Pacific Tea Company, Inc.
3 Chapter: 11
4 RE: Doc #2808; Debtors' Motion for an Order Authorizing the
5 Debtors to (A) Enter Into Certain Securities Purchase
6 Agreements for a Million New Capital Investment and (B) Pay
7 Certain Fees in Connection Therewith, Each to Support Debtors'
8 Plan of Reorganization.
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25 Transcribed By: Aliza Chodoff

1 make whole may be something that your clients would like.
2 MR. SAVAL: Well, I'm not in a position to say whether
3 they would --
4 THE COURT: No, I know, but I have to evaluate what
5 the debtor is getting for this proposal, and to me, that's
6 actually a pretty good thing because it gives them some
7 flexibility to deal with the businessmen on the other side of
8 the table who frankly would probably want cash.
9 Particularly since -- and you know, I reread the case
10 recently. I think the Supreme Court wasn't just talking about
11 trucks in the Till case. I think they were talking about cram
12 down of secured creditors in all scenarios, in fact, they say
13 that. And while some courts have applied footnote 14 in the
14 Till case to say, oh, no, you've got to do a market analysis in
15 a Chapter 11, that's completely antithetical to footnote 18 in
16 the Till case, which says that, in fact, if the Court was
17 really confident that a plan would work, and there wouldn't be
18 any risk of it failing down the road, then the proper discount
19 rate would be the prime rate.
20 What's the prime rate today?
21 MR. SAVAL: It's around three percent, I believe.
22 THE COURT: Okay. So it seems to me that getting some
23 optionality in return for this fee, even though I kind of liked
24 your argument, and believe me, judges don't like investors to
25 get away with more than they should, but it just seemed to me

1

2 C E R T I F I C A T I O N

3

4 I, Aliza Chodoff, certify that the foregoing transcript is a

5 true and accurate record of the proceedings.

6 Aliza Chodoff Digitally signed by Aliza Chodoff
DN: cn=Aliza Chodoff, o=Veritext, c=US
7 Date: 2011.11.16 14:30:11 -05'00'

8 ALIZA CHODOFF

9

10 Also transcribed by: Sharon Meyer

11

12 Veritext

13 200 Old Country Road

14 Suite 580

15 Mineola, NY 11501

16

17 Date: November 16, 2011

18

19

20

21

22

23

24

25

Exhibit I

Filed Under Seal Pursuant to Protective Order

Exhibit J

Filed Under Seal Pursuant to Protective Order

Exhibit K

Filed Under Seal Pursuant to Protective Order

Exhibit L

Filed Under Seal Pursuant to Protective Order