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Debtors in Possession*

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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In re : Chapter 11
: :
MPM Silicones, LLC, et al.,¹ : Case No. 14-_____ ()
: :
Debtors. : (Joint Administration Pending)
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**DECLARATION OF WILLIAM Q. DERROUGH IN SUPPORT OF
DEBTORS' MOTION FOR INTERIM AND FINAL ORDERS
UNDER 11 U.S.C. §§ 105, 361, 362, 363(c), 363(d), 364(c), 364(d), 364(e) AND 507 AND
FED. R. BANKR. P. 2002, 4001 AND 9014: (I) AUTHORIZING THE DEBTORS TO
OBTAIN POSTPETITION FINANCING; (II) AUTHORIZING THE DEBTORS TO USE
CASH COLLATERAL; (III) GRANTING ADEQUATE PROTECTION TO
PREPETITION SECURED LENDERS; AND (IV) SCHEDULING A FINAL HEARING
PURSUANT TO BANKRUPTCY RULES 2002, 4001 AND 9014**

I, William Q. Derrough, hereby declare, pursuant to 28 U.S.C. § 1746, under
penalty of perjury:

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.



1. I am a Managing Director and Co-Head of the Recapitalization & Restructuring Group at Moelis & Company (“**Moelis**”), which has its principal office at 399 Park Avenue, 5th Floor, New York, New York 10022. I am authorized to execute this affidavit on behalf of Moelis.

2. I submit this declaration in support of the Debtors’ Motion for Interim and Final Orders Under 11 U.S.C. §§ 105, 361, 362, 363(c), 364(d), 364(e), and 507 and Fed. R. Bankr. P. 2002, 4001 and 9014: (I) Authorizing Debtors to Obtain Postpetition Financing; (II) Authorizing Debtors to Use Cash Collateral; (III) Granting Adequate Protection to Prepetition Secured Lenders; and (IV) Scheduling a Final Hearing Pursuant to Bankruptcy Rules 2002, 4001 and 9014 (the “**DIP Motion**”).²

3. In forming the opinions set forth herein, I have relied upon and/or considered, among other things, the following: (a) my experiences in chapter 11 cases, including with debtor-in-possession (“**DIP**”) financing facilities; (b) the DIP Motion; (c) the Declaration of William H. Carter, Chief Financial Officer of Momentive Performance Materials Inc., in Support of Chapter 11 Petitions and First Day Pleadings (the “**First Day Declaration**”); (d) certain of the Debtors’ financial statements and reports; (e) documents related to the proposed DIP financing; (f) Moelis’ analyses regarding the proposed DIP financing and DIP financings in other chapter 11 cases; (g) discussions with the Debtors’ management concerning the Debtors’ business and finances; (h) discussions with, and proposals by, prospective sources of DIP financing, including with regard to the proposed DIP financing; and (i) discussions with certain other professionals at Moelis and other advisors to the Debtors.

² Capitalized terms used but not defined herein shall have the meaning given to them in the DIP Motion.

4. I am authorized to submit this Declaration in support of the Debtors. I am not being compensated specifically for this testimony other than through payments received by Moelis as a professional proposed to be retained by the Debtors in these chapter 11 cases. If called upon to testify, I could and would testify to the facts set forth herein.

A. Qualifications

5. Moelis is an investment banking firm founded in 2007 and is a wholly owned subsidiary of Moelis & Company Holdings LLC, which, together with its subsidiaries, has approximately 470 employees located in New York, Los Angeles, Boston, Chicago, Houston, Palo Alto, London, Frankfurt, Paris, Sydney, Hong Kong, San Paolo, Beijing, Mumbai, and Dubai. The current managing directors, directors, vice presidents, and associates at Moelis have extensive experience working with financially troubled companies in complex financial restructurings both out-of-court and in chapter 11 proceedings. Moelis and its principals have been involved as advisors to debtors, creditors, and equity constituencies in many reorganization cases.

6. Notably, Moelis has been retained as a financial advisor and investment banker in numerous large and complex chapter 11 cases, including recent chapter 11 cases such as: In re Cengage Learning, Inc., Case No. 13-44106 (ESS) (Bankr. E.D.N.Y. July 2, 2013); In re Orchard Supply Hardware Stores Corporation, Case No. 13-11565 (CSS) (Bankr. D. Del. June 17, 2013); In re Revel AC, Inc., Case No. 13-16253 (JHW) (Bankr. D.N.J. Mar. 25, 2013); In re AMF Bowling Worldwide, Inc., Case No. 1236495 (KRH) (Bankr. E.D. Va. Nov. 13, 2012); In re Residential Capital, LLC, Case No. 12-12020 (MG) (Bankr. S.D.N.Y. May 14, 2012); In re AMR Corp., Case No. 11-15463 (SHL) (Bankr. S.D.N.Y. Nov. 29, 2011); In re General Maritime Corp., Case No. 11-15285 (MG) (Bankr. S.D.N.Y. Nov. 17, 2011); and In re NewPage Corp., Case No. 11-12804 (KG) (Bankr. D. Del. Sept. 7, 2011).

7. Prior to joining Moelis in July 2008, I co-founded and co-headed the Recapitalization & Restructuring Group at Jefferies & Company (“**Jefferies**”). During this time, Jefferies completed over 125 restructuring transactions representing nearly \$200 billion in debt. While at Jefferies, I advised a wide spectrum of clients and investors on restructurings, recapitalizations, financings, mergers, and other engagements. Prior to joining Jefferies, I was a Principal at Doyle & Boissiere, a private investment firm, and before this, a Senior Vice President of Chanin & Company, an investment banking firm focused on restructuring advice, and a generalist in corporate finance at Salomon Brothers.

8. I have extensive experience as an advisor in corporate restructurings. I have advised companies, creditors, and investors in connection with numerous in-court and out-of-court restructurings and recapitalizations. I also have significant expertise in procuring, structuring, and negotiating DIP and exit financing facilities, and have previously submitted declarations and/or affidavits or have had testimony proffered or provided live with regards to such financings in dozens of cases. In connection with such services, I also have developed an expertise in valuing companies, and have provided expert valuation testimony on numerous occasions.

9. I lead the Moelis professional team assisting the Debtors and, in connection with the Debtors’ proposed use of cash collateral and DIP financing, I participated directly in discussions, due diligence, and negotiations with potential sources of DIP financing, including with regard to the proposed DIP facilities. In doing so, I worked closely with the Debtors’ management, outside counsel, and other advisors.

B. Background

10. As explained in the First Day Declaration, the Debtors faced significant challenges leading to the commencement of their chapter 11 cases. Since 2011, the Debtors have

experienced significant deterioration in their financial performance, primarily attributable to a fundamental shift in industry dynamics, including industry-wide overcapacity, causing severe price pressure for the Debtors' basic products, and the commoditization of lower-end specialty products, which have collectively given rise to decreased profit margins in the Debtors' industry. The Debtors' high net leverage led to increasingly diminished liquidity, which has reduced the Debtors' ability to make strategic capital expenditures and investments in new products — resulting in a disadvantaged cost position for the Debtors as compared to their competitors. Since 2011, the Debtors cumulatively paid \$739 million in cash interest payments on funded indebtedness, which gave rise to \$437 million in negative free cash flow over such time period. The Debtors' unsustainable capital structure ultimately gave rise to a severe liquidity crisis.

11. In November 2013, the Debtors retained Moelis as investment banker to evaluate strategic alternatives and financing options. When it became clear that out-of-court financing was not available and an out-of-court restructuring was not feasible before the Debtors' cash reserves were exhausted, the Debtors determined that seeking a reorganization of their operations under chapter 11 protection would be in the best long-term interests of the Debtors and their stakeholders, and in February 2014, the Debtors authorized Moelis to initiate the process of securing DIP financing to fund a potential chapter 11 filing.

C. The DIP Financing Marketing Process

12. To promote competition and obtain financing on the best terms available, Moelis launched a narrowly focused marketing process designed to attract multiple financing proposals, while limiting the breadth of the process in order to balance concerns regarding confidentiality and timing considerations. The Debtors and Moelis reached out to three parties who were viewed as qualified and likely to provide the Debtors with fully-committed DIP financing given the large size of the required facility, the complex multi-national aspects and the

relatively short timeframe allowed (the “**Potential Financing Parties**”). The Potential Financing Parties included institutions familiar with the Debtors and institutions that are sophisticated and highly skilled in providing financing in distressed situations that have the ability to enter into a complex financing arrangement on an expedited basis. In addition to the Potential Financing Parties, the Debtors requested and obtained an initial proposal for DIP financing from the Debtors’ current equity sponsor. The Debtors also discussed DIP financing with other parties in the capital structure who the Debtors believed might be willing to provide financing without using such financing to gain a strategic advantage in the restructuring.

13. The Potential Financing Parties entered into non-disclosure agreements (“**NDAs**”) with the Debtors and were granted access to an electronic dataroom that contained public and non-public information provided for their due diligence. Each of the Potential Financing Parties was also given a presentation regarding the Debtors’ financing needs, and was briefed on the Debtors’ operational performance.

14. To further facilitate a dialogue over DIP financing terms, Moelis provided each Potential Financing Party with the Debtors’ estimate of their anticipated cash needs during a chapter 11 filing. To encourage the Potential Financing Parties to consider a variety of financing alternatives, Moelis emphasized the Debtors’ flexibility and willingness to consider any structure that would achieve the Debtors’ goals. None of the Potential Financing Parties, however, were willing to provide the financing needed on an unsecured, administrative claim basis.

15. Following extensive, virtually non-stop, multi-track negotiations with each of the Potential Financing Parties, the Debtors ultimately determined that the terms proposed by JPMorgan Chase Bank, N.A. (“**JPM**”) provided the most cost-effective and beneficial DIP financing to the Debtors with the highest degree of certainty of closing. Ultimately, after the

Debtors selected JPM to lead, the other two Potential Financing Parties, Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC, (collectively with JPM, the “**DIP Lenders**”), agreed to each commit to provide one-third of the DIP financing on the terms initially negotiated with JPM.

16. The Debtors determined that a comprehensive DIP financing shared by all three of the DIP Lenders as joint arrangers, with JPM acting as DIP Agent, was the best available deal. This outcome also provided for significant administrative efficiencies, as JPM also serves as the administrative agent and lender under the Debtors’ Prepetition ABL Facility and the Cash Flow Facility. Accordingly, JPM possessed a substantial base of knowledge with respect to the Debtors’ complex capital structure, the prepetition collateral, and the Debtors’ businesses – all of which created considerable efficiencies in the negotiation and documentation of the proposed DIP financing. Further, the DIP Lenders were willing to provide an up-front commitment to fund two exit facilities for the Debtors, which will be needed in order consummate a chapter 11 plan. This was a critical factor in the Debtors’ consideration.

17. The negotiations with the DIP Lenders culminated in a commitment letter from the DIP Lenders, dated April 3, 2014, to provide the proposed DIP facilities. The proposed DIP facilities are comprised of a \$270 million asset based revolving loan and a \$300 million term loan. A portion of the proceeds of the proposed DIP Facilities will be used to pay down the Prepetition ABL Facility in full and the balance will be to fund the Debtors’ world-wide operations. The requirement of paying down the Prepetition ABL Facility was a material part of the negotiation process, and was required by the DIP Lenders as a condition for providing the proposed DIP financing. The aggregate value of the prepetition collateral securing the Prepetition ABL Obligations substantially exceeds the aggregate amount of the Prepetition ABL

Obligations. Further, the DIP Lenders have committed, subject to closing conditions, to convert the proposed DIP asset-based revolving loan into a \$270 million exit asset-based revolving facility and to provide a new \$1 billion exit term loan facility. The Debtors were able to obtain the proposed DIP facilities on more favorable terms as a result of obtaining the exit financing commitments in conjunction with the proposed DIP facilities. Copies of the commitment letters are attached to the Motion, which fairly summarizes the terms of the proposed DIP facilities.

18. The three-party negotiations also had the additional benefit of allowing the Debtors to negotiate the most favorable DIP financing. As a result of this competitive process, the terms of each of the DIP Lenders' initial standalone proposals were substantially improved. I believe, based on my involvement in the process, that these negotiations were arms' length at all times and were characterized by good-faith, hard bargaining by all interested parties.

D. The Terms of the Proposed DIP Facilities Are Reasonable Under Current Market Conditions

19. Based upon my experience, the marketing process and subsequent negotiations resulted in the proposed DIP facilities which are reasonable when evaluated within the backdrop of current market conditions. Negotiations were informed by the Debtors' circumstances and precedent DIP financings when possible, as well as the financing terms the Debtors received under their prepetition credit facilities. As a result, I believe the economic terms of the proposed DIP facilities are competitive and well within the range of other large, broadly-syndicated DIP facilities in recent years. Moreover, the Debtors were able to obtain such competitive terms in part based upon the \$1 billion of exit financing included in the commitments being received from the DIP Lenders.

E. The First Lien Noteholders and the 1.5 Lien Noteholders are Protected by an Equity Cushion

20. As explained in the DIP Motion, the Prepetition Secured Parties either have explicitly consented or are deemed to have consented, pursuant to the terms of certain intercreditor agreements, to the priming of their liens by the DIP financing and the Debtors' use of cash collateral.

21. In addition, there is ample evidence that even absent the deemed consent of the First Lien Noteholders and the 1.5 Lien Noteholders to the proposed DIP facilities, the interests of the Cash Flow Facility, First Lien Noteholders and the 1.5 Lien Noteholders are also protected through the existence of an "equity cushion" in their collateral. While Moelis has undertaken, but has not yet completed, a comprehensive enterprise-wide valuation of the Debtors, based upon the terms of the proposed restructuring which includes \$600 million of new money being invested behind the \$270 million exit ABL, the \$1B exit term loan and the 1.5 Lien Noteholders (portions of proposed new loans and investment are expected to pay off the Cash Flow Facility and the First Lien Noteholders), it is obvious, based on the market, that these tranches of debt are fully secured and protected. As further evidence, the Debtors have included current payments of non-default interest and payment of counsel fees to both of these classes of creditors.

22. Moreover, based on the preliminary work performed by Moelis, we are confident saying that even assuming a fully drawn DIP Facility, the lower end of the range of value for the Debtors' enterprise will be comfortably above the total amounts owed to the Cash Flow Facility, the First Lien Noteholders and the 1.5 Lien Noteholders who together are owed approximately \$1.37 billion. Based upon our view of value informed by the market, together with the generous adequate protection package being offered to the Cash Flow Facility, the First

Lien Noteholders and the 1.5 Lien Noteholders, the DIP Facilities can and should be authorized and approved.

F. The DIP Facilities Should Be Approved

23. I believe, based on my experience and involvement in the marketing and negotiation of the DIP financing in this matter, the negotiations with all potential lenders were conducted at arm's length and in good faith. The marketing process was also successful, as the Debtors were able to improve upon the initial standalone offers of each of the DIP Lenders.

24. I believe the fees and expenses in the proposed DIP facilities are reasonable, and on the whole, the financing is the best available option available to the Debtors.

25. I also believe that, based on the Debtors' projections, the proposed DIP facilities will allow the Debtors the necessary liquidity to fund and continue operations during these chapter 11 cases, and send a strong signal to employees, customers, suppliers and other parties of the Debtors' viability. Accordingly, if approved, the DIP facilities will provide capital which is essential to preserving the value of the Debtors' businesses and liquidity to reorganize and, as such, is in the best interests of the Debtors' estates and creditors.

I, the undersigned, declare under penalty of perjury that the foregoing is true and correct.

Dated: April 13, 2014

/s/ William Q. Derrough
William Q. Derrough