WILLKIE FARR & GALLAGHER LLP

CLIENT MEMORANDUM

SOLUTIA[1] AND ITS EXIT LENDERS SETTLE WITH EXIT LENDERS AGREEING TO HONOR FUNDING COMMITMENT[2]

On February 26, 2008, the Bankruptcy Court for the Southern District of New York approved a settlement reached between Solutia Inc. ("Solutia"), which has been operating as a debtor-in-possession for the past four years, and its exit lenders, Citigroup Global Markets Inc., Goldman Sachs Credit Partners LP, Deutsche Bank Securities Inc. and Deutsche Bank Trust Company Americas (collectively, the "Commitment Parties") regarding a lawsuit filed earlier this month in which Solutia alleged, among other things, that the Commitment Parties had breached their commitment to provide Solutia with its required $2 billion long-term exit financing and had fraudulently induced Solutia into entering into the financing arrangement. Solutia was seeking either to enforce specific performance or to recover $2.25 billion in damages.

The Commitment Parties announced on January 23, 2008, that they were withdrawing their commitment to provide the exit financing necessary to fund Solutia's emergence from chapter 11. The Commitment Parties sought to enforce a "Market-MAC" provision included in the Commitment Parties' commitment letter that if upheld by the Bankruptcy Court would have permitted the Commitment Parties to walk away from their exit financing commitment as a result of the current credit crisis. It had been only three months prior that the Bankruptcy Court confirmed and found Solutia's plan of reorganization feasible, based in large part on the already court approved exit financing arrangement.

In an effort to resolve the dispute prior to February 28, 2008, the date on which Solutia would otherwise lose its backing of $37.5 million of its $250 million rights offering, the Bankruptcy Court heard trial testimony and argument from Thursday, February 21, through late Saturday, February 23, 2008. On Monday, February 25, 2008, the parties announced that they had reached a settlement. The settlement provides that the Commitment Parties will waive the Market-MAC condition and increase the size of the original revolving credit facility by an additional $50 million. Solutia, in turn, will pay a higher interest rate on the $1.2 billion senior secured term loan and will dismiss with prejudice the lawsuit against the Commitment Parties.

The Bankruptcy Court's approval of the settlement between Solutia and the Commitment Parties unfortunately means that lenders and investors will not have the clarity that some had hoped to receive from a judicial decision on the enforceability of Market-MAC provisions. Given the settlement, lenders are likely to continue to include Market-MAC provisions as conditions to

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1 Although Willkie Farr & Gallagher LLP has represented a substantial party-in-interest in the Solutia case, Mr. Feldman has not had any material involvement in such representation.

2 This is a follow-up to the article titled "Solutia Files Lawsuit Against Exit Lenders to Compel Them to Honor Funding Commitment," dated February 12, 2008.

their financing arrangements, especially during periods of market uncertainty, and companies will continue to resist such provisions, but without judicial clarity may ultimately be forced to accept these terms when the alternative is an inability to obtain financing. At some point in the future, judicial clarity may come, but not in connection with Solutia.

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If you have any questions regarding this memorandum, please contact Matthew A. Feldman (212-728-8651, mfeldman@willkie.com) or the attorney with whom you regularly work.

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