
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-71

HEXION SPECIALTY CHEMICALS, INC.

(Exact name of registrant as specified in its charter)

New Jersey
(State of incorporation)

13-0511250
(I.R.S. Employer Identification No.)

180 East Broad St., Columbus, OH 43215
(Address of principal executive offices)

614-225-4000
(Registrant's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
None	None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

At December 31, 2008, the aggregate market value of voting and non-voting common equity of the Registrant held by non-affiliates was zero.

Number of shares of common stock, par value \$0.01 per share, outstanding as of the close of business on March 2, 2009: 82,556,847

Documents incorporated by reference. None

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HEXION SPECIALTY CHEMICALS, INC.

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PART I

(dollars in millions)

ITEM 1 - BUSINESS

Overview

Hexion Specialty Chemicals, Inc., a New Jersey corporation with predecessors dating from 1899 (which we may refer to as “we,” “us,” “our,” “Hexion” or the “Company”), is the world’s largest producer of thermosetting resins, or thermosets. Thermosets are a critical ingredient in virtually all paints, coatings, glues and other adhesives produced for consumer or industrial uses. We provide a broad array of thermosets and associated technologies, and have significant market positions in each of the key markets that we serve. Our breadth of related products provides our operations, technology and commercial service organizations with competitive advantages, while our scale provides us with significant efficiencies in our cost structure, allowing us to compete effectively throughout the value chain.

Thermosets are developed to meet the performance characteristics required for each specific end use product. The type of thermoset used, and how it is formulated, applied and cured, determines its key attributes, such as durability, gloss, heat resistance, adhesion, or strength of the final product. We have the broadest range of thermoset resin technologies in our industry, with high quality research, applications development and technical service capabilities. Our thermosets are sold under a variety of well-recognized brand names including BORDEN® (phenolic and amino resins), EPIKOTE® (epoxy resins), EPIKURE® (epoxy curatives), BAKELITE (phenolic resins), LAWTER™ (inks) and CARDURA® (high-end automotive coatings).

Our products are used in thousands of applications and are sold into diverse markets, such as forest products, architectural and industrial paints, packaging, consumer products and automotive coatings, as well as higher growth markets, such as composites, UV cured coatings and electrical laminates. Major industry sectors that we serve include industrial/marine, construction, consumer/durable goods, automotive, wind energy, aviation, electronics, architectural, civil engineering, repair/remodeling, graphic arts, and oil and gas field support. The diversity of our products limits our dependence on any one market or end-use. We have a history of product innovation and success in introducing new products to new markets, as evidenced by more than 1,700 patents, the majority of which relate to the development of new products and processes for manufacturing.

As of December 31, 2008, we had 94 production sites around the world. Through our worldwide network of strategically located production facilities, we serve more than 8,300 customers in over 100 countries. We believe that our global scale provides us with significant advantages in serving a global market. Often we are able to internally produce strategic raw materials, providing us with a lower cost operating structure and security of supply. Where we are integrated downstream into product formulations, our technical know-how and market presence provide additional value. Our position in certain additives, complementary materials and services further enables us to leverage our core thermoset technologies and provide our customers a broad range of product solutions. As a result of our focus on innovation and a high level of technical service, we have cultivated long-standing customer relationships. Our global customers include leading companies in their respective industries, such as 3M, Ashland Chemical, BASF, Bayer, DuPont, GE, Halliburton, Honeywell, Huntsman, Louisiana Pacific, Owens Corning, PPG Industries, Sumitomo, Sun Chemicals, Valspar and Weyerhaeuser.

We believe that we have opportunities for long-term growth through global product line management, as well as opportunities to increase our operational efficiencies, reduce fixed costs, optimize manufacturing assets and improve capital spending efficiency. We are focused on increasing our revenues, cash flows and profitability. We believe we can achieve these goals through the following strategies:

- *Utilize Our Integrated Platform Across Product Offerings.* We have an opportunity to provide our customers with a broad range of resins products on a global basis as one of the world’s largest producers of thermosetting resins. We continue to refine our market strategy of serving as a global, comprehensive solutions provider to our customers rather than simply offering a particular product, selling in a single geography or competing on price. We also continue to review additional opportunities to transition our existing manufacturing capacity toward producing more specialty-oriented products, which deliver higher value to our customers and may generate additional sales and/or earnings compared to commodity-like resins.
- *Develop and Market New Products.* We will continue to expand our product offerings through internal innovation, joint research and development initiatives with our customers and research partnership formations.
- *Expand Our Global Reach In Faster Growing Regions.* We will continue to grow our business in the Asian-Pacific, Eastern European and Latin American markets, where the use of our products is increasing, while continuing to review opportunities in other global markets.
- *Increase Margins Through Focus on Operational Excellence.* We will continue to improve our profitability by realizing cost savings opportunities as a result of the Hexion Formation and our other recently announced productivity savings programs.

Industry

The size of the global thermosetting resins market normally is approximately \$40 billion in annual sales. Thermosetting resins include materials such as phenolic resins, epoxy resins, polyester resins, acrylic resins, alkyd resins and urethane resins. Thermosetting resins are used for a wide variety of applications due to their superior adhesion and bonding properties, heat resistance, and protective and aesthetic characteristics, compared to other materials. Our key product areas reach approximately half of the global thermosetting resins market.

Thermosets are sold to the global coatings, composites and adhesives markets, which have combined annual sales of over \$100 billion. Thermosetting resins are generally considered specialty chemical products because they are sold primarily on the basis of performance, technical support, product innovation and customer service. Although the thermosetting resins market has changed in recent years, it remains fragmented with many small, non-core divisions of large chemical conglomerates and many small and medium-sized companies that provide a relatively high level of customization and service to their end markets. We believe we are one of the largest North American-based specialty chemicals companies.

The principal factors that contribute to success in the specialty chemicals market are (1) consistent delivery of high-quality products, (2) favorable process economics, (3) the ability to provide value to customers through both product attributes and strong technical service, and (4) a presence in large and growing markets.

Products and Market Applications

Our business is organized based on the products that we offer and the markets that we serve. At December 31, 2008, we had four reportable segments: Epoxy and Phenolic Resins, Formaldehyde and Forest Products Resins, Coatings and Inks, and Performance Products. A summary of the major products and primary applications of our reportable segments follows:

Epoxy & Phenolic Resins

2008 Net Sales: \$2,432

Epoxy Resins and Intermediates

We are one of the world's largest suppliers of epoxy resins. Epoxy resins are the fundamental component of many types of materials and are often used in the automotive, aerospace and electronics industries due to their unparalleled strength and durability. Our products are used either as replacements for traditional materials, such as metal, wood, clay, glass, stone, ceramics and natural fibers, or in applications where traditional materials do not meet demanding engineering specifications. We also provide a variety of complementary products such as epoxy modifiers, curing agents, reactive diluents and specialty liquids. In addition, we are a major producer of bisphenol-A ("BPA") and epichlorohydrin ("ECH"), key precursors in the manufacture of epoxy resins. We internally consume the majority of our BPA, and virtually all of our ECH, giving us a competitive advantage versus our non-integrated competitors.

Products

Civil Engineering

Electrical Castings

Adhesives

Electronic Resins

Key Applications

Bridge and canal construction, concrete enhancement and corrosion protection

Generators and bushings, transformers, medium and high-voltage switch gear components, post insulators, capacitors and automotive ignition coils

Automotive: hem flange adhesives and panel reinforcements

Construction: ceramic tiles, chemical dowels and marble

Aerospace: metal and composite laminates

Electronics: chip adhesives, solder masks and electronic inks

Unclad sheets, tube and molding, paper impregnation, cotton and glass filaments, printed circuit boards and electrical laminates

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Composite Resins

We are a leading producer of resins that are used in composites in both the United States and in Europe. Composites are a fast-growing class of materials that are used in a wide variety of applications ranging from aircraft components and windmill blades to sports equipment. We supply composite epoxy resins to fabricators in the aerospace, sporting goods and pipe markets. Our position in epoxy resins, along with our technology and service expertise, has enabled us to offer formulated products in selected areas, such as turbine blades that are used in the wind energy market. We internally consume approximately 40% of our liquid epoxy resins production in our specialty composite and adhesive formulation applications, giving us a competitive advantage versus our non-integrated competitors.

In addition to epoxy, we manufacture composite resins from unsaturated polyester resins (“UPR”), which are generally combined with fiberglass to produce cost-effective finished structural parts for applications ranging from boat hulls and recreational vehicles to bathroom fixtures.

<u>Products</u>	<u>Key Applications</u>
Composite Epoxy Resins	Pipes and tanks, automotive (structural interior), sports (ski, snowboard, golf), boats, construction, aerospace, wind energy and industrial applications
Reinforced UPR and Vinyl Ester Resins	Marine, transportation, construction, consumer products, recreational vehicles, spas, bath and shower surrounds
Non-reinforced UPR and Vinyl Ester Resins	Cultured marble, construction, gel coat and surface coating, and automotive putty

Molding Compounds

We are a significant producer of molding compounds in Europe. We formulate and produce a wide range of phenolic, polyester and epoxy molding compounds that are used to manufacture components requiring heat stability, electrical insulation, fire resistance and durability. Applications range from automotive underhood components to appliance knobs and cookware handles as well as various electrical and electronic applications.

<u>Products</u>	<u>Key Applications</u>
Phenolic, Epoxy, unsaturated polyesters	Automotive ashtrays and under-hood components, heat resistant knobs and bases, switches and breaker components and pot handles
Glass	High load, dimensionally stable automotive underhood parts and commutators

Phenolic Specialty Resins

We are one of the leading producers of phenolic specialty resins, which are used in applications that require extreme heat resistance and strength, such as automotive brake pads, engine filters, aircraft components and electrical laminates.

<u>Products</u>	<u>Key Applications</u>
Composites and Electronic Resins	Aircraft components, ballistic applications, industrial grating, pipe, jet engine components, electrical laminates, computer chip encasement and photolithography
Automotive Phenol Formaldehyde Resins	Acoustical insulation, engine filters, brakes, friction materials, interior components, molded electrical parts and assemblies
Construction Phenol Formaldehyde Resins, Urea Formaldehyde Resins, Melamine Formaldehyde Resins, Ketone Formaldehyde and Melamine Colloid	Decorative laminates, fiberglass insulation, floral foam, lamp cement for light bulbs, molded appliance and electrical parts, molding compounds, sandpaper, fiberglass mat, laminates, coatings, crosslinker for thermoplastic emulsions and specialty wet strength paper

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Epoxy Coating Resins

In addition to adhesive uses, epoxy resins are used for a variety of high-end coating applications that require the superior strength and durability of epoxy, such as protective coatings for industrial and domestic flooring, pipe, marine and construction applications, and appliance and automotive coatings. Epoxy-based surface coatings are among the most widely used industrial coatings, due to their structural stability and broad application functionality combined with overall economic efficiency. We also leverage our resin and additives position to supply custom resins to specialty coatings formulators.

Products

Electrocoat (Liquid Epoxy Resin (“LER”), Solid Epoxy Resin (“SER”), BPA)

Powder Coatings (SER, Performance Products)

Heat Cured Coatings (LER, SER)

Floor Coatings (LER, Solutions, Performance Products)

Ambient Cured Coatings (LER, SER, Solutions, Performance Products)

Waterborne Coatings

Key Applications

Automotive, general industry (such as heating radiators) and white goods (such as appliances)

White goods, pipes for oil and gas transportation, general industry (such as heating radiators) and automotive (interior parts and small components)

Metal packaging and coil-coated steel for construction and general industry

Chemically resistant, antistatic and heavy duty flooring used in hospitals, the chemical industry, electronics workshops, retail areas and warehouses

Marine (manufacturing and maintenance), shipping containers and large steel structures (such as bridges, pipes, plants and offshore equipment)

Replacement of solvent-borne products in both heat cured and ambient cured applications

Versatic Acids and Derivatives

We are the world’s largest producer of versatic acids and derivatives. Versatic acids and derivatives are specialty monomers that provide significant performance advantages for finished coatings, including superior adhesion, appearance and ease of application. Our products include basic versatic acids and derivatives sold under the Versatic, VEOVA® and CARDURA® names. Applications for versatic acids include decorative, automotive and protective coatings as well as other uses, such as pharmaceuticals and personal care products. We manufacture versatic acids and derivatives using our integrated manufacturing sites and our internally produced ECH.

Products

CARDURA®

Versatic Acids and Derivatives

VEOVA®

Key Applications

Automotive repair/refinishing, automotive original equipment manufacturing (“OEM”) and industrial coatings

Chemical building blocks, peroxides, pharmaceuticals and agrochemicals

Architectural coatings and construction

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Formaldehyde and Forest Product Resins

2008 Net Sales: \$2,033

Formaldehyde Based Resins and Intermediates

We are the leading producer of formaldehyde-based resins for the North American forest products industry and also hold significant positions in Europe, Latin America and Australia. In addition, we are the world's largest producer of formaldehyde, a key raw material used to manufacture thousands of products. We internally consume the majority of our formaldehyde production, giving us a competitive advantage versus our non-integrated competitors. Our forest products resins are used in a wide range of applications in the construction, remodeling and furniture industries.

Products

Forest Products Resins

Engineered Wood Resins

Special Wood Adhesives

Wax Emulsions

Formaldehyde Applications

Formaldehyde

Key Applications

Softwood and hardwood plywood, oriented strand board, laminated veneer lumber, strand lumber and wood fiber resins, such as particleboard, medium density fiberboard and finished veneer lumber

Laminated beams, structural and nonstructural fingerjoints, wood composite I-beams, cabinets, doors, windows, furniture, molding and millwork, and paper laminations

Moisture resistance for panel boards and other specialty applications

Herbicides and fungicides, scavengers for oil and gas production, fabric softeners, Urea Formaldehyde, Melamine Formaldehyde, Phenol Formaldehyde, methyl diphenyl diisocyanate (MDI), hexamine and other catalysts

Coatings & Inks

2008 Net Sales: \$1,248

Polyester Resins

We are a leading supplier of polyester resins in North America and are also a major producer of powder polyesters in Europe. We provide liquid and powder custom polyester resins to customers for use in industrial coatings that require specific properties, such as gloss and color retention, resistance to corrosion and flexibility. Polyester coatings are typically used in transportation, automotive, machinery, appliances and metal office furniture.

Products

Powder Polyesters

Liquid Polyesters and Polyester Dispersions

Key Applications

Outdoor durable systems for architectural window frames, facades and transport; indoor systems for domestic appliances and general industrial applications

Automotive, coil and exterior can coating applications

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Alkyd Resins

We hold a leading position in alkyd resins in North America. We provide alkyd resins to customers who manufacture professional grade paints and coatings. Alkyd resins are formulated and engineered according to customer specifications, and can be modified with other raw materials to improve performance. Applications include industrial coatings (protective coatings used on machinery, metal coil, equipment, tools and furniture), special purpose coatings (highway-stripping paints, automotive refinish coatings and industrial maintenance coatings) and decorative paints (house paint and deck stains). Our alkyd resins business shares an integrated production platform with our polyester resins business, which enables flexible sourcing, plant production balancing and improved economies of scale.

Products

Alkyd and Alkyd Emulsions

Key Applications

Architectural: Exterior enamels, interior semi-gloss and trim, interior/exterior stains and wood primers

Industrial: Metal primers, general metal, transportation, machinery and equipment, industrial maintenance and marine, metal containers and wood furniture

Alkyd Copolymer

Architectural: Stain blocking primer, sanding sealers and aerosols

Industrial: Machinery and equipment, transportation, general metal and drywall coating

Urethane Modified

Architectural: Clear varnishes and floor coatings

Industrial: Wood coatings

Silicone Alkyd

Industrial: Industrial maintenance and marine and heat resistant coatings

Acrylic Resins

We are a sizeable supplier of water-based and solvent-based acrylic resins in Europe, North America, Asia and Australia. Acrylic resins are supplied as either acrylic homopolymers or as resins incorporating various comonomers that modify performance or cost. Water based acrylic homopolymers are used in interior trim paints and exterior applications where color, gloss retention and weathering protection are critical. Styrene is widely used as a modifying comonomer in our water-based acrylic resins. Styrene-acrylic copolymers are mainly used where high hydrophobicity and alkali resistance are required. In addition, we produce a wide range of specialty solution acrylic resins for marine and maintenance paints, and automotive topcoats.

We are also a low-cost producer of acrylic monomer, the key raw material in our acrylic resins. This ability to internally produce a key raw material gives us a cost advantage and ensures us adequate supply.

Products

Acrylic Dispersions

Key Applications

Architectural: Interior semi-gloss and high gloss, interior and exterior paints, stains and sealers, drywall primer, masonry coatings and general purpose

Industrial: Automotive OEM, packaging, general metal, wood, plastic coatings, traffic marking paint, industrial maintenance and transportation, adhesives and textiles

Styrene-Acrylic Dispersions

Architectural: Interior matt to high gloss paints, interior and exterior paints, primer, masonry coatings and general purpose

Industrial: Building and Construction, Automotive OEM, general metal, wood, plastic coatings, traffic marking paint, industrial maintenance and transportation, adhesives, textiles

Solution Acrylics

Architectural markets: Aerosols, masonry and tile sealers

Industrial Markets: Transportation, packaging, aerosols, automotive OEM, appliance, industrial maintenance, marine and road marking

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Vinylic Resins

We are a supplier of water-based vinylic resins in Europe, North and South America. Vinylic resins might be either simple homopolymers of vinyl acetate or copolymers with acrylic, olefin, or other vinylic monomers to improve performance.

A significant part of the vinylic resins we produce are spray dried to produce redispersible powders. We produce a wide range of specialty homopolymer and copolymer based powdered resins that are subsequently redispersed in water for primary applications in the building and construction market.

Products

Vinyl Acetate Homopolymer Dispersions

Vinyl Acetate Copolymers

Redispersible Powders

Key Applications

Packaging, paper and wood adhesives, and textiles

Architectural paints, packaging, wood and paper adhesives and textiles

Tile adhesives, external thermal insulation and finishing systems, self leveling underlayments, repair mortars, gypsum compounds, membranes, grouts

Ink Resins and Additives

We are one of the world's largest producers of ink resins and associated products. Ink resins are used to apply ink to a variety of different substrates, including paper, cardboard, metal foil and plastic. We provide resins, liquid components and additives sold primarily under the globally recognized Lawter™ brand name, to customers who formulate inks for a variety of substrates and printing processes. Our products offer performance enhancements such as durability, printability, substrate application, drying speed and security. Typical end-use applications include brochures, newspapers, magazines, food packages, beverage cans and flexible packaging. We are also a provider of formulated UV-cured coatings and inks.

Products

Resins

Vehicles and Waxes

Liquid Inks

Key Applications

Graphic arts, commercial, publication and packaging

Sheet-fed, heatset, gloss and wetting vehicles, and wax products

Polymer films, paper and corrugated boards

Performance Products

2008 Net Sales: \$380

Phenolic Encapsulated Substrates

We are a leading producer of phenolic encapsulated sand and ceramic substrates that are used in oil field services and foundry applications. Our highly specialized compounds are designed to perform well under extreme conditions, such as intense heat, high-stress and corrosive environments, that characterize oil and gas drilling and foundry industries. In the oil field services industry, our resin encapsulated proppants are used to enhance oil and gas recovery rates and extend well life. We are also the leading producer by volume of foundry resins in North America. Our foundry resin systems are used by major automotive and industrial companies for precision engine block casting, transmissions, and brake and drive train components. In addition to encapsulated substrates, in the foundry industry, we also provide phenolic resin systems and ancillary products used to produce finished metal castings.

Products

Oil & Gas Stimulation Services Applications

Resin Encapsulated Proppants

Foundry Applications

Refractory Coatings

Resin Coated Sands and Binders

Key Applications

Oil and gas fracturing

Thermal resistant coatings for ferrous and nonferrous applications

Sand cores and molds

For additional information about our segments see Note 20 in Item 8 of Part II of this Annual Report on Form 10-K.

Marketing and Customers

Our products are sold to industrial users worldwide through a combination of a direct sales force that services our larger customers, and third-party distributors that more cost-effectively serve our smaller customers. Our customer service and support network is made up of key regional customer service centers. We have global account teams that serve the major needs of our global customers for technical service and supply and commercial term requirements. Where operating and regulatory factors vary from country to country, these functions are managed locally.

In 2008, our largest customer accounted for less than 3% of our sales and our top ten customers accounted for approximately 15% of our sales. Our largest customer in our Performance Products reporting segment accounted for approximately 25% of the segment's sales in 2008. The loss of this customer could have a material adverse effect on the Performance Products reporting segment. However, neither our overall business nor any of our other reporting segments depends on any single customer, or a particular group of customers, the loss of which would have a material adverse effect on either the reporting segment or the Company as a whole. Our primary customers are manufacturers, and the demand for our products is generally not seasonal, but can be cyclical.

International Operations

Our international operations accounted for approximately 58% of our sales in 2008 and 2007. While our international operations may be subject to a number of additional risks such as exposure to foreign currency exchange risk, we do not believe that our foreign operations, on the whole, carry greater risk than our operations in the United States. Information about sales by geographic region for the past three years and long-lived assets by geographic region for the past two years can be found in Note 20 in Item 8 of Part II of this Annual Report on Form 10-K. More information about our programs to manage exchange risk and interest rate risk can be found in Item 7A of Part II of this Annual Report on Form 10-K.

Raw Materials

Raw material costs account for approximately 75% of our cost of sales. In 2008, we purchased approximately \$4 billion of raw materials. The three largest raw materials that we use are phenol, methanol and urea, which represented 47% of our total raw material expenditures. The majority of raw materials that we use to manufacture our products are available from more than one source and are readily available in the open market. We have long-term purchase agreements for certain raw materials that ensure the availability of adequate supply. These agreements generally have periodic price adjustment mechanisms and do not have minimum annual purchase requirements. Smaller quantity materials that are single sourced generally have long-term supply contracts to maximize supply reliability. Prices for our main feedstocks are generally driven by underlying petrochemical benchmark prices and energy costs, which are subject to price fluctuations. Although we seek to offset increases in raw material prices with increases in our product prices, we may not always be able to do so, and there are periods when price increases lag behind raw material price increases.

Competition

We compete with many companies in most of our product lines, including large global chemical companies and small specialty chemical companies. The principal competitive factors in our industry include technical service, breadth of product offering, product innovation and price. Some of our competitors are larger and have greater financial resources and less debt than we do, and, as a result, may be better able to withstand changes in industry conditions, including pricing, and the economy as a whole. We are able to compete with smaller niche specialty chemical companies due to our investment in research and development and our customer service model, which provides for on-site value-added technical service for our customers. In addition, our size and scale provides efficiencies in our cost structure.

We believe that no single company competes with us across all of our segments and existing product lines. Following are our principal competitors by market application.

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Epoxy & Phenolic Resins

Major Products

Epoxy Resins and Intermediates

Composite Resins

Molding Compounds

Phenolic Specialty Resins

Epoxy Coating Resins

Versatic Acids and Derivatives

Principal Competitors

Dow Chemical, Nan Ya and the Formosa Plastics Group, Chang Chun Polymers, Huntsman, Spolchemie, Leuna, Jana and Aditya Birla (Thai Epoxy)

Huntsman, Dow Chemical, Aditya Birla (Thai Epoxy), Leuna, Ashland, AOC, Reichhold and CCP/Atofina

Sumitomo, Raschig and BAQ

Dynea International, Arclin, Georgia-Pacific (a subsidiary of Koch Industries), Sumitomo (Durez), SI Group, Ashland and Huttenes-Albertus, Plenco, Capital Resins, Dynachem

Dow Chemical, Huntsman, Nan Ya and the Formosa Plastics Group, Leuna and Kukdo

ExxonMobil, Tianjin Shield and Hebei Huaxu

Formaldehyde and Forest Product Resins

Major Products

Forest Products Resins

Formaldehyde Applications

Principal Competitors

Dynea International, Arclin, Georgia-Pacific (a subsidiary of Koch Industries) and Tembec

Dynea International, Arclin and Georgia-Pacific (a subsidiary of Koch Industries)

Coatings & Inks

Major Products

Polyester Resins

Alkyd Resins

Acrylic Resins

Vinyl Resins

Ink Resins and Additives

Principal Competitors

DSM, Cytec, Cray Valley/CCP, Reichhold, Nuplex and EPS (owned by Valspar)

Reichhold, CCP/Atofina/Cray Valley, DSM, Nuplex and EPS (owned by Valspar)

Rohm & Haas, BASF, DSM (Neoresins), Dow Chemical, and Polymer Latex

Celanese, Wacker, Vinavil, Elotex, Dairen, Dow Chemical

Mead Westvaco, Arizona Chemical, Resinall, Arakawa and Harima

Performance Products

Major Products

Phenolic Encapsulated Substrates

Principal Competitors

Ashland, Carbo Ceramics, Santrol and Atlas Resins

Research and Development

Our research and development activities are geared to developing and enhancing products, processes, applications and technologies so that we can maintain our position as the world's largest producer of thermosetting resins. We focus on:

- developing new or improved applications based on our existing product lines and identified customer needs;
- developing new resin products and applications for customers to improve their competitive advantage and profitability;
- providing premier technical service for customers of specialty products;
- providing technical support for manufacturing locations and assisting in optimizing our manufacturing processes;
- ensuring that our products are manufactured consistent with our global environmental, health and safety policies and objectives;
- developing lower cost manufacturing processes globally; and
- expanding our production capacity.

In 2008, 2007 and 2006, our research and development and technical services expense was \$73, \$70 and \$69, respectively. We take a customer-driven approach to discover new applications and processes and provide customer service through our technical staff. Through regular direct contact with our key customers, our research and development associates can become aware of evolving customer needs in advance and can anticipate their requirements to more effectively plan customer programs. We also focus on continuous improvement of plant yields and production capacity and reduction of fixed costs.

We have over 500 scientists and technicians worldwide. Our research and development facilities include a broad range of synthesis, testing and formulating equipment, and small-scale versions of customer manufacturing processes for applications development and demonstration. In addition, we have an agreement with a not-for-profit research center to assist in research projects and new product development initiatives.

Patents and Trademarks

We own, license or have rights to over 1,700 patents, over 2,000 trademarks, and various patent and trademark applications and technology licenses around the world, which we hold for use or currently use in our operations. A majority of our patents relate to developing new products and processes for manufacturing and will expire between 2009 and 2027. We renew our trademarks on a regular basis. While we view our patents and trademarks to be valuable, because of the broad scope of our products and services, we do not believe that the loss or expiration of any single patent or trademark would have a material adverse effect on our results of operations, financial position or the continuation of our business.

Industry Regulatory Matters

Domestic and international laws regulate the production and marketing of chemical substances. Almost every country has its own legal procedure for registration and import. Of these, the laws and regulations in the European Union, including the European inventory of existing commercial chemical substances and the European list of notified chemical substances, the United States, including the Toxic Substances Control Act inventory, and China are the most significant to our business. Chemicals that are on one or more of these lists can usually be registered and imported without requiring additional testing in other countries, although additional administrative hurdles may exist.

The European Commission enacted a new regulatory system in 2006, known as Registration, Evaluation, Authorization and Restriction of Chemical substances, or REACH, which requires manufacturers, importers and consumers of certain chemicals to register these chemicals and evaluate their potential impact on human health and the environment. As REACH matures, significant market restrictions could be imposed on the current and future uses of chemical products that we use as raw materials or that we sell as finished products in the European Union.

We also actively petition the U.S. Food and Drug Administration to sanction the use of certain specialty chemicals that we produce that we believe are safe for use by our customers to manufacture products that will come in direct or indirect contact with food.

Environmental Regulations

Our policy is to operate our plants in a manner that protects the environment and health and safety of our employees and the public. Health, safety and environmental considerations are a priority in our planning for all existing and new products and processes. We have implemented companywide environmental, health and safety policies overseen by the Environmental, Health and Safety ("EH&S") Committee of our Board of Directors. Our EH&S department has the responsibility to ensure that our operations worldwide maintain environmental compliance in accordance with applicable laws and regulations and place health and safety as a priority. This responsibility is executed via training, widespread communication of EH&S policies, formulation of relevant policies and standards, EH&S audits, and incidence response planning and implementation. Our EH&S policies include systems and procedures that govern environmental emissions, waste generation, process safety management, handling, storage and disposal of hazardous substances, worker health and safety requirements, emergency planning and response, and product stewardship.

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Our operations involve the use, handling, processing, storage, transportation and disposal of hazardous materials and are subject to extensive environmental regulation at the federal, state and international level and are exposed to the risk of claims for environmental remediation or restoration. Our production facilities require operating permits that are subject to renewal or modification. Violations of environmental laws or permits may result in restrictions being imposed on operating activities, substantial fines, penalties, damages or other costs. In addition, statutes such as the federal Comprehensive Environmental Response, Compensation, and Liability Act and comparable state and foreign laws impose strict, joint and several liability for investigating and remediating the consequences of spills and other releases of hazardous materials, substances and wastes at current and former facilities, and at third-party disposal sites. Other laws permit individuals to seek recovery of damages for alleged personal injury or property damage due to exposure to hazardous substances and conditions at our facilities or to hazardous substances otherwise owned, sold or controlled by us. Therefore, notwithstanding our commitment to environmental management, environmental health and safety, we may incur liabilities in the future, and these liabilities may result in a material adverse effect on our business, financial condition, results of operations or cash flows.

Although our environmental policies and practices are designed to ensure compliance with international, federal and state laws and environmental regulations, future developments and increasingly stringent regulation could require us to make additional unforeseen environmental expenditures. In addition, our former operations, including our ink, wallcoverings, film, phosphate mining and processing, thermoplastics, and food and dairy operations, may give rise to claims relating to our period of ownership.

We expect to incur future costs for capital improvements and general compliance under environmental laws, including costs to acquire, maintain and repair pollution control equipment. In 2008, we incurred related capital expenditures of \$43. We estimate that capital expenditures in 2009 for environmental controls at our facilities will be between \$30 and \$35. This estimate is based on current regulations and other requirements, but it is possible that a material amount of capital expenditures, in addition to those we currently anticipate, could be necessary if these regulations or other requirements change.

Employees

At December 31, 2008, we had approximately 6,800 employees. Approximately 40% of our employees are members of a labor union or are represented by workers' councils that have collective bargaining agreements. Most of our European employees are represented by workers' councils. We believe that relations with our union and non-union employees are good.

Formation and History of Hexion

Hexion was formed on May 31, 2005 by combining three Apollo Management, L.P. ("Apollo") controlled companies: Resolution Performance Products, LLC ("Resolution Performance"), Resolution Specialty Materials, Inc. ("Resolution Specialty"), and Borden Chemical, Inc. ("Borden Chemical"), including Bakelite Aktiengesellschaft ("Bakelite"). We refer to this combination as the "Hexion Formation."

Resolution Performance, a worldwide manufacturer and developer of epoxy resins and a leading global manufacturer of versatic acids and derivatives, was acquired by an affiliate of Apollo on November 14, 2000 from Shell Chemical L.P.

Resolution Specialty, a producer of coating resins, inks, composite polymers, textile chemicals and acrylic monomers, was acquired by an affiliate of Apollo from Eastman Chemical Company on August 2, 2004 (the "Resolution Specialty Transaction").

Borden Chemical, a worldwide manufacturer of forest products and industrial resins, formaldehyde, oil field products and other specialty chemicals, was acquired by an affiliate of Apollo on August 12, 2004 (the "Borden Transaction"). On April 29, 2005, prior to the Hexion Formation, Borden Chemical acquired Bakelite, a leading European producer of phenolic and epoxy composite resins and molding compounds (the "Bakelite Transaction").

Acquisitions and Divestitures.

Following are the significant acquisitions and divestitures that we have made since the Hexion Formation.

On January 31, 2006, we acquired the decorative coatings and adhesives business unit of The Rhodia Group (the "Coatings Acquisition"). This business generated 2005 sales of approximately \$200, and included eight manufacturing facilities in Europe, Asia Pacific and Latin America. This acquisition is included in our Coatings and Inks segment.

On March 31, 2006, we sold Alba Adesivos, our branded consumer adhesives company based in Boituva, Brazil (the "Brazilian Consumer Divestiture"). This business generated 2005 sales of \$38 and was included in our Formaldehyde and Forest Product Resins segment.

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On June 1, 2006, we acquired the global ink and adhesive resins business of Akzo Nobel (the “Inks Acquisition”). This business generated 2005 sales of approximately \$215, and included ten manufacturing facilities in Europe, Asia Pacific, North America and South America. This acquisition is included in our Coatings and Inks segment.

On August 1, 2006, we sold our Italian-based engineering thermoplastics business, Taro Plast, S.p.A. (“Taro Plast” or “Thermoplastics Divestiture”) which was acquired in the Bakelite Transaction. This business generated 2005 sales of \$28 and is presented as a discontinued operation in our consolidated financial statements and was included in our Epoxy and Phenolic Resins segment.

On February 1, 2007, we acquired the adhesives and resins business of Orica Limited (the “Orica A&R Acquisition”). This business manufactures formaldehyde and formaldehyde-based binding resins used primarily in the forest products industry. This business generated 2006 sales of approximately \$85, and included three manufacturing facilities in Australia and New Zealand. This acquisition is included in our Formaldehyde and Forest Products segment.

On November 1, 2007, we acquired the German forest products resins and formaldehyde business of Arkema GmbH (the “Arkema Acquisition”). This business manufactures formaldehyde and formaldehyde-based resins. This business generated 2006 revenues of approximately \$127. This acquisition is included in our Formaldehyde and Forest Products Resins segment.

Where You Can Find More Information

The public may read and copy any materials that we file with the Securities and Exchange Commission (“SEC”) at the SEC’s Public Reference Room at 100 F Street, NW, Washington, DC 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports are available free of charge to the public through our internet website at www.hexion.com under “Investor Relations - SEC Filings” or on the SEC’s website at www.sec.gov.

ITEM 1A - RISK FACTORS

Following are our principal risks. These factors may or may not occur, and we cannot express a view on the likelihood that any of these may occur. Other factors may exist that we do not consider significant based on information that is currently available or that we are not currently able to anticipate. Any of the following risks could materially adversely affect our business, financial condition or results of operations and prospects.

The deteriorating global economic and financial markets conditions have impacted our business operations and may adversely affect our results of operations and financial condition.

Deteriorating global economic and financial market conditions, including severe disruptions in the credit markets and the potential for a significant and prolonged global economic recession, have impacted our business operations and may adversely affect our future results of operations and financial condition. A prolonged or further economic slowdown in the businesses or geographic areas in which we sell our products could further reduce demand for these products and result in a decrease in sales volume for a prolonged period of time which would have a negative impact on our future results of operations. For example, sales to the construction industry are driven by trends in commercial and residential construction, housing starts and trends in residential repair and remodeling. Consumer confidence, mortgage rates, credit standards and availability and income levels play a significant role in driving demand in the residential construction, repair and remodeling sector. In the current market turmoil, many lenders and institutional investors have significantly reduced, and in some cases ceased to provide, funding to borrowers. The lack of available or increased cost of credit has led to decreased construction which has resulted in a reduction in demand for our products. A prolonged or further drop in consumer confidence, continued restrictions in the credit market or an increase in mortgage rates, credit standards or unemployment could delay the recovery of commercial and residential construction levels and have a material adverse effect on our business, financial condition, results of operations or cash flows. Further, our products are used in numerous applications in the automotive industry. We expect the continued weakening of the North American and European automotive markets in 2009 to impact the demand for many of our resin products, molding compounds and versatic acids.

The current economic conditions may also materially impact our customers, suppliers and other parties with which we do business. Volatility and disruption of financial markets could limit the ability of our customers to obtain adequate financing to maintain operations and may cause them to terminate existing purchase orders, reduce the volume of products they purchase from us in the future or impact their ability to pay their receivables. Adverse economic and financial market conditions may also cause our suppliers to be unable to meet their commitments to us or may cause suppliers to make changes in the credit terms they extend to us, such as shortening the required payment period for outstanding accounts receivable or reducing or eliminating the amount of trade credit available to us. These conditions could significantly affect our liquidity which may cause us to defer needed capital expenditures, reduce research and development or other spending, defer costs to achieve productivity and synergy programs, or sell assets. In addition, this could require us to incur additional borrowings which may not be available given the current financial market conditions, or may only be available at terms significantly less advantageous than our current credit terms.

We may not generate sufficient cash flows from operations to meet our debt service payments, and our interest expense could increase if interest rates increase. In addition, our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations and limit our ability to react to changes in the economy or our industry.

We are a highly leveraged company. As of December 31, 2008, we have \$3,859 of outstanding indebtedness. In 2009, based on the amount of indebtedness outstanding at December 31, 2008, our cash debt service is expected to be approximately \$344 (including \$113 of short term debt and capital lease maturities) based on interest rates at February 26, 2009, of which \$147 represents debt service on fixed-rate obligations (including variable rate debt subject to interest rate swap agreements). We may not generate sufficient cash flow from operations to meet our debt service and other obligations. If we are unable to meet our expenses and debt service obligations, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets or raise equity capital. We may not be able to refinance any of our indebtedness, sell assets or raise equity capital on commercially reasonable terms, or at all, which could cause us to default on our obligations and impair our liquidity. An inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms would have a material adverse impact on our business, financial condition and results of operations.

Our interest expense could increase if interest rates increase because 48% of our outstanding borrowings at December 31, 2008, including the impact of outstanding interest rate swap agreements, are at variable interest rates. While we have interest rate swaps in place to hedge a portion of the risk, an increase of 1% in the interest rate payable on our variable rate indebtedness would increase our 2009 estimated debt service requirements by approximately \$21.

Our substantial level of indebtedness could have other consequences to our financial position and results of operations, including the following:

- it may limit our flexibility to plan for, or react to, changes in our operations or business;
- we are more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;

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- it may make us more vulnerable to downturns in our business or in the economy, such as the recent unprecedented volatility in the capital and credit markets;
- it may limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds (which may already be severely limited by availability and increased cost of credit in the current market) or dispose of assets;
- a substantial portion of our cash flow provided by operations will be dedicated to the repayment of our indebtedness and will not be available for other purposes; and
- it may restrict us from making strategic acquisitions, introducing new technologies or exploiting business opportunities.

We have a history of losses and we may fail to achieve all expected cost savings and synergies.

Primarily as a result of transaction and integration activities related to the terminated Huntsman merger and the Hexion Formation, and interest expense, we had a net loss available to common shareholders of \$1,190, \$65 and \$142 for the years ended December 31, 2008, 2007 and 2006, respectively. Our potential for future business success and operating profitability must be considered in light of the risks, uncertainties, expense and difficulties typically encountered by recently organized or combined entities. In addition, we may not successfully achieve all of our planned cost savings and synergies. A significant element of our business strategy is to improve our operating efficiencies and reduce our operating costs. We are currently targeting \$119 in productivity savings, which includes the remaining synergies from the Hexion Formation. We anticipate achieving these savings by 2010. The Company expects to incur \$44 in costs to achieve these savings. A variety of factors could cause us not to achieve the remaining \$119 in productivity savings, including not being able to fund the \$44 in costs. As a result, our results of operations and profitability would be negatively impacted.

The terms of our senior secured credit facilities and other debt may restrict our current and future operations, in particular our ability to respond to changes in our business or to take certain actions.

Our senior secured credit facilities and other debt contain a number of restrictive covenants that can impose significant operating and financial restrictions on our ability to, among other things:

- incur or guarantee additional debt;
- pay dividends and make other distributions to our shareholders;
- create or incur certain liens;
- make certain loans, acquisitions, capital expenditures or investments;
- engage in sales of assets and subsidiary stock;
- enter into sale/leaseback transactions;
- make capital expenditures;
- enter into transactions with affiliates; and
- transfer all or substantially all of our assets or enter into merger or consolidation transactions.

In addition, our senior secured credit facilities require us to meet a senior secured bank leverage test. As a result of these covenants and this ratio, we are limited in how we may conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs. A further downturn in our business could cause us to fail to comply with the covenants in our senior secured credit facilities. A failure to comply with the covenants contained in our senior secured credit facilities or our other debt could result in default, which if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations. In the event of any default under our senior secured credit facilities or our other indebtedness, the lenders:

- will not be required to lend any additional amounts to us;
- could elect to declare all borrowings that are outstanding, together with accrued and unpaid interest and fees, to be due and payable; or
- require us to apply all of our available cash to repay these borrowings.

If the debt under our senior secured credit facilities or our other debt were to be accelerated, our assets might not be sufficient to repay such indebtedness in full. Although we believe our assumptions are reasonable and correct and are consistent with the definition of Adjusted EBITDA (as defined in Item 7 of Part II of this Annual Report on Form 10-K) under our senior secured credit facilities, investors should not place undue reliance on Adjusted EBITDA as an indicator of current and future performance.

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A downgrade in our debt ratings could result in increased interest and other financial expenses related to future borrowings, and has limited and could further restrict our access to additional capital or trade credit.

Standard and Poor's Ratings Services and Moody's Investors Service maintain credit ratings for us. Each of these ratings is currently below investment grade. Any decision by these or other ratings agencies to downgrade such ratings in the future could result in increased interest and other financial expenses relating to our future borrowings, and could restrict our ability to obtain financing on satisfactory terms. In addition, any further downgrade could restrict our access to, and negatively impact the terms of, trade credit extended by our suppliers of raw materials.

We face competition from other chemical companies and from substitute products, which could force us to lower our prices, which would adversely affect our profitability and financial condition.

The markets that we operate in are highly competitive, and this competition could harm our results of operations, cash flows and financial condition. Our competitors include major international producers as well as smaller regional competitors. We believe that the most significant competitive factor that impacts demand for our products is selling price, and we may be forced to lower our selling price based on our competitors' pricing decisions, which would reduce our profitability. In addition, we face competition from a number of products that are potential substitutes for formaldehyde resins. Growth in substitute products for formaldehyde-based resins could adversely affect our market share, net sales and profit margins. Furthermore, the movement towards substitute products could be exacerbated as a result of The International Agency for Research on Cancer's ("IARC") 2004 reclassification of formaldehyde from a "probable human carcinogen" to "carcinogenic to humans" based on studies that have linked formaldehyde exposure to nasopharyngeal cancer, and a possible causal association between leukemia and occupational exposure to formaldehyde.

Additional trends include current and anticipated consolidation among our competitors and customers which may cause us to lose market share as well as put downward pressure on pricing. There is also a trend in the chemical industry toward relocating manufacturing facilities to lower-cost regions, such as Asia, which may permit some of our competitors to lower their costs and improve their competitive position.

Some of our competitors are larger, have greater financial resources and have less debt than we do. As a result, those competitors may be better able to withstand a change in conditions within our industry and in the economy as a whole. If we do not compete successfully, our operating margins, financial condition, cash flows and profitability could be adversely affected.

An inadequate supply of raw materials or fluctuations in raw material costs could have an adverse impact on our business.

Raw material costs make up approximately 75% of our cost of sales. During the past three years, the prices of our raw materials have been volatile. For example, the average prices of phenol, methanol, and urea increased by approximately 2%, 14% and 53%, respectively, in 2008 compared to 2007 and by approximately 7%, 14% and 45%, respectively, in 2007 compared to 2006.

Although many of our contracts include competitive price clauses that allow us to buy outside the contract if market pricing falls below contract pricing, and many other contracts have minimum-maximum monthly volume commitments that allow us to take advantage of spot pricing, we may not be able to purchase raw materials at market prices. In addition, some of our customer contracts include selling price provisions that are indexed to publicly available indices for these materials; however, we may not be able to pass on raw material price increases to our customers immediately, if at all. Due to differences in timing of the pricing trigger points between our sales and purchase contracts, there is often a "lead-lag" impact that can negatively impact our margins in the short term in periods of rising raw material prices and positively impact them in the short term in periods of falling raw material prices. Raw material prices fell significantly late in 2008. However, the prices may not remain at their recently lower levels. Future raw material prices may be impacted by new laws or regulations, suppliers' allocations to other purchasers, interruptions in production by suppliers, natural disasters, volatility in the price of crude oil and related petrochemical products, and changes in exchange rates. If the cost of raw materials increases significantly and we are unable to offset the increased costs with higher selling prices, our profitability will decline. We have been successful raising prices of our products to mitigate the impact of raw material prices in the past. However, increases in prices for our products could hurt our ability to remain both competitive and profitable in the markets in which we compete.

Our manufacturing operations require adequate supplies of raw materials on a timely basis. We rely on long-term agreements with key suppliers for most of our raw materials. The loss of a key source or a delay in shipments could have an adverse effect on our business. Raw material availability may be subject to curtailment or change due to, among other things, new laws or regulations, suppliers' allocations to other purchasers, interruptions in production by suppliers and natural disasters. Should any of our suppliers fail to deliver raw materials to us or should any key long-term supply contracts be cancelled, we may be forced to purchase raw materials in the open market. As a result, we may not be able to purchase these materials or purchase them at prices that would allow us to remain competitive. During the past two years, certain of our suppliers have experienced force majeure events rendering them unable to deliver all, or a portion of, the contracted-for raw materials. On these occasions, we were forced to purchase replacement raw materials in the open market at significantly higher costs, place our customers on an allocation of our products or invoke force majeure in our contracts with our customers.

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Our largest supplier provides 11% of our raw material purchases, and we could incur significant time and expense if we had to replace this supplier. In addition, several of our feedstocks at various facilities are transported through a pipeline from one supplier. If we were unable to receive these feedstocks through these pipeline arrangements, we may not be able to obtain them from other suppliers at competitive prices or in a timely manner.

Environmental obligations and liabilities could have a substantial negative impact on our financial condition, cash flows and profitability. In addition, our production facilities are subject to significant operating hazards which could cause personal injury and loss of life, severe damage to, or destruction of, property and equipment, and environmental contamination.

Our operations involve the use, handling, processing, storage, transportation and disposal of hazardous materials and are subject to extensive environmental laws and regulations at the national, state, local and international level. These environmental laws and regulations include some that govern the discharge of pollutants into the air and water, the management and disposal of hazardous materials and wastes, the cleanup of contaminated sites, and occupational health and safety. We have incurred, and will continue to incur, significant costs and capital expenditures to comply with these laws and regulations. In 2008, we incurred related capital expenditures of \$43 to comply with environmental laws and regulations, and other environmental improvements. Violations of environmental laws or permits may result in restrictions being imposed on our operating activities or in our being subjected to substantial fines, penalties, criminal proceedings, third party property damage or personal injury claims or other costs. In addition, future developments or increasingly stringent regulations could require us to make additional unforeseen environmental expenditures.

Even if we fully comply with environmental laws, we are subject to liability associated with hazardous substances in soil, groundwater and elsewhere at a number of sites. These include sites that we formerly owned or operated, and sites where hazardous wastes and other substances from our current and former facilities and operations have been treated, stored or disposed of, as well as sites that we currently own or operate. Depending upon the circumstances, our liability may be joint and several, meaning that we may be held responsible for more than our proportionate share, or even all, of the liability involved. Environmental conditions at these sites can lead to claims against us for personal injury or wrongful death, property damages, and natural resource damage, as well as to claims and obligations for the investigation and cleanup of environmental conditions. The extent of any of these liabilities is difficult to predict, but in the aggregate such liabilities could be material.

Our production facilities are subject to hazards associated with the manufacture, handling, storage and transportation of chemical materials and products, including pipeline leaks and ruptures, explosions, fires, inclement weather and natural disasters, mechanical failure and environmental hazards, such as spills, discharges or releases of toxic or hazardous substances and gases, storage tank leaks and remediation complications. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment, and environmental contamination and other environmental damage, and could have a material adverse effect on our financial condition. We may incur losses beyond the limits or coverage of our insurance policies for liabilities that are associated with environmental cleanup that may arise from these hazards. In addition, various kinds of insurance for companies in the chemical industry have not been available on commercially acceptable terms, or, in some cases, have been unavailable altogether. In the future, we may not be able to obtain coverage at current levels, and our premiums may increase significantly on coverage that we maintain.

We have been notified that we are or may be responsible for environmental remediation at a number of sites in the United States, Europe and South America. We are also performing a number of voluntary cleanups. The most significant site, making up approximately half of our remediation accrual, is a site formerly owned by us in Geismar, Louisiana. As the result of former, current or future operations, there may be additional environmental remediation or restoration liabilities or claims of personal injury by employees or members of the public due to exposure or alleged exposure to hazardous materials in connection with our operations, properties or products. Several sites, sold by us over 20 years ago, may have significant site closure or remediation costs. Actual costs at these sites, and our share, if any, are unknown to us at this time. These environmental liabilities or obligations, or any that may arise or become known to us in the future, could have a material adverse effect on our financial condition, cash flows and profitability.

Because we manufacture and use materials that are known to be hazardous, we are subject to comprehensive product and manufacturing regulations, for which compliance can be costly and time consuming. In addition, we may be subject to personal injury or product liability claims as a result of human exposure to such hazardous materials.

We produce hazardous chemicals that require care in handling and use that are subject to regulation by many U.S. and non-U.S. national, supra-national, state and local governmental authorities. In some circumstances, these authorities must approve our products and manufacturing processes and facilities before we may sell some of these chemicals. To obtain regulatory approval of certain new products, we must, among other things, demonstrate to the relevant authority that the product is safe for its intended uses and that we are capable of manufacturing the product in compliance with current regulations. The process of seeking approvals can be costly, time consuming and subject to unanticipated and significant delays. Approvals may not be granted to us on a timely basis, or at all. Any delay in obtaining, or any failure to obtain or maintain, these approvals would adversely affect our ability to introduce new products and to generate revenue from those products. New laws and regulations may be introduced in the future that could result in additional compliance costs, seizures, confiscation, recall or monetary fines, any of which could prevent or inhibit the development, distribution or sale of our products. We are subject to ongoing reviews of our products and manufacturing processes.

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Formaldehyde and Other

Formaldehyde is extensively regulated, and various public health agencies continue to evaluate it. In 2004, IARC reclassified formaldehyde as “carcinogenic to humans,” a higher classification than previous IARC evaluations. We anticipate the National Cancer Institute (“NCI”) will complete updates of epidemiology studies and publish those results in 2009, which will provide additional important data for consideration and evaluation by scientific and regulatory authorities. The Environmental Protection Agency (“EPA”) has initiated a regulatory investigation into potential risks associated with formaldehyde emissions from composite wood products based, in part, on a petition from the Sierra Club and other organizations. The petition seeks to “nationalize” the California Air Resources Board (“CARB”) regulation of formaldehyde emissions from composite wood products that became effective January 1, 2009 for composite wood products sold in the state of California. While the CARB rule is technology forcing, we believe our resin technology is advanced to the point that performance requirements for CARB compliance can be delivered. Regarding the EPA investigation, we expect a robust scientific risk review process to take place prior to any major regulatory decisions involving formaldehyde. It is possible that further governmental review may result in additional costs to meet any new regulatory requirements.

The classification of formaldehyde as “carcinogenic to humans” by IARC could become the basis of product liability litigation, particularly if there would be any definitive studies that demonstrate a causal association with leukemia. The results from the pending NCI epidemiology studies will be an important determining “weight of evidence” factor.

In addition, in large part as the result of the bankruptcies of many producers of asbestos containing products, plaintiffs’ attorneys have increased their focus on peripheral defendants, including us, asserting that even products that contained small amounts of asbestos caused injury. Plaintiffs’ attorneys are also focusing on alleged harm caused by other products we have made or used, including silica-containing resin coated sands and vinyl chloride monomer, or VCM. While we cannot predict the outcome of pending suits and claims, we believe that we are adequately reserved in accordance with our policy to address currently pending litigation and adequately insured to cover currently pending and foreseeable future claims. An unfavorable outcome in these litigation matters may cause our profitability, business, financial condition and reputation to decline.

BPA

BPA, which is used as an intermediate at our Deer Park, Texas and Pernis, Netherlands manufacturing facilities, and is also sold directly to third parties, is currently under evaluation as an “endocrine disrupter.” Endocrine disrupters are chemicals that have been alleged to interact with the endocrine systems of human beings and wildlife and disrupt their normal processes. As required by EU regulation 793/93/EC, BPA producers conducted an extensive toxicology testing program of this chemical. The EU authorities have not issued their final opinion. A U.S. government review panel reached largely favorable conclusions, indicating limited risk with some areas for further research. However, BPA continues to be subject to regulatory and legislative review. The FDA continues to review research about the potential low-dose effects of BPA. Several U.S. states have proposed legislation covering BPA containing products and a U.S. Congressional subcommittee has reviewed BPA containing products. We do not believe it is possible to predict the outcome of these regulatory and legislative initiatives. In the event that BPA is further regulated, additional operating costs would be likely in order to meet more stringent regulation of this chemical.

Resin-coated Sand

We manufacture resin-coated sand. Because sand consists primarily of crystalline silica, potential exposure to silica particulate exists. Overexposure to crystalline silica is a recognized health hazard. The Occupational Safety and Health Administration (“OSHA”), continues to maintain on its regulatory calendar the possibility of promulgating a comprehensive occupational health standard for crystalline silica within the next two to three years. We may incur substantial additional costs to comply with any new OSHA regulations.

Regulatory Programs

The Company also faces an increasing likelihood that its manufacturing sites worldwide will be subject to new or expanded greenhouse gas (“GHG”) regulatory programs being implemented at the federal, state, and local levels. These regulatory programs could include taxation of GHG emissions and/or GHG emission limitations. Potential impacts of increased regulation of GHG emissions could include increased energy costs and increased compliance costs. Currently it is not possible to estimate the financial impact of future GHG regulatory programs on any of our sites. In addition, the European Commission enacted a new regulatory system, known as REACH, in 2006 which requires manufacturers, importers and consumers of certain chemicals to register these chemicals and evaluate their potential impacts on human health and the environment. As REACH matures, significant market restrictions could be imposed on the current and future uses of chemical products that we use as raw materials or sell as finished products in the European Union. We cannot predict future compliance costs, which could be significant. If we fail to comply with applicable laws and regulations, we may be subject to civil remedies, including fines, injunctions, recalls or seizures, which could have an adverse effect on our financial condition, cash flows and profitability.

We are subject to claims from our customers and their employees, environmental action groups and neighbors living near our production facilities.

We produce hazardous chemicals that require appropriate procedures and care to be used in handling or in using them to manufacture other products. As a result of the hazardous nature of some of the products we use and produce, we may face claims relating to incidents that involve our customers' improper handling, storage and use of our products. We have historically faced a number of lawsuits, including class action lawsuits, that claim liability for death, injury or property damage caused by products that we manufacture or that contain our components. These lawsuits, and any future lawsuits, could result in substantial damage awards against us, which in turn could encourage additional lawsuits. In addition, the activities of environmental action groups could result in litigation or damage to our reputation.

Natural or other disasters could disrupt our business and result in loss of revenue or higher expenses.

Any serious disruption at any of our facilities due to hurricane, fire, earthquake, flood, terrorist attack or any other natural or man-made disaster could impair our ability to use our facilities and have a material adverse impact on our revenues and increase our costs and expenses. For example, we have manufacturing facilities in the U.S. Gulf Coast region that were impacted by Hurricanes Katrina and Rita in 2005 and Hurricanes Gustav and Ike in 2008. If there is a natural disaster or other serious disruption at any of our facilities, it could impair our ability to adequately supply our customers and negatively impact our operating results. In addition, many of our current and potential customers are concentrated in specific geographic areas. A disaster in one of these regions could have a material adverse impact on our operations, operating results and financial condition. Although we carry business interruption insurance, it may not be sufficient to cover all of our losses from a disaster, in which case our unreimbursed losses could be substantial.

Future increases in energy costs may increase our operating expenses and reduce net income, which could have a negative impact on our financial condition.

Natural gas is essential in our manufacturing processes, and its cost can vary widely and unpredictably. Energy costs have fluctuated significantly over the past several years due to the volatility in the cost of oil and natural gas. If we cannot pass increased energy costs through to our customers, our profitability may decline. In addition, rising energy costs could also negatively impact our customers and the demand for our products. These risks will be exacerbated if our customers or production facilities are in locations experiencing severe energy shortages.

Our results of operations may be adversely affected by fluctuations in currency exchange rates and international business risks.

We conduct our business and incur costs in the local currency of most of the countries in which we operate. In 2008, our sales outside the United States represented approximately 58% of our total sales. Our results of operations are reported in the relevant local currency and then translated to U.S. dollars at the applicable currency exchange rate for our financial statements. Changes in exchange rates between those foreign currencies and the U.S. dollar will affect our sales and earnings and may result in exchange translation losses. During times of a strengthening U.S. dollar, our reported international sales and earnings may be reduced because the local currency may translate into fewer U.S. dollars. In addition to currency translation risks, we have currency transaction risk whenever one of our operating subsidiaries enters into either a purchase or a sales transaction using a different currency from the currency in which it receives revenues. We may engage in transactional exchange rate hedging activities to mitigate the impact of exchange rate fluctuations. However, the hedging transactions we enter into may not be effective or could result in foreign exchange hedging losses. The impact of future exchange rate fluctuations on our results of operations cannot be accurately predicted. Given the volatility of exchange rates, we may not be able to effectively manage our currency transaction and/or translation risks, and any volatility in currency exchange rates may have an adverse effect on our financial condition, cash flows and profitability.

We operate our business in countries that historically have been and may continue to be susceptible to recessions or currency devaluation, including Brazil, Malaysia and Argentina. In addition, as we expand our business in emerging markets, particularly in China and Russia, the uncertain regulatory environment in these countries could have a negative impact on our operations there.

Other risks of international operations include trade barriers, tariffs, exchange controls, national and regional labor strikes, social and political risks, general economic risks and required compliance with a variety of foreign laws, including tax laws. Furthermore, in foreign jurisdictions where the "rule of law" and legal processes may vary widely, we may experience difficulty in enforcing agreements. In jurisdictions where bankruptcy laws and practices may vary, we may experience difficulty collecting foreign receivables through foreign legal systems. The occurrence of these risks could disrupt the businesses of our international subsidiaries.

We rely on patents and confidentiality agreements to protect our intellectual property. Our failure to protect these intellectual property rights could adversely affect our future performance and growth.

Protection of our proprietary processes, methods and compounds, and other technology is important to our business. Failure to protect our existing intellectual property rights may result in the loss of valuable technologies or having to pay other companies for infringing on their intellectual property rights. We rely on patent, trade secret, trademark and copyright law as well as judicial

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enforcement to protect these technologies. The majority of our patents relate to developing new products and processes for manufacturing, and they expire at various times between 2009 and 2027. Some of our technologies are not covered by any patent or patent application. In addition, our patents could be challenged, invalidated, circumvented or rendered unenforceable. Furthermore, pending patent applications may not result in an issued patent, or if patents are issued to us, these patents may not provide meaningful protection against competitors or against competitive technologies.

Our production processes and products are specialized. However, we could face patent infringement claims from our competitors or others alleging that our processes or products infringe on their proprietary technology. If we were subject to an infringement suit, we may be required to change our processes or products, or stop using certain technologies or producing the infringing product entirely. Even if we ultimately prevail in an infringement suit, the existence of the suit could cause our customers to seek other products that are not subject to infringement suits. Any infringement suit could result in significant legal costs and damages and impede our ability to produce key products, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, effective patent, trademark, copyright and trade secret protection may be unavailable or limited in some foreign countries. In some countries we do not apply for patent, trademark or copyright protection. We also rely on unpatented proprietary manufacturing expertise, continuing technological innovation and other trade secrets to develop and maintain our competitive position. While we generally enter into confidentiality agreements with our employees and third parties to protect our intellectual property, these confidentiality agreements are limited in duration and could be breached, and may not provide meaningful protection of our trade secrets or proprietary manufacturing expertise. Adequate remedies may not be available if there is an unauthorized use or disclosure of our trade secrets and manufacturing expertise. In addition, others may obtain knowledge about our trade secrets through independent development or by legal means. The failure of our patents or confidentiality agreements to protect our processes, apparatuses, technology, trade secrets and proprietary manufacturing expertise, methods and compounds could have an adverse effect on our business by jeopardizing critical intellectual property.

Our pension expenses and funding requirements are affected by factors outside our control, including the performance of plan assets, interest rates, actuarial data and experience, and changes in laws and regulations.

Our future funding obligations for our employee benefit plans depend upon the levels of benefits provided for by the plans, the future performance of assets set aside for these plans, the rates of interest used to determine funding levels, actuarial data and experience, and any changes in government laws and regulations. In addition, our employee benefit plans hold a significant amount of equity securities. If the market values of these securities decline further, our pension expense and funding requirements would increase and, as a result, could materially affect our business.

Our funded and unfunded employee benefit plans are under-funded on a U.S. Generally Accepted Accounting Principles (“GAAP”) basis by \$240. Any decrease in interest rates and asset returns, if and to the extent not offset by contributions, could increase our obligations under such plans. We are legally required to make contributions to the pension plans in the future, and those contributions could be material. The need to make these cash contributions will reduce the amount of cash that would be available to meet other obligations or the needs of our business.

One of our U.S. defined benefit plans was converted to a cash balance plan prior to 2006. Under the Pension Protection Act of 2006 (the “2006 PPA”), cash balance plans are generally not considered to be discriminatory if certain requirements are met; however, plans converted prior to the effective date of the 2006 PPA, such as ours, are not grandfathered under the act. While there has not been any guidance issued regarding cash balance plans converted prior to the effective date of the 2006 PPA, it is possible that our cash balance plan may need to be modified for the period prior to 2006. Such a requirement may increase our obligations under the plan, but there is insufficient information at this time to assess the potential impact.

Our majority shareholder’s interests may conflict with or differ from our interests.

Apollo beneficially owns substantially all of our common stock. In addition, representatives of Apollo comprise a majority of our directors. As a result, Apollo has the ability to substantially influence all matters that require shareholder approval, including the election of our directors and the approval of significant corporate transactions such as mergers, tender offers and the sale of all or substantially all of our assets. The interests of Apollo and its affiliates could conflict with or differ from our interests. For example, the concentration of ownership held by Apollo could delay, defer or prevent a change of control of our company or impede a merger, takeover or other business combination which may otherwise be favorable for us. Apollo may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us.

ITEM 1B - UNRESOLVED STAFF COMMENTS

None.

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ITEM 2 - PROPERTIES

Our headquarters are in Columbus, Ohio and we have European executive offices in Hoogvliet, Netherlands. Our major manufacturing facilities are primarily located in North America and Europe. As of December 31, 2008, we operated 36 domestic production and manufacturing facilities in 18 states and 58 foreign production and manufacturing facilities primarily in Australia, Belgium, Brazil, Canada, China, the Czech Republic, Finland, France, Germany, Italy, Korea, Malaysia, Netherlands, New Zealand, and the United Kingdom.

The majority of our facilities are used for the production of thermosetting resins, and most of them manufacture more than one type of thermosetting resin, the nature of which varies by site. These facilities typically use batch technology, and range in size from small sites, with a limited number of reactors, to larger sites, with dozens of reactors. One exception to this is our plant in Deer Park, Texas, the only continuous-process epoxy resins plant in the world, which provides us with a cost advantage over conventional technology.

In addition, we have the ability to internally produce key intermediate materials such as formaldehyde, BPA, ECH, versatic acid, acrylic acid and gum rosin. This backward integration provides us with a cost advantage relative to our competitors and facilitates our adequacy of supply. These facilities are usually co-located with downstream resin manufacturing facilities they serve. As these intermediate materials facilities are often much larger than a typical resins plant, we can capture the benefits of manufacturing efficiency and scale by selling material that we do not use internally to third parties.

We believe our production and manufacturing facilities are well maintained and effectively utilized and are adequate to operate our business. Following are our more significant production and manufacturing facilities and executive offices:

<u>Location</u>	<u>Nature of Ownership</u>	<u>Reporting Segment</u>
Argo, IL*	Owned	Epoxy and Phenolic Resins
Barry, UK	Owned	Epoxy and Phenolic Resins
Deer Park, TX*	Owned	Epoxy and Phenolic Resins
Duisburg-Meiderich, Germany	Owned	Epoxy and Phenolic Resins
Iserlohn-Letmathe, Germany	Owned	Epoxy and Phenolic Resins
Lakeland, FL	Owned	Epoxy and Phenolic Resins
Louisville, KY	Owned	Epoxy and Phenolic Resins
Moerdijk, Netherlands*	Owned	Epoxy and Phenolic Resins
Norco, LA*	Owned	Epoxy and Phenolic Resins
Pernis, Netherlands*	Owned	Epoxy and Phenolic Resins
Wesseling, Germany	Leased	Epoxy and Phenolic Resins
Brimbank, Australia	Owned	Formaldehyde and Forest Products
Curitiba, Brazil	Owned	Formaldehyde and Forest Products
Edmonton, AB, Canada	Owned	Formaldehyde and Forest Products
Fayetteville, NC	Owned	Formaldehyde and Forest Products
Geismar, LA	Owned	Formaldehyde and Forest Products
Gonzales, LA	Owned	Formaldehyde and Forest Products
Hope, AR	Owned	Formaldehyde and Forest Products
Kitee, Finland	Owned	Formaldehyde and Forest Products
Leuna, Germany	Owned	Formaldehyde and Forest Products
Springfield, OR	Owned	Formaldehyde and Forest Products
St. Romuald, QC, Canada	Owned	Formaldehyde and Forest Products
Carpentersville, IL	Owned	Coatings and Inks
Forest Park, GA	Owned	Coatings and Inks
Kallo, Belgium**	Owned	Coatings and Inks
Maastricht, Netherlands	Owned	Coatings and Inks
Ribecourt, France	Owned	Coatings and Inks
Sant' Albano, Italy	Owned	Coatings and Inks
Sokolov, Czech Republic	Owned	Coatings and Inks
Brady, TX	Owned	Performance Products
Columbus, OH†	Leased	Corporate and Other
Hoogvliet, Netherlands†	Leased	Corporate and Other

* We own all of the assets at this location. The land is leased.

** The assets at this location are owned, except the land and building, which are occupied pursuant to a lease.

† Executive offices.

ITEM 3 - LEGAL PROCEEDINGS

Legal Proceedings

We are involved in various product liability, commercial and employment litigation, personal injury, property damage and other legal proceedings in the ordinary course of business, including actions that allege harm caused by products the Company has allegedly made or used, containing silica, vinyl chloride monomer and asbestos. The following claims represent material proceedings that are not in the ordinary course of business.

Sokolov, Czech Republic Groundwater Contamination

The Sokolov, Czech Republic facility has soil and groundwater contamination which pre-dates privatization and acquisition of the facility by Eastman in 2000. The investigation phase of the site remediation project has been completed, and building demolition and removal of waste is underway. The National Property Fund has provided us a written commitment to reimburse all site investigation and remediation costs up to approximately \$73 million. The current estimate for site remediation is significantly less than the maximum amount the National Property Fund has committed to the project.

Environmental Damages to the Port of Paranaguá, Brazil

On August 8, 2005, Governo Do Parana and the Environmental Institution of Paraná IAP, an environmental agency of the Brazilian government, provided Hexion Quimica Industria, our Brazilian subsidiary, with notice of a potential fine of up to \$6 million in connection with alleged environmental damages to the Port of Paranaguá caused in November 2004 by an oil spill by a shipping vessel carrying methanol purchased by Hexion. The investigation is ongoing and no final determination has been made with respect to damages or the liability of our Brazilian subsidiary. We are disputing this claim.

Litigation Related to the Terminated Merger with Huntsman

On December 14, 2008, we entered into a settlement agreement and release with Huntsman and other parties concerning certain litigation matters related to the Agreement and Plan of Merger dated July 12, 2007, among us, Huntsman and Nimbus Merger Sub Inc. Under the settlement agreement, we paid Huntsman a \$325 million termination fee, as required by the merger agreement. In addition, on a joint and several basis with certain affiliates of Apollo, we paid Huntsman \$225 million, while reserving all rights with respect to reallocation of the payments to other affiliates of Apollo, and certain affiliates of Apollo paid Huntsman \$200 million, while reserving all rights with respect to reallocation of the payments to certain other affiliates of Apollo. Finally, certain affiliates of Apollo purchased \$250 million of Huntsman's 7% convertible senior notes. Separately, pursuant to the settlement agreement, certain affiliates of Apollo agreed to provide \$200 million of financing to us.

Under the terms of the settlement agreement and release, the parties obtained the dismissal with prejudice of (i) the lawsuit in the Delaware Chancery Court, (ii) our claims in New York against affiliates of Credit Suisse and Deutsche Bank, and (iii) Huntsman's lawsuit in Texas State Court against certain affiliates of Apollo. A motion for summary judgment on Credit Suisse's and Deutsche Bank's third-party petition against the Apollo defendants in Montgomery County, Texas will be heard in 2009. We allowed our and the Apollo parties' complaint against Huntsman filed in New York to lapse. Huntsman also agreed to cooperate with us in a shareholder action brought in New York by certain Huntsman shareholders. We agreed to cooperate with Huntsman in their Texas action against the banks, including by causing certain individuals to testify at trial if Huntsman so requests. The parties also agreed to release each other from all claims and actions that they have or may have against each other, other than claims arising out of ordinary course business commercial dealings and certain other specified matters.

Other Litigation

There have been no material developments during the fourth quarter of 2008 in the ongoing legal proceedings that are included in Note 13 in Item 8 of Part II of this Annual Report on Form 10-K.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter, no matters were submitted to a vote of security holders.

PART II

(dollars in millions, except per share data)

ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

There is no established public trading market for our common stock. As of March 2, 2009, 82,556,847 common shares were held by our parent, Hexion LLC.

Other than the extraordinary dividends that we previously declared, we do not currently intend to pay any cash dividends on our common stock, and instead intend to retain earnings, if any, to fund future operations and to reduce our debt. Our senior secured credit facilities and the indentures that govern our notes impose restrictions on our ability to pay dividends. Therefore, our ability to pay dividends on our common stock will depend on, among other things, our level of indebtedness at the time of the proposed dividend and whether we are in default under any of our debt instruments. Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors that our board of directors considers relevant. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, business opportunities, provision of applicable law and other factors that our board of directors may consider relevant. For a discussion of our cash resources and needs, see Item 7 of Part II of this Annual Report on Form 10-K.

We have no compensation plans that authorize issuing our common stock to employees or non-employees. In addition, there have been no sales or repurchases of our equity securities during the past fiscal year. However, we have, in the past, issued equity awards that are denominated in the common units of our parent, Hexion LLC. As the awards were granted in exchange for service to us these awards are included in our consolidated financial statements. For a discussion of these equity plans see Note 17 in Item 8 and Item 11 of Part II and Part III, respectively, of this Annual Report on Form 10-K.

In 2007, the Company declared a dividend to its parent of \$1.

In 2006, we declared a dividend to our parent of \$500 in connection with a debt refinancing. Approximately \$480, funded from the proceeds of newly issued debt, was paid in 2006. We expect to pay the remaining dividends as required by our parent between 2009 and 2012. We declared and paid \$5 in additional dividends to our parent during 2006.

In conjunction with the Hexion Formation, we declared a dividend to our parent of \$550, of which \$523 was paid during 2005. The dividend was funded through proceeds that we received from issuing preferred stock and from amounts that we borrowed under our credit facility. \$13 was paid in 2007 and \$2 was paid in 2008. The remainder is expected to be paid as required by our parent through 2012.

ITEM 6 - SELECTED FINANCIAL DATA

	Year ended December 31,				
	2008	2007 ⁽¹⁾	2006 ⁽²⁾	2005 ⁽³⁾	2004 ⁽⁴⁾
	(dollars in millions, except per share data)				
Statements of Operations:					
Net sales	\$ 6,093	\$ 5,810	\$ 5,205	\$ 4,442	\$ 2,019
Cost of sales	5,467	5,019	4,485	3,781	1,785
Gross profit	626	791	720	661	234
Selling, general and administrative expense	393	390	384	391	163
Terminated merger and settlement costs	1,027	—	—	—	—
Transaction costs	—	1	20	44	56
Integration costs	27	38	57	13	—
Other operating expense (income), net ⁽⁵⁾	72	60	(27)	5	6
Operating (loss) income	(893)	302	286	208	9
Interest expense, net	304	310	242	203	117
Loss on extinguishment of debt	—	—	121	17	—
Other non-operating expense, net	7	15	3	16	5
Loss from continuing operations before income tax, earnings from unconsolidated entities and minority interest	(1,204)	(23)	(80)	(28)	(113)
Income tax (benefit) expense	(17)	44	14	48	—
Loss from continuing operations before earnings from unconsolidated entities and minority interest	(1,187)	(67)	(94)	(76)	(113)
Earnings from unconsolidated entities, net of taxes	2	4	3	2	—
Minority interest in net (income) loss of consolidated subsidiaries	(5)	(2)	(4)	(3)	8
Loss from continuing operations	(1,190)	(65)	(95)	(77)	(105)
Loss from discontinued operations ⁽⁶⁾	—	—	(14)	(10)	—
Net loss	(1,190)	(65)	(109)	(87)	(105)
Accretion of redeemable preferred stock	—	—	33	30	—
Net loss available to common shareholders	<u>\$ (1,190)</u>	<u>\$ (65)</u>	<u>\$ (142)</u>	<u>\$ (117)</u>	<u>\$ (105)</u>
Dividends declared per common share	\$ —	\$ 0.01	\$ 6.12	\$ 6.66	—
Cash Flows (used in) provided by:					
Operating activities	\$ (632)	\$ 174	\$ 21	\$ 171	\$ (32)
Investing activities	(134)	(335)	(277)	(354)	(20)
Financing activities	706	288	128	219	148
Balance Sheet Data (at end of period):					
Cash and cash equivalents	\$ 127	\$ 199	\$ 64	\$ 183	\$ 152
Short-term investments	7	—	—	—	—
Working capital ⁽⁷⁾	390	508	367	467	433
Total assets	3,180	4,006	3,508	3,209	2,696
Total long-term debt	3,746	3,635	3,326	2,303	1,834
Total net debt ⁽⁸⁾	3,725	3,521	3,328	2,158	1,698
Total liabilities and minority interest	5,398	5,392	4,922	3,769	3,005
Redeemable preferred stock	—	—	—	364	—
Total shareholder's deficit	(2,218)	(1,386)	(1,414)	(924)	(309)

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- (1) Includes data for the Orica A&R Acquisition and Arkema Acquisition since February 1, 2007 and November 1, 2007, their respective dates of acquisition.
- (2) Includes data for the Coatings Acquisition and the Inks Acquisition since January 31, 2006 and June 1, 2006, their respective dates of acquisition.
- (3) Includes data for Bakelite from its date of acquisition, April 29, 2005.
- (4) Includes data for Resolution Specialty from August 2, 2004 and for Borden Chemical from August 12, 2004, their respective dates of acquisition by Apollo.
- (5) Other operating income for the year ended December 31, 2006 includes net gains of \$39 recognized primarily on the Brazilian Consumer Divestiture.
- (6) Loss from discontinued operations for the year ended December 31, 2006 reflects the Thermoplastics Divestiture. Loss from discontinued operations for the year ended December 31, 2005 reflects litigation settlements related to previously divested businesses.
- (7) Working capital is defined as current assets less current liabilities.
- (8) Net debt is defined as long-term debt plus short-term debt less cash and cash equivalents and short-term investments.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking and Cautionary Statements

Certain statements in this Annual Report on Form 10-K including, without limitation, statements made under the caption "Overview and Outlook," are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. In addition, the management of Hexion Specialty Chemicals, Inc. (which may be referred to as "Hexion," "we," "us," "our" or the "Company") may from time to time make oral forward-looking statements. Forward-looking statements may be identified by the words "believe," "expect," "anticipate," "project," "plan," "estimate," "will," or "intend" or similar expressions. Forward-looking statements reflect our current views about future events and are based on currently available financial, economic and competitive data and on our current business plans. Actual results could vary materially depending on risks and uncertainties that may affect our markets, services, prices and other factors as discussed in Item 1A of Part I of this Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission (SEC). Important factors that could cause actual results to differ materially from those contained in forward-looking statements include, but are not limited to: economic factors such as the current credit crises and economic downturn (and related impact on our liquidity) and an interruption in the supply of or increased pricing of raw materials due to natural disasters; competitive factors such as pricing actions by our competitors that could affect our operating margins; and regulatory factors such as changes in governmental regulations involving our products that lead to environmental and legal matters as discussed herein in Item 3 of Part I of this Annual Report on Form 10-K and our other filings with the SEC.

Overview and Outlook

Hexion was formed on May 31, 2005 by combining three Apollo Management, L.P. ("Apollo") controlled companies: Resolution Performance Products, LLC, Resolution Specialty Materials, Inc., and Borden Chemical, Inc., which included Bakelite Aktiengesellschaft. We refer to this combination as the "Hexion Formation."

We are one of the world's largest producers of thermosetting resins, or thermosets. Thermosets are a critical ingredient for virtually all paints, coatings, glues and other adhesives produced for consumer or industrial uses. We provide a broad array of thermosets and associated technologies and have leading market positions in all of the key markets that we serve.

Our products are used in thousands of applications and are sold into diverse markets, such as forest products, architectural and industrial paints, packaging, consumer products and automotive coatings, as well as higher growth markets, such as composites, UV cured coatings and electrical laminates. Major industry sectors that we serve include industrial/marine, construction, consumer/durable goods, automotive, wind energy, aviation, electronics, architectural, civil engineering, repair/remodeling, graphic arts, and oil and gas field support. Key drivers for our business include general economic and industrial conditions, including housing starts, auto build rates and active gas drilling rigs. As is true for many industries, our financial results are impacted by the effect on our customers of economic upturns or downturns, as well as by the impact on our own costs to produce, sell and deliver our products. Our customers use most of our products in their production processes. As a result, factors that impact their industries have significantly affected our results.

Through our worldwide network of strategically located production facilities we serve more than 8,300 customers in 100 countries. Our global customers include leading companies in their respective industries, such as 3M, Ashland Chemical, BASF, Bayer, DuPont, GE, Halliburton, Honeywell, Huntsman, Louisiana Pacific, Owens Corning, PPG Industries, Sumitomo, Sun Chemicals, Valspar and Weyerhaeuser.

We believe that we have opportunities for growth through global product line management, as well as opportunities to increase our operational efficiencies, reduce fixed costs, optimize manufacturing assets and improve capital spending efficiency. We are focused on increasing our revenues, cash flows and profitability. We believe we can achieve these goals through the following strategies:

- *Utilize Our Integrated Platform Across Product Offerings.* We have an opportunity to provide our customers with a broad range of resins products on a global basis as one of the world's largest producers of thermosetting resins. We continue to refine our market strategy of serving as a global, comprehensive solutions provider to our customers rather than simply offering a particular product, selling in a single geography or competing on price. We also continue to review additional opportunities to transition our existing manufacturing capacity toward producing more specialty-oriented products, which deliver higher value to our customers and may generate additional sales and/or earnings compared to commodity-like resins.
- *Develop and Market New Products.* We will continue to expand our product offerings through internal innovation, joint research and development initiatives with our customers and research partnership formations.
- *Expand Our Global Reach In Faster Growing Regions.* We will continue to grow our business in the Asian-Pacific, Eastern European and Latin American markets, where the use of our products is increasing, while continuing to review opportunities in other global markets.

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- *Increase Margins Through Focus on Operational Excellence.* We will continue to improve our profitability by realizing cost savings opportunities as a result of the Hexion Formation and our other recently announced productivity savings programs.

Our business segments are based on the products that we offer and the markets that we serve. At December 31, 2008, we had four reportable segments: Epoxy and Phenolic Resins, Formaldehyde and Forest Products Resins, Coatings and Inks, and Performance Products. The major products of our reportable segments are as follows:

- Epoxy and Phenolic Resins: epoxy resins and intermediates, composite resins, molding compounds, versatic acids and derivatives, phenolic specialty resins and epoxy coating resins
- Formaldehyde and Forest Products Resins: forest products resins and formaldehyde applications
- Coatings and Inks: polyester resins, alkyd resins, acrylic resins, vinylic resins and ink resins and additives
- Performance Products: phenolic encapsulated substrates for oil field and foundry applications

Our organizational structure continues to evolve. We are continuing to refine our operating structure to link similar products more closely, minimize divisional boundaries and improve our ability to serve multi-dimensional common customers. These refinements, when complete may result in future changes to our reportable segments.

2008 Overview

- Net sales increased 5% in 2008 as compared to 2007. Despite experiencing significant volatility in our raw material costs, we were able to pass along increased costs in higher selling prices in several of our product lines.
- As a percent of sales, gross profit declined 4% in 2008 as compared to 2007. Gross profit percentage declined due to higher processing costs, including utilities and freight, and higher raw material prices that were not fully passed through to our customers. In late 2008, we experienced a dramatic decrease in volumes for most of our businesses, resulting in unabsorbed overhead costs of \$23 due to the full or partial idling of many of our plants for an extended period in December. Further, three of our manufacturing facilities were shut down for over three weeks due to Hurricanes Ike and Gustav.
- In December 2008 we settled litigation resulting from the proposed Huntsman merger. We incurred \$1,027 of Terminated merger and settlement costs, which included the write-off of previously deferred acquisition costs, legal fees and \$750 in litigation settlement related to the terminated Huntsman merger, of which \$200 represents the non-cash push-down of settlement costs paid by Apollo. For further details, see Note 3 to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.
- At December 31, 2008, we have targeted \$119 of productivity savings to properly align our cost structure in response to the challenging economic environment. Included in our productivity savings are the final steps related to the Hexion Formation synergies as well as additional programs identified in 2008.
- We are responding to dramatic changes in market conditions and reducing excess capacity as part of our ongoing synergy and productivity initiatives. We continually look for opportunities to reduce our cost structure, including exiting certain product lines. In 2008, we ceased production at five facilities in our Epoxy and Phenolic Resins, Formaldehyde and Forest Products Resins, and Coatings and Inks segments.
- We are expanding in markets in which we expect opportunities for growth. We are constructing a formaldehyde and forest products resins manufacturing complex to serve the engineered wood products market in southern Brazil. We entered into a joint venture to construct a forest products resins manufacturing facility in Russia, which we expect to be operational in April 2009. We are also expanding manufacturing facilities in our oil field technology business, which is included in our Performance Products segment.

2009 Outlook

Our business is impacted by general economic and industrial conditions, including housing starts, automotive builds, oil and natural gas drilling activity and general industrial production. Our business has both geographic and end market diversity which reduces the impact of any one of these factors on our overall performance. During the fourth quarter of 2008, we experienced a dramatic decrease in volumes for most of our businesses. In response, we idled many of our plants for an extended period in December. Based on current operating trends in the first quarter of 2009, we expect first quarter volumes and operating margins to be in line with the fourth quarter of 2008. We expect the current global economic recession and financial conditions, including disruption in the credit markets, to negatively affect our business for much of 2009. Specifically, we anticipate that continued weakness in housing markets in the U.S. and internationally will impact our volume, primarily for our forest products resins, which is included in our Formaldehyde and Forest Products Resins segment, and our phenolic specialty resins, epoxy coating, polyester and acrylic resin product lines, which are included in our Epoxy and Phenolic Resins, and Coatings and Inks segments. We also anticipate that continued weakness in automotive build rates in North America and Europe will continue to exert downward volume pressure on certain product lines that are included in our Epoxy and Phenolic Resins, Coatings and Inks, and Performance Products segments. However, we expect continued strength in energy exploration as well as alternative energy markets

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which should have positive impacts on volumes in our Performance Products, and Epoxy and Phenolic Resins segments. We also expect that despite slowing Latin American economies, increased demand in the Latin American wood markets should have positive impacts on our Formaldehyde and Forest Products Resins segment.

In the fourth quarter of 2008, we recognized a goodwill impairment charge of \$10 in our Coatings and Inks segment due to continued weakness in the housing and construction markets and competitive pressures, resulting in lower future reporting unit earnings and cash flows than previously projected. If the global economic environment continues to weaken or remains slow for an extended period of time, the fair value of our reporting units could be more adversely affected than we estimated in our analysis of reporting unit fair values at December 31, 2008. This could result in additional goodwill or other asset impairments.

Although we expect raw material cost volatility to continue because of volatile pricing of key feedstocks, we anticipate gradual declines in certain raw material and commodity costs through the first half of 2009, which will positively impact our business. Over the past two years we have faced dramatic raw material inflation. While raw material costs have been volatile and difficult to forecast, we believe that moderating raw material costs will lower our input costs and help us gradually increase gross margins and lower our working capital in 2009. However, anticipated continuing weak demand may place further pressure on pricing in certain markets. To help mitigate raw material volatility, we have purchase and sale contracts with many of our vendors and customers that contain periodic price adjustment mechanisms. Due to differences in the timing of pricing mechanism trigger points between our sales and purchase contracts, there is often a lead-lag impact during which margins are negatively impacted in the short term when raw material prices increase and are positively impacted in the short term when raw material prices fall.

During the first quarter of 2009, we closed an inks resins facility in our Coatings and Inks segment as we continue to react to the weakened economic environment. As market conditions shift in the future, we will continue to assess the locations and number of our manufacturing facilities.

Matters Impacting Comparability of Results

Our audited Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries, in which minority shareholders hold no substantive participating rights, after eliminating intercompany accounts and transactions.

Our financial data includes:

- The results of operations of the Coatings Acquisition since the acquisition date of January 31, 2006,
- The results of operations of the Brazilian Consumer Divestiture until the divestiture date of March 31, 2006,
- The results of operations of the Inks Acquisition since the acquisition date of June 1, 2006,
- The results of operations of the Orica A&R Acquisition since the acquisition date of February 1, 2007, and
- The results of operations of the Arkema Acquisition since the acquisition date of November 1, 2007.

Raw materials comprise approximately 75% of our cost of sales. The three largest raw materials used in our production processes are phenol, methanol and urea. These materials represent almost half of our total raw material costs. Fluctuations in energy costs, such as volatility in the price of crude oil and related petrochemical products, as well as the cost of natural gas have caused increased utility costs and volatility in our raw material costs. Compared to the 2007 average prices, the average prices of phenol, methanol, and urea increased by approximately 2%, 14% and 53%, respectively, in 2008. In 2007 the average prices of phenol, methanol and urea increased by approximately 7%, 14% and 45%, respectively, compared to the average prices in 2006. Passing through raw material price changes can result in significant variances in sales comparisons from year to year. In 2008, 2007 and 2006, we had a favorable impact on sales from passing through raw material price increases to our customers.

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Results of Operations

CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in millions)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net sales	\$ 6,093	\$5,810	\$5,205
Cost of sales	5,467	5,019	4,485
Gross profit	626	791	720
<i>Gross profit as a percentage of net sales</i>	10%	14%	14%
Selling, general and administrative expense	393	390	384
Terminated merger and settlement costs	1,027	—	—
Transaction costs	—	1	20
Integration costs	27	38	57
Other operating expense (income), net	72	60	(27)
Operating (loss) income	(893)	302	286
<i>Operating (loss) income as a percentage of net sales</i>	(15)%	5%	5%
Interest expense, net	304	310	242
Loss on extinguishment of debt	—	—	121
Other non-operating expense, net	7	15	3
Total non-operating expenses	311	325	366
Loss from continuing operations before income tax, earnings from unconsolidated entities and minority interest	(1,204)	(23)	(80)
Income tax (benefit) expense	(17)	44	14
Loss from continuing operations before earnings from unconsolidated entities and minority interest	(1,187)	(67)	(94)
Earnings from unconsolidated entities, net of taxes	2	4	3
Minority interest in net income of consolidated subsidiaries	(5)	(2)	(4)
Loss from continuing operations	(1,190)	(65)	(95)
Loss from discontinued operations	—	—	(14)
Net loss	(1,190)	(65)	(109)
Accretion of redeemable preferred stock	—	—	33
Net loss available to common shareholders	<u>\$ (1,190)</u>	<u>\$ (65)</u>	<u>\$ (142)</u>

Net Sales

In 2008, net sales increased by \$283, or 5%, compared with 2007. Acquisitions, net of divestitures, added \$158 in incremental net sales while pricing and favorable product mix added \$505. Raw material driven price increases in forest products resins and formaldehyde, specialty epoxies, phenolic specialty resins, versatics, coatings and foundry product lines as well as higher prices and favorable product mix in our epoxies business contributed to the higher net sales. Volume declines in forest products resins and formaldehyde, phenolic specialty resins, base epoxies and intermediates, versatics, coatings, inks resins and foundry product lines negatively impacted sales by \$564. These declines were primarily a result of the weak housing and automotive markets driven by the economic recession and credit crisis, as well as by increased competition and raw material shortages in certain product lines. The volume declines were partially offset by higher volumes in our oil field products and specialty epoxies. In addition, net favorable currency translation of \$184 contributed to the sales increase primarily as a result of the strengthening of the euro and Brazilian real against the U.S. dollar.

In 2007, net sales increased by \$605, or 12% compared with 2006. Acquisitions, net of divestitures added \$222 in incremental net sales while pricing and favorable product mix added \$416. Raw material driven price increases in forest products resins and formaldehyde, coatings and phenolic specialty resins product lines as well as higher prices and favorable product mix in our epoxies business contributed to the higher net sales. Volume declines in several of our product lines, including certain epoxy resins and intermediates, North American forest products resins, coatings, inks resins, U.S. phenolic specialty resins and foundry, negatively impacted sales by \$279. These declines were primarily driven by soft North American housing and automotive markets in 2007, as well as increased competition in certain product lines. The volume declines were partially offset by higher volumes in our oil field products, international forest products resins, and our European phenolic specialty resins and specialty epoxies businesses. In addition, a net favorable currency translation of \$246 contributed to the sales increase as a result of the strengthening of the euro, Canadian dollar and Brazilian real against the U.S. dollar.

Gross Profit

In 2008, gross profit declined by \$165 compared with 2007. As a percentage of sales, gross profit declined 4%. Gross profit was negatively impacted by the timing of raw material price increases that were not fully passed through to our customers. Also contributing to the decrease were higher processing costs, including utilities and freight, that were not passed through to customers. In late 2008, we experienced a dramatic decrease in volumes for most of our businesses which resulted in unabsorbed overhead costs due to the full or partial idling of many of our plants for an extended period in December. Due to the higher raw material costs, higher processing costs, and lower production in the fourth quarter of 2008, lower of cost or market reserves on our inventory balances at December 31, 2008 also negatively impacted gross profit. Hurricanes Ike and Gustav negatively impacted gross profit by \$10, net of insurance recoveries to date, from business interruption losses and incremental expenses, including higher freight costs, plant down time and plant damages. These decreases were partially offset by the impact of net acquisitions, higher prices in certain of our product lines and synergies that we realized from the Hexion Formation.

In 2007, gross profit increased by \$71, or 10%, compared with 2006. As a percentage of sales, gross profit remained consistent with 2006 at 14%. The gross profit increase was due to the impact of acquisitions, higher prices in certain of our product lines and synergies that we realized from the Hexion Formation; partially offset by rising raw material costs, the impact of lower volumes across several product lines and unplanned plant outages in our Epoxy and Phenolic Resins segment.

Operating Income

In 2008, operating income declined by \$1,195 compared with 2007. The primary driver of the decrease was Terminated merger and settlement costs of \$1,027 in 2008, which included the write-off of previously deferred acquisition costs, legal fees and \$750 in litigation settlement related to the terminated Huntsman merger, of which \$200 represents the non-cash push-down of settlement costs paid by Apollo. In addition, operating income was negatively impacted by the decrease in gross profit as discussed above. Selling, general and administrative expenses increased \$3, but as a percentage of sales declined slightly. Integration costs decreased by \$11, as we incurred significantly higher costs in 2007 to implement a single, company-wide, management information and accounting system. In addition, Other operating expense, net increased by \$12 primarily due to an increase in business realignment costs, a charge of \$10 for goodwill impairments in our Coatings and Inks segment, and a charge for intangible asset impairment of \$8 in 2008, partially offset by lower asset impairment charges on closing facilities and lower net foreign exchange losses in 2008.

In 2007, operating income increased by \$16, or 6%, compared with 2006. As a percentage of sales, operating income remained consistent with 2006 at 5%. The increase in operating income was driven primarily by the increase in gross profit as discussed above. Also contributing to the increase was a reduction in Transaction costs of \$19. We wrote-off deferred IPO costs and incurred costs for terminated acquisition activities in 2006, while no such costs were incurred in 2007. In addition, Integration costs were lower by \$19. In 2006 we incurred higher redundancy and plant rationalization costs and higher incremental administrative costs associated with integration activities than in 2007. These decreases were partially offset by an increase in Other operating expense, net of \$87, principally caused by the absence in 2007 of a \$39 gain recognized in 2006 primarily from the Brazilian Consumer Divestiture and increased costs in 2007 for impairments due to plant closures of \$20 and business realignments of \$23. Selling, general and administrative expenses increased as a result of recent acquisitions and support of organic growth, but remained unchanged as a percentage of sales.

Non-Operating Expenses

In 2008, total non-operating expenses declined by \$14, compared with 2007. Other non-operating expense, net decreased by \$8, due to higher net derivative gains in 2008 as compared to 2007, partially offset by higher net realized and unrealized foreign exchange losses in 2008 as compared to 2007. Interest expense, net decreased by \$6 as a result of lower interest rates.

In 2007, total non-operating expenses decreased by \$41, or 11%, compared with 2006. The decrease was primarily due to the absence in 2007 of a \$121 loss on extinguishment of debt that was incurred in 2006 as a result of debt refinancing and recapitalizations. The decrease was partially offset by an increase in net interest expense of \$68 from 2006 as a result of higher average debt levels. Other non-operating expense, net increased by \$12 primarily due to lower unrealized foreign exchange gains in 2007 as compared to 2006.

Income Tax (Benefit) Expense

In 2008, income tax expense decreased by \$61 to a benefit of \$17. An increase in pre-tax losses from world wide operations, the recognition of a tax benefit associated with a federal tax refund, and a decrease in the amount of unrecognized tax benefits (including accruals for interest and penalties) for settlements with various taxing authorities were the primary drivers for this decrease. These benefits were partially offset by expenses that have been determined non-deductible for tax purposes. These items include the \$200 non-cash push-down of settlement costs paid by Apollo and increases in unrecognized tax benefits related to various intercompany transaction costs.

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In 2007, income tax expense increased by \$30 compared with 2006. This is due to higher taxes from increased earnings in foreign operations, partially offset by a tax benefit recognized for an enacted reduction in the German income tax rate and a decrease in the state domestic valuation allowance for tax law changes in Texas.

Loss from Discontinued Operations

In 2006, we sold Taro Plast in the Thermoplastics Divestiture. Taro Plast was formerly reported in the Epoxy and Phenolic Resins segment. Accordingly, Taro Plast is reported as a discontinued operation for all periods presented. In 2006, Loss from discontinued operations also included an impairment charge of \$13 for the amount by which the carrying value of the net assets of Taro Plast exceeded the estimated fair value of the business, less estimated costs to sell.

Results of Operations by Segment

Following are net sales and Segment EBITDA (earnings before interest, income taxes, depreciation and amortization) by reportable segment. Segment EBITDA is defined as EBITDA adjusted to exclude certain non-cash and certain non-recurring expenses. Segment EBITDA is the primary performance measure used by our senior management, the chief operating decision-maker and the board of directors to evaluate operating results and allocate capital resources among segments. Segment EBITDA is also the profitability measure used to set management and executive incentive compensation goals. Corporate and Other is primarily corporate general and administrative expenses that are not allocated to the segments.

	Year Ended December 31,		
	2008	2007	2006
Net Sales to Unaffiliated Customers ⁽¹⁾⁽²⁾⁽³⁾:			
Epoxy and Phenolic Resins	\$2,432	\$2,370	\$2,114
Formaldehyde and Forest Products Resins	2,033	1,776	1,524
Coatings and Inks	1,248	1,332	1,255
Performance Products	380	332	312
Segment EBITDA ⁽²⁾⁽³⁾:			
Epoxy and Phenolic Resins	\$ 192	\$ 334	\$ 283
Formaldehyde and Forest Products Resins	194	177	149
Coatings and Inks	35	81	78
Performance Products	90	73	59
Corporate and Other	(50)	(54)	(45)

(1) Intersegment sales are not significant and, as such, are eliminated within the selling segment.

(2) Net sales and Segment EBITDA include the results of the Coatings Acquisition, Inks Acquisition, Orica A&R Acquisition and Arkema Acquisition from January 31, 2006, June 1, 2006, February 1, 2007 and November 1, 2007, respectively, and exclude the results from the Brazilian Consumer Divestiture since March 31, 2006.

(3) Certain of the Company's product lines have been realigned, resulting in reclassifications between segments. Prior period balances have been reclassified to conform to current presentations.

2008 vs. 2007 Segment Results

The table below provides additional detail of the percentage change in sales by segment from 2007 to 2008.

	Volume	Price/Mix	Currency Translation	Acquisitions/ Divestitures	Total
Epoxy and Phenolic Resins	(6)%	5%	4%	—	3%
Formaldehyde and Forest Product Resins	(15)%	18%	1%	10%	14%
Coatings and Inks	(15)%	5%	5%	(1)%	(6)%
Performance Products	12%	2%	—	—	14%

Epoxy and Phenolic Resins

Net sales in 2008 increased by \$62, or 3%, as compared to 2007. Product mix, the pass through of higher raw material costs, and selected pricing improvement initiatives added \$106 to sales. Volume declines of \$143 negatively impacted sales. The volume declines were primarily attributable to our base epoxies and specialty phenolics businesses. The declines in these businesses were attributable to the decline in the North American automotive and housing markets, continued softening of construction and automotive markets in much of Europe and competitive pricing pressures. Versatics volumes were negatively impacted by a shortage of certain raw materials. The global economic slowdown had a dramatic impact on our volumes in the fourth quarter and resulted in the idling of many of our plants for an extended period of time in December. These volume declines were partially offset by an increase in our specialty epoxies volume. Foreign currency translation had a positive impact of \$99 as the euro strengthened against the U.S. dollar in 2008.

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Segment EBITDA in 2008 declined by \$142 to \$192, compared to 2007. The decrease was primarily in our base epoxies and intermediates business due to increased raw material costs of \$66 and utility costs of \$41 that we did not fully pass through to our customers as there was overcapacity in the base epoxies and intermediates markets. Volume declines, as discussed above, also contributed to the decrease. Segment EBITDA was negatively impacted by \$18 as a result of force majeure declared in February and November 2008 due to shortages of certain raw materials used in our versatics production. The shutdown of many of our plants for an extended period of time in December negatively impacted Segment EBITDA by \$21 as overhead costs at those plants were expensed during the shutdown period. In addition, Hurricanes Ike and Gustav negatively impacted Segment EBITDA by \$8, net of insurance recoveries, due to business interruption losses and incremental expenses, including higher freight costs, plant down time and plant damages.

Formaldehyde and Forest Products Resins

Net sales in 2008 increased by \$257, or 14%, as compared to 2007. The impact of acquisitions added \$172 to net sales. Pricing contributed \$332 to sales as we were able to pass through higher raw material costs to our customers. Lower volumes negatively impacted sales by \$262. The volume decrease primarily occurred in our North American forest products resins business due to the decline in the North American housing construction market. Our North American formaldehyde volume was also negatively impacted in 2008 by an extended customer shutdown and by Hurricane Gustav. Favorable currency translation of \$15 contributed to higher sales as the euro and the Brazilian real strengthened against the U.S. dollar in 2008.

Segment EBITDA in 2008 increased by \$17, to \$194, as compared to 2007. The impact of acquisitions added \$30 to Segment EBITDA in 2008, which more than offset the volume declines discussed above. In addition, Hurricane Gustav negatively impacted Segment EBITDA by \$2, net of insurance recoveries, due to business interruption losses and incremental expenses, including higher freight costs, plant down time and plant damages. These decreases were partially offset by incremental purchasing productivity and favorable foreign currency translation.

Coatings and Inks

Net sales in 2008 decreased by \$84 compared to 2007. The closure of our alkyds facilities in Europe accounted for a decrease of \$14 in sales. Volume declines of \$201 negatively impacted sales. Coatings volume declines were primarily attributable to the downturn in the North American housing construction market and the slowing housing construction markets in much of Europe. Inks resins volumes declined due to weakening demand coupled with competitive pressures and our exit from certain low margin product lines. In addition, the global economic slowdown negatively impacted our volumes in the fourth quarter and resulted in the shutdown of several of our plants for an extended period of time in December. Pricing contributed \$61 to sales as we were able to pass through certain raw material price increases. Favorable currency translation added \$70 to sales, primarily due to the strengthened euro against the U.S. dollar in 2008.

Segment EBITDA in 2008 declined by \$46, to \$35, as compared to 2007. The decrease was primarily the result of the volume declines and competitive market pressures, as discussed above, and increasing raw material and utility costs that we were unable to pass through to our customers.

Performance Products

Net sales in 2008 increased by \$48, or 14%, as compared to 2007. Volume increases contributed \$42 to sales, driven by strong demand for our oil field products due to increased North American drilling activities. This volume increase was partially offset by declines in foundry volumes resulting from decreased demand in the North American automotive sector. Pricing added \$6 to sales, driven by the pass through of raw material price increases in our foundry business.

Segment EBITDA in 2008 increased by \$17, to \$90, as compared to 2007. The increase was primarily driven by the effect of volume increases in our oil field technology products and our focus on cost saving initiatives.

Corporate and Other

Corporate and Other is primarily corporate general and administrative expenses that are not allocated to the segments, such as shared service and administrative functions as well as legacy company costs not allocated to continuing segments. Corporate and Other charges decreased by \$4 to \$50, as compared to 2007, primarily due to decreased compensation related costs.

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2007 vs. 2006 Segment Results

The table below provides additional detail of the percentage change in sales by segment from 2006 to 2007.

	<u>Volume</u>	<u>Price/Mix</u>	<u>Currency Translation</u>	<u>Acquisitions/ Divestitures</u>	<u>Total</u>
Epoxy and Phenolic Resins	(3)%	10%	5%	—	12%
Formaldehyde and Forest Product Resins	(6)%	9%	4%	10%	17%
Coatings and Inks	(9)%	4%	5%	6%	6%
Performance Products	(1)%	7%	—	—	6%

Epoxy and Phenolic Resins

Net sales increased in 2007 by \$256, or 12%, compared to 2006. Lower volumes in our base epoxies, intermediates and U.S. phenolic specialty resins businesses negatively impacted sales by \$64, primarily due to the decline in the North American automotive and housing markets. These volume decreases were partially offset by demand in the wind energy and European construction end markets, which drove increased demand for our specialty epoxies and phenolic specialty resins in Europe. Favorable product mix resulting from the increased specialty epoxies and phenolic specialty resins volumes discussed above, the pass through of higher raw material costs to customers and selected pricing improvement initiatives contributed \$202 to sales across all product lines. Foreign currency translation had a positive impact of \$118 as the euro strengthened against the U.S. dollar in 2007.

Segment EBITDA increased in 2007 by \$51, to \$334, compared to 2006. The increase is primarily due to the impact of the favorable product mix and pricing strategies discussed above. The realization of synergies related to the Hexion Formation also contributed to the increased Segment EBITDA. However, these increases were partially offset by longer downtime than expected for planned plant maintenance as well as by certain unplanned outages, which primarily occurred in the fourth quarter of 2007. We incurred additional expense of \$11 in 2007 compared to 2006 for planned plant maintenance. The impact of the unplanned outages in the fourth quarter of 2007 negatively impacted Segment EBITDA by \$9 due to additional costs and unabsorbed overhead.

Formaldehyde and Forest Products Resins

Net sales increased in 2007 by \$252, or 17%, compared to 2006. The impact of acquisitions, net of a divestiture, added \$146 to sales. Sales increased \$140 as commercial contracts allowed the pass through of higher raw material costs to our customers in our forest products resins and formaldehyde businesses. Lower volumes negatively impacted sales by \$96. The volume decrease primarily occurred in our North American forest products resins business due to the decline in the North American housing construction market. This volume decrease was partially offset by higher volumes in our international forest products resins businesses due to market growth in certain regions. Favorable currency translation of \$62 also contributed to higher sales as the euro, Canadian dollar and the Brazilian real strengthened against the U.S. dollar in 2007.

Segment EBITDA increased in 2007 by \$28 to \$177, compared to 2006. The net impact of acquisitions and a divestiture added \$17 to Segment EBITDA in 2007. Volume improvements in our international businesses coupled with favorable currency translation also contributed to the increase.

Coatings and Inks

Net sales increased in 2007 by \$77, or 6%, compared to 2006. Net acquisitions added \$76 of sales in 2007. Pricing added approximately \$50 to sales due to pricing improvement initiatives in our coatings and inks resins businesses and the pass through of raw material price increases primarily in the coatings business. The price increases were more than offset by lower volumes, which negatively impacted sales by \$115. Coatings volumes declined due to the downturn in the North American housing construction market, while inks resins volumes declined, primarily in North America, due to competitive pressures. Favorable currency translation added \$66 to sales, primarily due to the strengthened euro against the U.S. dollar in 2007.

Segment EBITDA increased by \$3, to \$81, compared to 2006. The increase is primarily due to the effects of the acquisitions and the pricing improvement initiatives, offset by the decline in volumes, as discussed above.

Performance Products

Net sales increased in 2007 by \$20, or 6%, compared to 2006. Pricing initiatives, favorable sales mix and the pass through of raw material price increases to customers added \$24 of sales. Volume declines negatively impacted sales by \$4 compared to 2006, driven by declines in foundry volumes resulting from decreased demand in the North American automotive sector. This decline was nearly offset by volume improvement in our oil field business as a result of increased U.S. natural gas drilling activities in 2007 and increased production capacity from our new Canadian production facility.

Segment EBITDA in 2007 increased by \$14, to \$73, compared to 2006. The increase was driven by the effect of volume increases in our oil field business. In addition, we were able to offset the Segment EBITDA impact of volume declines in our foundry business with cost control measures.

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Corporate and Other

Corporate and Other charges increased by \$9, to \$54, compared to 2006 primarily due to increased headcount and outside consulting to support business growth, the Sarbanes-Oxley internal control compliance initiative and the establishment of a European shared services center in 2007. In addition, 2006 included a \$2 insurance recovery related to Hurricane Katrina.

Reconciliation of Segment EBITDA to Net Loss

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Segment EBITDA:			
Epoxy and Phenolic Resins	\$ 192	\$ 334	\$ 283
Formaldehyde and Forest Products Resins	194	177	149
Coatings and Inks	35	81	78
Performance Products	90	73	59
Corporate and Other	(50)	(54)	(45)
Reconciliation:			
Items not included in Segment EBITDA			
Terminated merger and settlement costs	(1,027)	—	—
Transaction costs	—	(1)	(20)
Integration costs	(27)	(38)	(57)
Non-cash charges	(26)	(54)	(22)
Unusual items:			
Gain on divestitures of assets	5	8	39
Purchase accounting effects/inventory step-up	—	(1)	(3)
Discontinued operations	—	—	(14)
Business realignments	(41)	(21)	2
Derivative settlements	(37)	—	—
Other	(8)	(17)	(10)
Total unusual items	<u>(81)</u>	<u>(31)</u>	<u>14</u>
Total adjustments	<u>(1,161)</u>	<u>(124)</u>	<u>(85)</u>
Interest expense, net	(304)	(310)	(242)
Loss on extinguishment of debt	—	—	(121)
Income tax benefit (expense)	17	(44)	(14)
Depreciation and amortization	<u>(203)</u>	<u>(198)</u>	<u>(171)</u>
Net loss	<u><u>\$ (1,190)</u></u>	<u><u>\$ (65)</u></u>	<u><u>\$ (109)</u></u>

Items not included in Segment EBITDA

Terminated merger and settlement costs primarily represented accounting, consulting, tax and legal costs related to the terminated Huntsman merger and related litigation, including the \$550 payment to Huntsman to terminate the merger and settle litigation and the non-cash push-down of settlement costs paid by Apollo of \$200. Terminated merger and settlement costs also include the write-off of previously deferred acquisition costs.

In 2006, Transaction costs primarily represented the write-off of deferred accounting, legal and printing costs as the result of the Company's suspension of its IPO, as well as costs from terminating acquisition activities.

Integration costs primarily represented redundancy and incremental administrative costs for integration programs as a result of the Hexion Formation and other acquisitions, as well as costs to implement a single, company-wide, management information and accounting system and a new consolidations and financial reporting system.

Non-cash charges primarily represented stock-based compensation expense, impairments of property, plant and equipment and unrealized derivative and foreign exchange gains and losses. In 2008, Non-cash charges also included accelerated depreciation on closing facilities and goodwill and intangible asset impairment charges.

Not included in Segment EBITDA are certain non-cash and certain non-recurring income or expenses that are deemed by management to be unusual in nature. For 2008, these items consisted of business realignment costs, derivative settlements, realized foreign exchange gains and losses, management fees, a gain on the sale of a portion of the Company's ownership in HA-International, LLC ("HAI"), and a gain on the sale of certain assets of a non-core product line. For 2007, these items consisted of gains on sale of assets, a gain on the sale of a portion of the Company's ownership in HAI, business realignment costs, income related to the European solvent coating resins business (the "announced Alkyds Divestiture"), management fees, realized foreign currency activity and costs to settle a lawsuit. For 2006, these items primarily consisted of a gain recognized on the Brazilian Consumer Divestiture, a charge related to the discontinued operations of Taro Plast, business realignments, and the Alkyds Divestiture.

Liquidity and Capital Resources

Sources and Uses of Cash

We are a highly leveraged company. Our primary sources of liquidity are cash flows generated from operations and availability under our senior secured credit facilities. Our primary liquidity requirements are interest and capital expenditures. In addition, over the next two years, we will have synergy and productivity program-related obligations, and unpaid legal and other fee obligations related to the terminated Huntsman merger.

At December 31, 2008, we had \$3,859 of debt, including \$113 of short-term debt and capital lease maturities (of which approximately \$60 is U.S. short-term debt and capital lease maturities). In addition, at December 31, 2008, we had \$418 in liquidity including \$121 of unrestricted cash and cash equivalents, \$7 of short-term investments, \$42 of borrowings available under our senior secured revolving credit facilities, \$48 of borrowings available under additional credit facilities at certain domestic and international subsidiaries with various expiration dates through 2011, and a \$200 financing commitment from Apollo.

As further described in Item 3 of this Annual Report on Form 10-K, pursuant to the Huntsman settlement agreement and release, certain affiliates of Apollo agreed to make a \$200 investment in us. Certain affiliates of Apollo have entered into a commitment letter with us and Hexion LLC pursuant to which they committed to purchase \$200 in preferred units and warrants of Hexion LLC by December 31, 2011. Prior to the purchase of all the preferred shares and warrants, certain affiliates of Apollo have committed to provide liquidity facilities to Hexion LLC or us on an interim basis. The aggregate liquidity facilities outstanding, together with the purchase price for any purchased preferred shares and warrants, will at no time exceed \$200. In connection therewith, on March 3, 2009, certain affiliates of Apollo extended a \$100 term loan to us and an affiliate of the Company (the "Term Loan"). The Term Loan was fully funded on March 6, 2009 and will mature on December 31, 2011 with interest at adjusted LIBOR plus 2.25% per annum.

We are facing increased pressure from vendors to reduce payment terms due to the current credit environment. We are closely monitoring the credit quality of our customers and have focused on receivable collections to offset a portion of the payment term pressure by offering incentives to customers to encourage early payment. In the fourth quarter of 2008, we entered into accounts receivable purchase and sale agreements to sell a portion of our trade accounts receivable. As of December 31, 2008, through these agreements, we effectively accelerated the timing of cash receipts on \$35 of our receivables. During the second half of 2008, we drew down on a significant portion of our senior secured revolving credit facilities to ensure availability of funds during the current disruption in the credit markets.

During the fourth quarter of 2008, we experienced a dramatic decrease in volumes for most of our businesses. In response, we instituted full or partial idling of many of our plants for an extended period in December. Volumes have begun to slowly recover from the December lows in early 2009 prompting us to begin a slow and measured reopening of our idled facilities. However, we anticipate the downturn in the global economy will continue for 2009 resulting in continued pressure on earnings and cash flows. As a result, we are budgeting only \$111 in capital expenditures with a focus on completion of the Brazilian plant in our Formaldehyde and Forest Products Resins segment and projects to ensure improved safety of our employees and compliance with environmental laws and regulations. We are targeting \$119 in productivity savings. Most of the actions to obtain these savings will have been initiated or completed within the next 18 months and will include an approximate 15% reduction in our worldwide staffing levels. The costs to achieve these savings, estimated at \$44, will be funded from working capital. We will also continue to focus on working capital (defined as accounts receivable and inventories less accounts and drafts payable). Our working capital at December 31, 2008 was \$679, a decrease of \$80 from December 31, 2007.

Although we anticipate 2009 will be a challenging year, we expect we will have adequate liquidity to fund our ongoing operations and cash debt service obligations for the foreseeable future from cash flows provided by operating activities, amounts available for borrowings under our credit facilities and amounts available under the \$200 investment commitment by Apollo. We are also investigating the sale of non-core assets to further increase our liquidity. Opportunity for these sales could depend to some degree on improvement in the credit markets. The continued soft demand for our products for an extended period of time due to global economic and financial conditions would negatively impact our liquidity, future results of operations and flexibility to execute liquidity enhancing actions.

On January 28, 2009, Standard & Poor lowered our corporate credit rating from "B-" to "CCC+" due to the impact of the deteriorating global economic and financial market conditions on our business. We do not expect this to have a significant impact on our liquidity.

Our Board of Directors has authorized the Company from time to time to retire or purchase a portion of our outstanding debt securities through cash purchases, in open market purchases, privately negotiated transactions or otherwise. Such repurchases will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. Repurchases may be funded through available cash, borrowings from our credit facilities, and sales of accounts receivable or other liquidity sources.

See Terminated Huntsman Transaction Funding Requirements section for discussion of the impact of Huntsman litigation on our outlook for liquidity.

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Following are highlights from our Consolidated Statements of Cash Flows for the years ended December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Sources (uses) of cash:			
Operating activities	\$(632)	\$ 174	\$ 21
Investing activities	(134)	(335)	(277)
Financing activities	706	288	128
Effect of exchange rates on cash flow	(18)	8	9
Net change in cash and cash equivalents	<u>\$ (78)</u>	<u>\$ 135</u>	<u>\$(119)</u>

Operating Activities

In 2008, operations used \$632. The net loss of \$1,190 included \$562 of non-cash and non-operating items, of which \$211 was for depreciation and amortization (including amortization of deferred financing costs), \$200 was for the non-cash push-down of shareholder expense related to the Huntsman litigation settlement, \$101 was for the write-off of deferred acquisition costs paid in the prior year, \$37 was for the settlement of derivatives, \$33 was for the impairment of goodwill, intangible assets, and property, plant and equipment and accelerated depreciation, offset by \$13 for the deferred tax benefit. Working capital (defined as accounts receivable and inventories less accounts and drafts payable) and changes in other assets and liabilities and income taxes payable used \$4 due to one-time Terminated merger and settlement costs, increased pressure on vendor payment terms, and the timing of cash payments versus cash collections and expense recognition. These uses of cash were partially offset by decreased accounts receivable and inventories, which resulted from lower volumes and production, as well as decreasing raw material costs at the end of the year. Accounts receivable also decreased due to the sale of a portion of our trade accounts receivable.

In 2007, operations provided \$174 of cash. The net loss of \$65 included \$247 of non-cash items, of which \$205 was for depreciation and amortization (including amortization of deferred financing costs). Working capital decreased \$8 as a \$51 impact from increasing raw material prices was partially offset by working capital improvement initiatives. Changes in other assets and liabilities generated \$33 as a result of timing of cash payments versus collections and expense recognition. Cash from operations related to taxes used \$33. Tax cash payments of \$84, of which \$24 was paid to the Netherlands taxing authority for a settlement of a prior year's tax audit, were partially offset by increases in the tax accrual due to higher taxes from increased earnings in foreign operations.

In 2006, operations provided \$21 of cash. The net loss of \$109 included non-cash charges for depreciation and amortization of \$180 (including amortization of deferred financing costs), a gain on sale of businesses, net of taxes, primarily related to the Brazilian Consumer Divestiture of \$33, the write off of deferred financing costs that resulted from refinancing certain debt facilities in May and November of \$27, and the write off of deferred costs as a result of the suspension of our IPO of \$15. Increased sales levels at the end of the year, higher raw material costs compared with the prior year, and acquisitions, net of divestitures, drove higher accounts receivable, inventory and accounts and drafts payable levels. Additional significant cash flows items in 2006 included the receipt of \$44, net of legal fees, from the settlement of a lawsuit, an insurance reimbursement of \$33 related to payments made in 2005 for the settlement of litigation and pension and postretirement plan contributions of \$34.

Investing Activities

In 2008, investing activities used \$134. We spent \$134 for capital expenditures, primarily for plant expansions and improvements. We generated cash of \$13 from the divestiture of a non-core product line and the sale of a portion of the Company's ownership in HAI. We used \$7 for the purchase of short-term investments and \$6 to fund a restricted cash requirement primarily for collateral for a subsidiary's debt.

In 2007, we used \$335 for investing activities. We spent \$130 for acquisitions and \$123 for capital expenditures (including capitalized interest), primarily for plant expansions and improvements. We also spent \$101 for costs related to in-process acquisitions.

In 2006, we used \$277 for investing activities. We spent \$125 for capital expenditures, primarily for plant expansions and improvements. We also used \$201 for acquisitions and generated cash of \$47 from divesting certain businesses.

Financing Activities

In 2008, financing activities generated \$706. Net short-term debt borrowings were \$8 and net long-term debt borrowings were \$163, primarily to fund working capital requirements and terminated merger and settlement costs. Our parent contributed \$325 in equity so that we could pay the \$325 merger termination fee and Apollo advanced \$225, while reserving all rights with respect to reallocation of the payments to other affiliates of Apollo, so that we could make the \$225 merger settlement payment. We paid \$37 to settle portions of our cross currency and interest rate swaps and \$2 to fund dividends that were declared on common stock in prior years. The consolidation of a variable interest entity that purchased a portion of our trade accounts receivable resulted in an inflow of \$24.

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In 2007, financing activities provided cash of \$288. Net debt borrowings of \$306 were used for acquisitions, working capital requirements and in-process acquisition funding needs. Payments of dividends on common stock were \$13.

In 2006, financing activities provided cash of \$128. We generated \$1,051 of cash, primarily from refinancing our debt in May and November. Proceeds from the May refinancing were used to redeem our preferred stock for \$397. Proceeds from our November refinancing were used to pay a \$480 dividend to our common shareholders. We paid \$17 and \$21 of debt refinancing fees for the May and November refinancings, respectively. In addition, we paid \$4 of IPO related costs, which were written off when we suspended our IPO.

Terminated Huntsman Transaction Funding Requirements

As further described in Note 3 to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, the proposed merger between Huntsman and us was terminated and related litigation was settled in December 2008 pursuant to a settlement agreement and release dated December 14, 2008. Under the settlement agreement and release, we paid Huntsman a \$325 termination fee, as required by the merger agreement. In addition, on a joint and several basis with certain affiliates of Apollo, we paid Huntsman \$225, while reserving all rights with respect to reallocation of the payments to other affiliates of Apollo, and certain affiliates of Apollo paid Huntsman \$200, while reserving all rights with respect to reallocation of the payments to certain other affiliates of Apollo. Finally, certain affiliates of Apollo purchased \$250 of Huntsman's 7% convertible senior notes. Separately, pursuant to the settlement agreement, certain affiliates of Apollo agreed to provide \$200 of financing to us. The parties also agreed to release each other from all claims and actions that they have or may have against each other, other than claims arising out of ordinary course business commercial dealings and certain other specified matters.

The \$325 termination fee we paid to Huntsman was funded through a capital contribution from our parent, Hexion LLC. The \$225 settlement payment we made was funded by an advance from certain affiliates of Apollo, while reserving all rights with respect to reallocation of the payments to other affiliates of Apollo. We are contractually obligated to reimburse Apollo for any insurance recoveries on the \$225 settlement payment, net of expense incurred in obtaining such recoveries. Apollo has agreed that the payment of any such insurance recoveries will satisfy our obligation to repay amounts received under the \$225 advance. We have recorded the \$225 settlement payment advance as a long-term liability at December 31, 2008.

We have incurred significant expenses associated with the Huntsman merger litigation. We expect to have adequate liquidity to pay outstanding legal obligations in 2009. We continue to negotiate with our vendors who provided support during the transaction for discounts and extended payment terms. To the extent we receive discounts in the future, any adjustment to our liabilities will be reflected in the period in which any discounts are agreed to by our vendors.

Accounts Receivable Sales Agreement

In the fourth quarter of 2008, to improve cash flow, we entered into accounts receivable purchase and sale agreements to sell \$55 of our trade accounts receivable to affiliates of Apollo on terms which management believes were more favorable to the Company than could have been obtained from another party. The agreements provided for the sale of receivables at a discount relative to the carrying value of the receivables in exchange for all interests in such receivables. We also were paid a fee to service the collection of the receivables on the purchasers' behalf. Losses recorded on sales of accounts receivable were less than \$1 for the year ended December 31, 2008. We have consolidated one of the Apollo affiliates as the Company is its primary beneficiary. At December 31, 2008, we have included \$14 of Cash and cash equivalents, \$10 of Accounts receivable, and \$24 of Minority interest in our Consolidated Balance Sheet related to this entity.

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Outstanding Debt

Following is a summary of our outstanding debt at December 31:

	<u>2008</u>	<u>2007</u>
Senior Secured Credit Facilities:		
Revolving facility due 2011	\$ 180	\$ —
Floating rate term loans due 2013	2,254	2,282
Senior Secured Notes:		
Floating rate second-priority senior secured notes due 2014	200	200
9.75% Second-priority senior secured notes due 2014	625	625
Debentures:		
9.2% debentures due 2021	115	115
7.875% debentures due 2023	247	247
8.375% sinking fund debentures due 2016	78	78
Other Borrowings:		
Australian Multi-Currency Term/Working Capital Facility due 2011	50	69
Industrial Revenue Bonds due 2009	34	34
Capital Leases	15	12
Other	61	58
Total debt	<u>\$3,859</u>	<u>\$3,720</u>

Financial Instruments

Our various interest rate swap agreements are designed to offset cash flow variability from interest rate fluctuations on our variable rate debt. The notional amounts of the swaps change based on the expected payments on our term loans in order to maintain a fixed interest rate on approximately 50% to 60% of our total debt. As a result of the interest rate swaps, we pay a weighted average fixed rate equal to approximately 7.4% per year and receive a variable rate based on the terms of the underlying debt.

On January 1, 2008, we adopted the provisions of SFAS No. 157, *Fair Value Measurements* for assets and liabilities measured or disclosed at fair value on a recurring basis. See Item 7A – Quantitative and Qualitative Disclosures About Market Risk and Note 10 to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for information on our financial instruments. Our most significant financial instruments measured at fair value on a recurring basis are our cross currency and interest rate swaps, which are measured at fair value using significant observable inputs (level 2).

The fair values of these instruments were determined based on an over-the-counter retail market based pricing model adjusted for nonperformance risk. These financial instruments are in liability positions at December 31, 2008, requiring us to incorporate our credit risk as a component of fair value. We calculated our credit risk adjustment by applying an imputed credit spread, based on the over-the-counter retail market price of our senior secured credit facility floating rate term loans at December 31, 2008, to the future cash flows of the financial instruments. This resulted in a \$12 reduction to our financial instrument liabilities. A change in the interest rates used in the interest rate yield curve to determine fair value of our financial instruments of 1% would result in an approximate \$12 change in fair value.

Covenant Compliance

The credit agreements that govern our indebtedness contain, among other provisions, restrictive covenants regarding indebtedness, payments and distributions, mergers and acquisitions, asset sales, affiliate transactions, capital expenditures and the maintenance of certain financial ratios. Payment of borrowings under the senior secured credit facilities may be accelerated if there is an event of default. Events of default include the failure to pay principal and interest when due, a material breach of representation or warranty, covenant defaults, events of bankruptcy and a change of control. Certain covenants contained in the credit agreement that governs our senior secured credit facilities and/or the indenture that govern our Second-Priority Senior Secured Notes (i) require us to have a senior secured debt to Adjusted EBITDA ratio and (ii) restrict our ability to take certain actions such as incurring additional debt or making acquisitions if we are unable to meet this ratio and a defined Adjusted EBITDA to Fixed Charges ratio. The Company's ability to incur additional indebtedness and our ability to make future acquisitions requires us to have an Adjusted EBITDA to Fixed Charges ratio (measured on a last twelve months, or LTM, basis) of at least 2.0:1. Failure to comply with this covenant could limit our long-term growth prospects by hindering our ability to obtain future debt or make acquisitions.

Fixed Charges are defined as net interest expense excluding the amortization or write-off of deferred financing costs. Adjusted EBITDA is defined as EBITDA adjusted to exclude certain non-cash and certain non-recurring items. Adjusted EBITDA also includes expected future cost savings from business optimization programs, including those related to acquisitions, including the Hexion Formation, and other synergy and productivity programs. As we are highly leveraged, we believe that including the supplemental

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adjustments that are made to calculate Adjusted EBITDA provides additional information to investors about our ability to comply with our financial covenants and to obtain additional debt in the future. Adjusted EBITDA and Fixed Charges are not defined terms under GAAP. Adjusted EBITDA is not a measure of financial condition, liquidity or profitability and should not be considered as an alternative to net income (loss) determined in accordance with GAAP or operating cash flows determined in accordance with GAAP. Additionally, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not take into account certain items such as interest and principal payments on our indebtedness, depreciation and amortization expense (because we use capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue), working capital needs, tax payments (because the payment of taxes is part of our operations, it is a necessary element of our costs and ability to operate), non-recurring expenses and capital expenditures. Fixed Charges should not be considered an alternative to interest expense. At December 31, 2008, we were in compliance with all of the financial covenants and restrictions that are contained in the indentures that govern our notes and our senior secured credit facilities.

While we are currently in compliance with all of the terms of our outstanding indebtedness, including the financial covenants, if the downturn continues at current levels, we could fail to comply with the senior secured bank leverage ratio covenant in our senior secured credit facility. A failure to comply with our debt covenants could result in a default, which if not cured or waived, could have a material adverse effect on our business and financial condition. Our senior credit facility permits a default in our senior secured leverage ratio covenant to be cured by cash contributions to the Company's capital from the proceeds of equity purchases or cash contributions to the capital of Hexion LLC, our parent company. The cure amount can be no greater than the amount required for purposes of complying with the covenant, and in each four quarter period, there must be one quarter in which the cure right is not exercised. Any amounts of Apollo's \$200 committed financing converted to equity to cure a default will reduce the amount of available financing remaining under the \$200 financing. Based on our projections of 2009 operating results plus the \$200 financing commitment from Apollo, we expect to be in compliance with all of the financial covenants and restrictions that are contained in the indentures that govern our notes and our senior secured credit facilities.

	Year Ended December 31, 2008
Reconciliation of Net Loss to Adjusted EBITDA	
Net loss	\$ (1,190)
Income tax benefit	(17)
Interest expense, net	304
Depreciation and amortization expense	203
EBITDA	(700)
Adjustments to EBITDA:	
Terminated merger and settlement costs ⁽¹⁾	1,027
Integration costs ⁽²⁾	27
Non-cash items ⁽³⁾	26
Unusual items:	
Gain on divestitures of assets	(5)
Business realignments ⁽⁴⁾	41
Derivative settlements ⁽⁵⁾	37
Other ⁽⁶⁾	24
Total unusual items	97
In process synergies and productivity program savings ⁽⁷⁾	119
Adjusted EBITDA	\$ 596
Fixed charges ⁽⁸⁾	\$ 247
Ratio of Adjusted EBITDA to Fixed Charges ⁽⁹⁾	2.41

(1) Primarily represents accounting, consulting, tax and legal costs related to the terminated Huntsman merger and related litigation, including the \$550 payment to Huntsman to terminate the merger and settle litigation and the non-cash push-down of settlement costs paid by Apollo of \$200. Also represents the write-off of previously deferred acquisition costs.

(2) Primarily represents redundancy and incremental administrative costs associated with integration programs. Also includes costs to implement a single, company-wide management information and accounting system and a new consolidations and financial reporting system.

(3) Includes non-cash charges for impairments of property and equipment and intangible assets, impairments of goodwill, accelerated depreciation, stock-based compensation and unrealized foreign exchange and derivative activity.

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- (4) Represents plant rationalization, headcount reduction and other costs associated with business realignments.
- (5) Primarily represents derivative settlements on a portion of our cross currency and interest rate swaps.
- (6) Primarily includes pension expense related to formerly owned businesses, business optimization expenses, management fees and realized foreign currency activity.
- (7) Represents targeted productivity program savings.
- (8) The charges reflect pro forma interest expense based on interest rates at February 26, 2009.
- (9) We are required to have an Adjusted EBITDA to Fixed Charges ratio of greater than 2.0 to 1.0 to be able to incur additional indebtedness under our indenture for the Second Priority Senior Secured Notes. As of December 31, 2008, the Company was able to satisfy this covenant and incur additional indebtedness under this indenture.

Contractual Obligations

The following table presents our contractual cash obligations at December 31, 2008. Our contractual cash obligations consist of legal commitments at December 31, 2008 that require us to make fixed or determinable cash payments, regardless of the contractual requirements of the specific vendor to provide us with future goods or services. This table does not include information about most of our recurring purchases of materials used in our production; our raw material purchase contracts do not meet this definition since they generally do not require fixed or minimum quantities. Contracts with cancellation clauses are not included, unless a cancellation would result in a major disruption to our business. For example, we have contracts for information technology support that are cancelable, but this support is essential to the operation of our business and administrative functions; therefore, amounts payable under these contracts are included.

Contractual Obligations	Payments Due By Year						Total
	2009	2010	2011	2012	2013	2014 and beyond	
Long-term debt, including current maturities	\$ 112	\$ 32	\$ 240	\$ 24	\$ 1,636	\$ 1,800	\$ 3,844
Interest on fixed rate debt obligations (a)	147	140	101	100	99	353	940
Interest on variable rate debt obligations (b)	131	129	144	133	104	34	675
Capital lease obligations	1	1	1	1	7	4	15
Operating lease obligations	30	20	14	10	7	23	104
Purchase obligations (c)	133	89	75	32	24	94	447
Funding of pension and other postretirement obligations (d)	38	58	54	54	54	—	258
Total	\$592	\$469	\$629	\$354	\$1,931	\$ 2,308	\$6,283

- (a) Includes variable rate debt subject to interest rate swap agreements.
- (b) Based on applicable interest rates in effect at December 31, 2008. Based on applicable interest rates at February 26, 2009, our interest on variable rate debt obligations would be \$84 in 2009.
- (c) Purchase obligations are comprised of the fixed or minimum amounts of goods and/or services under long-term contracts and assumes that certain contracts are terminated in accordance with their terms after giving the requisite notice which is generally two to three years for most of these contracts; however, under certain circumstances, some of these minimum commitment term periods could be further reduced which would significantly decrease these contractual obligations.
- (d) Pension and other postretirement contributions have been included in the above table for the next five years. These amounts include estimated benefit payments to be made for unfunded foreign defined benefit pension plans as well as estimated contributions to our funded defined benefit plans. The assumptions used by our actuaries in calculating these projections includes a weighted average annual return on pension assets of approximately 6% for the years 2009 – 2013 and the continuation of current law and plan provisions. These estimated payments may vary based on the actual return on our plan assets or changes in current law or plan provisions. See Note 15 to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for more information on our pension and postretirement obligations.

This table excludes payments for income taxes and environmental obligations since, at this time, we cannot determine either the timing or the amounts of payments beyond 2008. At December 31, 2008, we recorded unrecognized tax benefits and related interest and penalties of \$78. We estimate that we will pay approximately \$60 in 2009 for local, state and international income taxes none of which relate to settlements of unrecognized tax benefits. We expect environmental expenditures for 2009 through 2013 totaling \$17. See Notes 13 and 18 to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on 10-K for more information on these obligations.

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Capital Expenditures

Our products are generally less capital intensive to manufacture than many other products in the chemical industry and, as a result, we have relatively low maintenance capital expenditures. We plan to spend approximately \$111 on capital expenditures in 2009. We determined this amount through our budgeting and planning process, and it is subject to change at the discretion of our board of directors. We considered future product demand, existing plant capacity and external customer trends. This is a reduction from spending during the past years. Of these expenditures, we expect that approximately 60% will be used for maintenance and environmental projects. We plan to fund capital expenditures through operations and, if necessary, through available lines of credit. We have firm commitments for anticipated capital expenditures of \$14 at December 31, 2008, which are included within the table presented above as part of Purchase obligations.

Asset Impairments

A goodwill impairment charge of \$10 was recognized in our Coatings and Inks segment due to continued weakness in the housing and construction markets and competitive pressures, resulting in lower future reporting unit earnings and cash flows than previously projected. The amount of the charge was determined using a probability weighted market approach using EBITDA multiples and income approach using discounted cash flows. The entire goodwill balance in the Coatings and Inks segment has been impaired as the implied fair value of the reporting units' goodwill in the Coatings and Inks segment was zero.

During the year ended December 31, 2008, we recorded an \$8 charge in the Epoxy and Phenolic Resins segment for the impairment of tradenames from which cash flows are no longer generated.

Productivity Program Savings

At December 31, 2008, we have targeted \$119 of productivity savings to properly align our cost structure in response to the challenging economic environment. Most of the actions to obtain these savings will have been initiated or completed within the next 18 months and will result in an approximate 15% reduction in our worldwide staffing levels. We expect to incur \$44 of costs to achieve these savings, consisting of \$28 for workforce reductions and \$16 for other one-off projects. These costs will be funded through working capital.

Off Balance Sheet Arrangements

We had no off-balance sheet arrangements as of December 31, 2008.

Critical Accounting Policies and Estimates

In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America, we have to make estimates and assumptions about future events that affect the amounts of reported assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Some of these accounting policies require the application of significant judgment by management to select the appropriate assumptions to determine these estimates. By their nature, these judgments are subject to an inherent degree of uncertainty; therefore, actual results may differ significantly from estimated results. We base these judgments on our historical experience, advice from experienced consultants, forecasts and other available information, as appropriate. Our significant accounting policies are more fully described in Note 2 to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K.

Our most critical accounting policies, which reflect significant management estimates and judgment to determine amounts in our audited Consolidated Financial Statements, are as follows:

Environmental Remediation and Restoration Liabilities

Accruals for environmental matters are recorded when we believe that it is probable that a liability has been incurred and we can reasonably estimate the amount of the liability. We have accrued approximately \$38 and \$39 at December 31, 2008 and 2007, respectively, for all probable environmental remediation and restoration liabilities, which is our best estimate of these liabilities. Based on currently available information and analysis, we believe that it is reasonably possible that the costs associated with these liabilities may fall within a range of \$25 to \$72. This estimate of the range of reasonably possible costs is less certain than the estimates that we make to determine our reserves. To establish the upper limit of this range, we used assumptions that are less favorable to Hexion among the range of reasonably possible outcomes, but we did not assume that we would bear full responsibility for all sites to the exclusion of other potentially responsible parties.

Some of our facilities are subject to environmental indemnification agreements, where we are generally indemnified against damages from environmental conditions that occurred or existed before the closing date of our acquisition of the facility, subject to certain limitations.

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Income Tax Assets and Liabilities and Related Valuation Allowances

At December 31, 2008 and 2007, we had valuation allowances of \$626 and \$360, respectively, against all of our net federal, state and some of our net foreign deferred income tax assets. The valuation allowances require an assessment of both negative and positive evidence, such as operating results during the most recent three-year period is given more weight than our expectations of future profitability, which are inherently uncertain. Our losses in the U.S. and certain foreign operations in recent periods represented sufficient negative evidence to require a full valuation allowance against our net federal, state and certain foreign deferred income tax assets. We intend to maintain a valuation allowance against the net deferred income tax assets until sufficient positive evidence exists to support the realization of such assets.

The calculation of our income tax liabilities involves dealing with uncertainties in the application of complex domestic and foreign income tax regulations. Unrecognized tax benefits are generated when there are differences between tax positions taken in a tax return and amounts recognized in the consolidated financial statements. Tax benefits are recognized in the consolidated financial statements when it is more likely than not that a tax position will be sustained upon examination. Tax benefits are measured as the largest amount of benefit that is greater than 50% likely to be realized upon settlement. To the extent we prevail in matters for which liabilities have been established, or are required to pay amounts in excess of our liabilities, our effective income tax rate in a given period could be materially impacted. An unfavorable income tax settlement would require the use of cash and result in an increase in our effective income tax rate in the year it is resolved. A favorable income tax settlement would be recognized as a reduction in the effective income tax rate in the year of resolution. At December 31, 2008 and 2007, we recorded unrecognized tax benefits and related interest and penalties of \$78 and \$37, respectively.

Pensions

The amounts that we recognize in our financial statements for pension benefit obligations are determined by actuarial valuations. Inherent in these valuations are certain assumptions, the more significant of which are:

- The weighted average rate to use for discounting the liability;
- The weighted average expected long-term rate of return on pension plan assets;
- The weighted average rate of future salary increases; and
- The anticipated mortality rate tables.

The discount rate reflects the rate at which pensions could be effectively settled. When selecting a discount rate, our actuaries provide us with a cash flow model that uses the yields of high-grade corporate bonds with maturities consistent with our anticipated cash flow projects.

The expected long-term rate of return on plan assets is determined based on the various plans' current and projected asset mix. To determine the expected overall long-term rate of return on assets, we take into account the rates on long-term debt investments that are held in the portfolio, as well as expected trends in the equity markets, for plans including equity securities.

The rate of increase in future compensation levels is determined based on salary and wage trends in the chemical and other similar industries, as well as our specific compensation targets.

The mortality tables that are used represent the most commonly used mortality projections for each particular country and reflect projected mortality improvements.

We believe the current assumptions used to estimate plan obligations and pension expense are appropriate in the current economic environment. However, as economic conditions change, we may change some of our assumptions, which could have a material impact on our financial condition and results of operations.

The following table presents the sensitivity of our projected pension benefit obligation ("PBO"), accumulated benefit obligation ("ABO"), shareholders' deficit ("Deficit") and 2009 pension expense to the following changes in key assumptions:

Assumption:	Increase / (Decrease) at December 31, 2008			Increase / (Decrease)
	<u>PBO</u>	<u>ABO</u>	<u>Deficit</u>	<u>2009 Expense</u>
Increase in discount rate of 0.5%	(31)	(29)	26	(2)
Decrease in discount rate of 0.5%	34	31	(28)	3
Increase in estimated return on assets of 1.0%	N/A	N/A	N/A	(4)
Decrease in estimated return on assets of 1.0%	N/A	N/A	N/A	4

Impairment of Long-Lived Assets, Goodwill and Other Intangible Assets

As events warrant, we evaluate the recoverability of long-lived assets, other than goodwill and other indefinite-lived intangibles, by assessing whether the carrying value can be recovered over their remaining useful lives through the expected future undiscounted operating cash flows of the underlying business. Any impairment loss that may be required is determined by comparing the carrying value of the assets to their estimated fair value. Impairment indicators include a significant decrease in the market price of a long-lived asset, a significant adverse change in the manner in which the asset is being used or in its physical condition, a significant adverse change in legal factors or the business climate that could affect the value of a long-lived asset, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset, current period operating or cash flow losses combined with a history of operating or cash flow losses associated with the use of the asset, or a current expectation that more likely than not a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. As a result, future decisions to change our manufacturing process, exit certain businesses, reduce excess capacity, temporarily idle facilities and close facilities could result in material impairment charges. Our indefinite-lived intangibles, other than goodwill, are not material.

We perform an annual goodwill impairment test to assess whether the estimated fair value of each reporting unit is less than the carrying amount of the unit's net assets. We use a probability weighted market and income approach to estimate the values of our reporting units. Our market approach is a comparable analysis technique commonly used in the investment banking and private equity industries based on the EBITDA multiple technique. Under this technique, estimated values are the result of a market based EBITDA multiple that is applied to an appropriate historical EBITDA amount, adjusted for the additional fair value that would be assigned by a market participant obtaining control over the reporting unit. Our income approach is a discounted cash flow model. In the fourth quarter of 2008, we recognized goodwill impairments in our Coatings and Inks segment. As of December 31, 2008, the fair value of each of our remaining reporting units exceeded the carrying amount of assets and liabilities assigned to each unit. A 10% decrease in the EBITDA multiple combined with a 10% increase in the interest rate used to calculate the discounted cash flows would not result in additional reporting units failing the first step of our goodwill impairment analysis.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements*. This statement establishes a standard definition of fair value, establishes a framework under generally accepted accounting principles to measure fair value and expands disclosure requirements for fair value measurements. On January 1, 2008, we adopted the provisions of SFAS No. 157 for assets and liabilities measured or disclosed at fair value on a recurring basis. We have not yet applied the provisions of SFAS No. 157 to our nonfinancial assets and liabilities measured on a non-recurring basis, in accordance with FSP 157-2, *Effective Date of FASB Statement No. 157*. SFAS No. 157 will be adopted for nonfinancial assets and liabilities measured on a non-recurring basis on January 1, 2009, and is not expected to have a material impact on our consolidated financial statements. Our major classes of nonfinancial assets and liabilities measured on a non-recurring basis include reporting units, long-lived assets and intangible assets measured at fair value for impairment assessment as well as assets and liabilities initially measured at fair value in a business combination.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, a revision to Statement No. 141. This statement establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets (including goodwill) acquired, the liabilities assumed, and any non-controlling interest in the acquiree. This statement will require, among other things, more assets acquired and liabilities assumed to be measured at fair value at the acquisition date, liabilities related to contingent consideration to be remeasured at fair value at each subsequent reporting period, and an acquirer in pre-acquisition periods to expense all acquisition-related costs. In addition, the statement establishes guidance as to what information should be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) applies to business combinations prospectively and will be effective for us on January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*. SFAS 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 applies retroactively and will be effective for us on January 1, 2009. Upon adoption of this statement, we expect to reclassify December 31, 2008 and 2007 Minority interest in consolidated subsidiaries of \$39 and \$12, respectively, to Shareholder's Deficit in the Consolidated Statements of Shareholder's Deficit and Comprehensive (Loss) Income. In addition, we expect to recast our Consolidated Statements of Operations so that Minority interest in net income of consolidated subsidiaries of \$5 and \$2 for the years ended December 31, 2008 and 2007, respectively, will be classified as net income attributable to the noncontrolling interest.

In March, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 requires enhanced disclosures about derivative instruments and hedging activities to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 will be effective for us on January 1, 2009.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including changes in currency exchange rates, interest rates and certain commodity prices. To manage the volatility related to these exposures we use various financial instruments, including some derivatives, to help us hedge our foreign currency exchange risk and interest rate risk. We also use raw material purchasing contracts and pricing contracts with our customers to help mitigate commodity price risks. These contracts generally do not contain minimum purchase requirements.

We do not use derivative instruments for trading or speculative purposes. We manage counterparty credit risk by entering into derivative instruments only with financial institutions with investment-grade ratings.

The following table summarizes our derivative financial instruments as of December 31, 2008 and 2007. Fair values are determined from quoted market prices at these dates.

	2008				2007			
	Average Days To Maturity	Average Contract Rate	Notional Amount	Fair Value Asset (Liability)	Average Days to Maturity	Average Contract Rate	Notional Amount	Fair Value Asset (Liability)
Currency to Sell for Euros								
U.S. dollars ⁽¹⁾	1,003	1.2038	\$ 25	\$ (4)	274	1.2038	283	(64)
Interest Rate Swap								
Interest swap - 2006	182	—	500	(9)	548	—	750	(12)
Interest swap - 2007	731	—	350	(27)	1,097	—	300	(14)
Interest swap - Australia Multi-Currency Term	1,094	—	24	(1)	1,460	—	28	1
Commodity Future Contracts								
Natural gas futures	—	—	11	(3)	—	—	7	—

(1) Cross-currency and interest rate swap agreement and amendments.

Foreign Exchange Risk. Our international operations accounted for approximately 58% of our sales in 2008 and 2007. As a result, we have significant exposure to foreign exchange risk on transactions that can potentially be denominated in many foreign currencies. These transactions include foreign currency denominated imports and exports of raw materials and finished goods (both intercompany and third party) and loan repayments. The functional currency of our operating subsidiaries is the related local currency.

It is our policy to reduce foreign currency cash flow exposure from exchange rate fluctuations by hedging firmly committed foreign currency transactions wherever it is economically feasible. Our use of forward contracts is designed to protect our cash flows against unfavorable movements in exchange rates, to the extent of the amount that is under contract. We do not attempt to hedge foreign currency exposure in a manner that would entirely eliminate the effect of changes in foreign currency exchange rates on net income and cash flow. We do not speculate in foreign currency nor do we hedge the foreign currency translation of our international businesses to the U.S. dollar for purposes of consolidating our financial results, or other foreign currency net asset or liability positions.

In 2005, we entered into a three-year \$289 cross-currency and interest rate swap agreement structured for a non-U.S. subsidiary's \$290 U.S. dollar denominated floating rate term loan. The swap was designed to offset balance sheet and interest rate exposures and cash flow variability associated with the exchange rate fluctuations on the term loan. In 2008, we paid \$29 to settle a portion of the cross-currency and interest rate swaps, which matured in 2008. We paid a weighted average interest rate of 7.5%, 6.9% and 5.9% and received a weighted average interest rate of 5.9%, 7.9% and 7.4% in 2008, 2007 and 2006, respectively.

The remaining portion of the cross-currency and interest rate swap was renegotiated and amended with the respective counterparties, effective September 30, 2008, in order to offset the ongoing balance sheet and interest rate exposures and cash flow variability associated with the exchange rate fluctuations of a non-U.S. subsidiary's U.S. dollar denominated floating rate term loan. The amended swap agreement requires us to sell euros in exchange for U.S. dollars at a rate of 1.2038. We also will pay a variable rate equal to Euribor plus 390 basis points and will receive a variable rate equal to the U.S. dollar LIBOR plus 250 basis points. The amount we receive under this agreement is approximately equal to the non-U.S. subsidiary's interest rate on its \$290 term loan. This amended swap agreement has an initial notional amount of \$25 that amortizes quarterly on a straight line basis to \$24, prior to maturing on September 30, 2011. We paid a weighted average interest rate of 8% and received a weighted average interest rate of 6.3% on these amended swap agreements in 2008.

Our foreign exchange risk is also mitigated because we operate in many foreign countries, which reduces the concentration of risk in any one currency. In addition, our foreign operations have limited imports and exports, which reduces the potential impact of foreign currency exchange rate fluctuations.

Interest Rate Risk. We are a party to various interest rate swap agreements that are designed to offset the cash flow variability that is associated with interest rate fluctuations on our variable rate debt. The fair values of these swaps are determined by using estimated market values. Under interest rate swaps, we agree with other parties to exchange at specified intervals the difference between the fixed rate and floating rate interest amounts that are calculated from the agreed notional principal amount.

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In May 2006, we entered into interest rate swap agreements with two counterparties. These swaps are three-year agreements designed to offset the cash flow variability that results from interest rate fluctuations on our variable rate debt. The initial aggregate notional amount of the swaps is \$1,000, which amortizes quarterly based on the expected payments on our term loans. As a result of the interest rate swaps, we pay a fixed rate equal to approximately 7.6% per year and receive a variable rate based on the terms of the underlying debt. We account for these swaps as qualifying cash flow hedges in accordance with SFAS No. 133, as amended by SFAS No. 138 and SFAS No. 149.

In January 2007, we entered into a three-year interest rate swap agreement designed to offset cash flow variability associated with interest rate fluctuations on our variable rate debt. This swap became effective on January 1, 2008. The initial notional amount of the swap is \$300, but will increase to \$700 before being amortized down to \$375, which, when combined with our other interest rate swaps, will effectively maintain a fixed interest rate on approximately 50% to 60% of total debt. As a result of the interest rate swaps, we pay a fixed rate equal to approximately 7.2% per year and receive a variable rate based on the terms of the underlying debt. We account for this swap as a qualifying cash flow hedge in accordance with SFAS No. 133, as amended.

In February 2007, we financed the Orica A&R Acquisition with proceeds of approximately \$70 from a new five-year Australian Multi-Currency Term / Working Capital Facility. To effectively fix the interest rate on approximately \$30 of this facility, we entered into interest rate swap agreements with two counterparties for an initial notional amount of AUD\$35, which amortizes quarterly based on the expected loan payments. The swap agreements terminate December 30, 2011. We pay a fixed interest rate of 6.6% and receive a floating rate based on the terms of the underlying debt. We have not applied hedge accounting to this derivative instrument.

Some of our debt, including debt under our floating rate notes and borrowings under our senior secured credit facilities, is at variable interest rates that expose us to interest rate risk. If interest rates increase, our debt service obligations on variable rate debt would increase even though the amount borrowed would not increase. Including variable rate debt that is subject to interest rate swap agreements, assuming the amount of our variable debt remains the same, an increase of 1% in the interest rates on our variable rate debt would increase our 2009 estimated debt service requirements by approximately \$21. See additional discussion about interest rate risk in Item 1A of Part I of this Annual Report on Form 10-K.

Following is a summary of our outstanding debt as of December 31, 2008 and 2007 (See Note 11 to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for additional information on our debt). The fair value of our publicly held debt is based on the price at which the bonds are traded or quoted at December 31, 2008 and 2007. All other debt fair values are determined from quoted market interest rates at December 31, 2008 and 2007.

Year	2008			2007		
	Debt Maturities	Weighted Average Interest Rate	Fair Value	Debt Maturities	Weighted Average Interest Rate	Fair Value
2008				\$ 85	8.1%	\$ 86
2009	\$ 113	6.6%	\$ 83	68	8.1%	68
2010	33	6.6%	19	33	8.1%	32
2011	241	6.7%	120	69	8.1%	68
2012	25	6.7%	11	24	8.1%	23
2013	1,643	6.9%	660	1,627	8.3%	1,571
2014 and beyond	1,804	7.3%	453	1,814	8.6%	1,749
	<u>\$ 3,859</u>		<u>\$ 1,346</u>	<u>\$ 3,720</u>		<u>\$ 3,597</u>

We do not use derivative financial instruments in our investment portfolios. Our cash equivalent investments and short-term investments are made in instruments that meet the credit quality standards that are established in our investment policies, which also limits the exposure to any one issue. At December 31, 2008 and 2007, we had \$24 and \$115, respectively, invested at average rates of 3% and 4%, respectively, primarily in interest-bearing time deposits. Due to the short maturity of our cash equivalents, the carrying value of these investments approximates fair value. Our short-term investments are recorded at cost which approximates fair value. Our interest rate risk is not significant. A 1% increase or decrease in interest rates on invested cash would not have had a material effect on our net income and cash flows for the years ended December 31, 2008 and 2007.

Commodity Risk. We are exposed to price risks on raw material purchases, most significantly with phenol, methanol, urea, acetone, propylene and chlorine. For our commodity raw materials, we have purchase contracts that have periodic price adjustment provisions. Commitments with certain suppliers, including our phenol and urea suppliers, provide up to 100% of our estimated requirements but also provide us with the flexibility to purchase a certain portion of our needs in the spot market, when it is favorable to us. We rely on long-term agreements with key suppliers for most of our raw materials. The loss of a key source of supply or a delay in shipments could have an adverse effect on our business. Should any of our suppliers fail to deliver or should any key long-term supply contracts be cancelled, we would be forced to purchase raw materials in the open market, and no assurances can be given that

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we would be able to make these purchases or make them at prices that would allow us to remain competitive. Our largest supplier provides 11% of our raw material purchases, and we could incur significant time and expense if we had to replace this supplier. In addition, several feedstocks at various facilities are transported through a pipeline from one supplier. If we were unable to receive these feedstocks through these pipeline arrangements, we may not be able to obtain them from other suppliers at competitive prices or in a timely manner. See the discussion about the risk factor on raw materials in Item 1A of Part I of this Annual Report on Form 10-K.

Natural gas is essential in our manufacturing processes, and its cost can vary widely and unpredictably. To help control our natural gas costs, we hedge a portion of our natural gas purchases for North America by entering into futures contracts for natural gas. These contracts are settled for cash each month based on the closing market price on the last day that the contract trades on the New York Mercantile Exchange. We recognize gains and losses on commodity futures contracts each month as gas is used. Our future commitments are marked to market on a quarterly basis. We have not applied hedge accounting to these contracts.

Our commodity risk is moderated through our selected use of customer contracts with selling price provisions that are indexed to publicly available indices for the relevant commodity raw materials.

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ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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HEXION SPECIALTY CHEMICALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

<u>(In millions)</u>	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net sales	\$ 6,093	\$ 5,810	\$ 5,205
Cost of sales	5,467	5,019	4,485
Gross profit	626	791	720
Selling, general and administrative expense	393	390	384
Terminated merger and settlement costs (See Note 2)	1,027	—	—
Transaction costs (See Note 2)	—	1	20
Integration costs (See Note 2)	27	38	57
Other operating expense (income), net	72	60	(27)
Operating (loss) income	(893)	302	286
Interest expense, net	304	310	242
Loss on extinguishment of debt (See Note 11)	—	—	121
Other non-operating expense, net	7	15	3
Loss from continuing operations before income tax, earnings from unconsolidated entities and minority interest	(1,204)	(23)	(80)
Income tax (benefit) expense (See Note 18)	(17)	44	14
Loss from continuing operations before earnings from unconsolidated entities and minority interest	(1,187)	(67)	(94)
Earnings from unconsolidated entities, net of taxes	2	4	3
Minority interest in net income of consolidated subsidiaries	(5)	(2)	(4)
Loss from continuing operations	(1,190)	(65)	(95)
Loss from discontinued operations (See Note 6)	—	—	(14)
Net loss	(1,190)	(65)	(109)
Accretion of redeemable preferred stock (See Note 14)	—	—	33
Net loss available to common shareholders	(1,190)	(65)	(142)
Comprehensive (loss) income	<u>\$ (1,362)</u>	<u>\$ 28</u>	<u>\$ (11)</u>

See Notes to Consolidated Financial Statements

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CONSOLIDATED BALANCE SHEETS
HEXION SPECIALTY CHEMICALS, INC.

<u>(In millions, except share data)</u>	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Assets		
Current assets		
Cash and cash equivalents (including restricted cash of \$6 at December 31, 2008) (See Note 2)	\$ 127	\$ 199
Short-term investments	7	—
Accounts receivable (net of allowance for doubtful accounts of \$24 and \$22, respectively)	582	874
Inventories:		
Finished and in-process goods	328	418
Raw materials and supplies	141	185
Other current assets	84	78
Total current assets	<u>1,269</u>	<u>1,754</u>
Other assets	108	223
Property and equipment		
Land	98	105
Buildings	307	325
Machinery and equipment	2,157	2,231
	<u>2,562</u>	<u>2,661</u>
Less accumulated depreciation	<u>(1,101)</u>	<u>(1,046)</u>
	1,461	1,615
Goodwill (See Note 8)	170	206
Other intangible assets, net (See Note 8)	172	208
Total assets	<u>\$ 3,180</u>	<u>\$ 4,006</u>
Liabilities and Shareholder's Deficit		
Current liabilities		
Accounts and drafts payable	\$ 372	\$ 718
Debt payable within one year	113	85
Interest payable	51	54
Income taxes payable	34	47
Other current liabilities	309	342
Total current liabilities	<u>879</u>	<u>1,246</u>
Long-term debt (See Note 11)	3,746	3,635
Long-term pension and post employment benefit obligations (See Note 15)	259	220
Deferred income taxes (See Note 18)	122	141
Other long-term liabilities	128	138
Advance from affiliates (see Note 3)	225	—
Total liabilities	<u>5,359</u>	<u>5,380</u>
Minority interest in consolidated subsidiaries	39	12
Commitments and contingencies (See Notes 11 and 13)		
Shareholder's Deficit		
Common stock - \$0.01 par value; 300,000,000 shares authorized, 170,605,906 issued and 82,556,847 outstanding at		
December 31, 2008 and 2007	1	1
Paid-in capital (deficit)	517	(13)
Treasury stock, at cost – 88,049,059 shares	(296)	(296)
Accumulated other comprehensive income	2	174
Accumulated deficit	<u>(2,442)</u>	<u>(1,252)</u>
Total shareholder's deficit	<u>(2,218)</u>	<u>(1,386)</u>
Total liabilities and shareholder's deficit	<u>\$ 3,180</u>	<u>\$ 4,006</u>

See Notes to Consolidated Financial Statements

HEXION SPECIALTY CHEMICALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Year ended December 31,		
	2008	2007	2006
Cash flows (used in) provided by operating activities			
Net loss	\$(1,190)	\$ (65)	\$(109)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	203	198	171
Push-down of expense paid by shareholder (see Note 3)	200	—	—
Write-off of deferred acquisition costs	101	—	—
Loss from discontinued operations	—	—	14
Gain on sale of assets, net of taxes	(3)	(8)	(33)
Write-off of deferred initial public offering costs	—	—	15
Write-off of deferred financing fees	—	—	27
Minority interest in net income of consolidated subsidiaries	5	2	4
Stock-based compensation expense	5	5	6
Deferred tax benefit	(13)	(3)	(18)
Amortization of deferred financing fees	8	7	9
Debt redemption interest adjustment	—	—	6
Impairments and accelerated depreciation	33	32	12
Realized loss on derivatives	37	—	—
Other non-cash adjustments	(14)	14	(3)
Net change in assets and liabilities, excluding acquisitions:			
Accounts receivable	231	(51)	(112)
Inventories	99	(14)	(56)
Accounts and drafts payable	(299)	57	86
Income taxes payable	(10)	(33)	15
Other assets, current and non-current	8	17	(3)
Other liabilities, current and long-term	(33)	16	(7)
Net cash used in operating activities of discontinued operations (See Note 6)	—	—	(3)
Net cash (used in) provided by operating activities	(632)	174	21
Cash flows used in investing activities			
Capital expenditures	(134)	(122)	(122)
Capitalized interest	—	(1)	(3)
Casualty loss insurance proceeds	—	—	2
Acquisition of businesses, net of cash acquired	—	(130)	(201)
Deferred acquisition costs	—	(101)	—
Change in restricted cash	(6)	—	—
Purchases of investments	(7)	—	—
Proceeds from the sale of assets	13	19	47
Net cash used in investing activities	(134)	(335)	(277)

[Table of Contents](#)**Cash flows provided by financing activities**

Net short-term debt (repayments) borrowings	8	1	13
Borrowings of long-term debt	1,092	2,405	4,471
Repayments of long-term debt	(929)	(2,100)	(3,433)
Capital contribution from parent (see Note 16)	325	—	—
Advance from affiliates (see Note 3)	225	—	—
Payment of dividends on common stock	(2)	(13)	(485)
Redemption of preferred stock (See Note 14)	—	—	(397)
Long-term debt and credit facility financing fees	—	(5)	(38)
Minority interest in variable interest entity	24	—	—
Cash settlement of derivatives	(37)	—	—
IPO related costs	—	—	(4)
Net cash from financing activities of discontinued operations (See Note 6)	—	—	1
Net cash provided by financing activities	<u>706</u>	<u>288</u>	<u>128</u>
Effect of exchange rates on cash and cash equivalents	(18)	8	9
(Decrease) increase in cash and cash equivalents	(78)	135	(119)
Cash and cash equivalents at beginning of year	199	64	183
Cash and cash equivalents (unrestricted) at end of year	<u>\$ 121</u>	<u>\$ 199</u>	<u>\$ 64</u>

Supplemental disclosures of cash flow information

Cash paid for:			
Interest, net	\$ 298	\$ 307	\$ 220
Debt redemption costs	—	—	94
Income taxes, net of cash refunds	7	84	16
Non-cash investing and financing activities:			
Unpaid common stock dividends declared	—	1	20

See Notes to Consolidated Financial Statements

HEXION SPECIALTY CHEMICALS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S DEFICIT AND COMPREHENSIVE (LOSS) INCOME

<u>(In millions)</u>	<u>Common Stock</u>	<u>Paid-in Capital (Deficit)</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive (Loss) Income (a)</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at December 31, 2005	\$ 1	515	(296)	(70)	(1,074)	(924)
Net loss	—	—	—	—	(109)	(109)
Translation adjustments	—	—	—	80	—	80
Deferred losses on cash flow hedges	—	—	—	(4)	—	(4)
Minimum pension liability adjustment, net of tax of \$8	—	—	—	22	—	22
Comprehensive loss	—	—	—	—	—	(11)
Impact of adoption of new accounting standard for pension and postretirement obligations, net of tax of \$0	—	—	—	53	—	53
Dividends declared (\$6.66 per share)	—	(505)	—	—	—	(505)
Stock-based compensation expense	—	6	—	—	—	6
Redeemable preferred stock accretion	—	(33)	—	—	—	(33)
Balance at December 31, 2006	1	(17)	(296)	81	(1,183)	(1,414)
Net loss	—	—	—	—	(65)	(65)
Translation adjustments, net of tax of \$1	—	—	—	113	—	113
Deferred losses on cash flow hedges	—	—	—	(21)	—	(21)
Gain recognized in comprehensive income from pension and postretirement benefits, net of tax	—	—	—	1	—	1
Comprehensive income	—	—	—	—	—	28
Impact of adoption of new accounting standard for uncertain tax positions	—	—	—	—	(4)	(4)
Dividends declared (\$0.01 per share)	—	(1)	—	—	—	(1)
Stock-based compensation expense	—	5	—	—	—	5
Balance at December 31, 2007	1	(13)	(296)	174	(1,252)	(1,386)
Net loss	—	—	—	—	(1,190)	(1,190)
Translation adjustments	—	—	—	(84)	—	(84)
Deferred losses on cash flow hedges	—	—	—	(10)	—	(10)
Loss recognized in comprehensive income from pension and postretirement benefits, net of tax	—	—	—	(78)	—	(78)
Comprehensive loss	—	—	—	—	—	(1,362)
Capital contribution from parent (See Note 16)	—	325	—	—	—	325
Push-down of expense paid by shareholder (See Note 16)	—	200	—	—	—	200
Stock-based compensation expense	—	5	—	—	—	5
Balance at December 31, 2008	<u>\$ 1</u>	<u>\$ 517</u>	<u>\$ (296)</u>	<u>\$ 2</u>	<u>\$ (2,442)</u>	<u>\$(2,218)</u>

- (a) Accumulated other comprehensive income at December 31, 2008 represents \$132 of net foreign currency translation gains, net of tax, \$35 of net deferred losses on cash flow hedges, and a \$95 loss, net of tax, relating to net actuarial losses and prior service costs for the Company's defined benefit pension and postretirement benefit plans (See Note 15). Accumulated other comprehensive income at December 31, 2007 represents \$216 of net foreign currency translation gains, net of tax, \$25 of net deferred losses on cash flow hedges, and a \$17 loss, net of tax, relating to net actuarial losses and prior service costs for the Company's defined benefit pension and postretirement benefit plans (See Note 15). Accumulated other comprehensive income at December 31, 2006 represents \$103 of net foreign currency translation gains, net of tax, \$4 of net deferred losses on cash flow hedges, and a \$18 loss, net of tax, relating to net actuarial losses and prior service costs for the Company's defined benefit pension and postretirement benefit plans (See Note 15).

See Notes to Consolidated Financial Statements

HEXION SPECIALTY CHEMICALS, INC.

Notes to Consolidated Financial Statements
(In millions, except share data)

1. Background and Basis of Presentation

Based in Columbus, Ohio, Hexion Specialty Chemicals, Inc. (“Hexion” or “the Company”) manufactures and markets thermosetting resins worldwide, including epoxy resins and intermediates, forest products resins, coating products, and phenolic specialty resins. At December 31, 2008, the Company had 94 production and manufacturing facilities, with 36 located in the United States.

Hexion was formed on May 31, 2005 from the combination of three Apollo Management, L.P. (“Apollo”) controlled companies (the “Hexion Formation”); Resolution Performance Products, LLC (“Resolution Performance”), Resolution Specialty Materials, Inc. (“Resolution Specialty”) and Borden Chemical, Inc. (“Borden Chemical”). At the Hexion Formation, Borden Chemical changed its name to Hexion Specialty Chemicals, Inc., and BHI Acquisition Corp. (“BHI Acquisition”), Borden Chemical’s parent, changed its name to Hexion LLC. Prior to the Hexion Formation, on April 29, 2005, a subsidiary of Borden Chemical acquired Bakelite Aktiengesellschaft (“Bakelite” or the “Bakelite Transaction”).

2. Summary of Significant Accounting Policies

Principles of Consolidation—The Consolidated Financial Statements include the accounts of the Company, its majority-owned subsidiaries in which minority shareholders hold no substantive participating rights, and variable interest entities in which the Company bears a majority of the risk to potential losses or gains from a majority of the expected returns. Intercompany accounts and transactions are eliminated in consolidation. The Company’s share of the 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 Earnings from unconsolidated entities in the Consolidated Statements of Operations. Investments in the other companies are carried at cost.

The Company has recorded a minority interest for the equity interests in consolidated subsidiaries that are not 100% owned. The minority interest primarily reflects the minority owner’s interest of 49.99% and 45% at December 31, 2008 and 2007, respectively, in HA-International, LLC (“HAI”), a joint venture between the Company and Delta-HA, Inc.

The Company has a 50% ownership interest in Asia Dekor Borden (Hong Kong) Chemical Company, a joint venture that manufactures formaldehyde and resins in China, and a 49.99% interest in Hexion UV Coatings (Shanghai) Co., Ltd, a joint venture that manufactures UV-curable coatings and adhesives in China. These joint ventures are accounted for using the equity method of accounting.

Foreign Currency Translations—Assets and liabilities of foreign affiliates are translated at the exchange rates in effect at the balance sheet date. Income, expenses and cash flows are translated at average exchange rates during the year. The effect of translation is accounted for as an adjustment to Shareholder’s deficit and is included in Accumulated other comprehensive income. Transaction gains and losses are included as a component of net loss. The Company recognized transaction (losses) gains of \$(32), \$10 and \$19 for the years ended December 31, 2008, 2007 and 2006, respectively.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. The most significant estimates that are included in the financial statements are environmental remediation, legal liabilities, deferred tax assets and liabilities and related valuation allowances, income tax accruals, pension and postretirement assets and liabilities, valuation allowances for accounts receivable and inventories, general insurance liabilities, asset impairments, fair values of stock awards and fair values of assets acquired and liabilities assumed in business acquisitions. Actual results could differ from these estimates.

Cash and Cash Equivalents—The Company considers all highly liquid investments that are purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2008 and 2007, the Company had interest-bearing time deposits and other cash equivalent investments of \$17 and \$115, respectively. They are included on the Consolidated Balance Sheets as a component of Cash and cash equivalents.

Investments—Investments with original maturities greater than 90 days but less than one year are included on the Consolidated Balance Sheets as Short-term investments. At December 31, 2008, the Company had Brazilian real denominated U.S. dollar index investments of \$7. These investments, which are classified as held-to-maturity securities in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 115, “*Accounting for Certain Investments in Debt and Equity Securities*”, are recorded at cost, which approximates fair value.

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Allowance for Doubtful Accounts—The allowance for doubtful accounts is estimated using factors such as customer credit ratings and past collection history. Receivables are charged against the allowance for doubtful accounts when it is probable that the receivable will not be recovered.

Inventories—Inventories are stated at lower of cost or market using the first-in, first-out method. Costs include direct material, direct labor and applicable manufacturing overheads. Abnormal manufacturing costs are recognized as period costs and fixed manufacturing overheads are allocated 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 the estimated future usage and sales. Inventories on the Consolidated Balance Sheets are presented net of an allowance for excess and obsolete inventory of \$9 and \$13 at December 31, 2008 and 2007, respectively.

Deferred Expenses—Deferred financing costs are presented as a component of Other assets on the Consolidated Balance Sheets and are amortized over the life of the related debt or credit facility using the effective interest method. Upon extinguishment of any of the debt, the related debt issuance costs are written off. At December 31, 2008 and 2007, the Company's unamortized deferred financing costs were \$39 and \$47, respectively.

Property and Equipment—Land, buildings and machinery and equipment are stated at cost less accumulated depreciation. Depreciation is recorded on the straight-line basis over the estimated useful lives of properties (the average estimated useful lives for buildings is 20 years and for machinery and equipment 15 years). Assets under capital leases are amortized over the lesser of their useful lives 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. When property and equipment is retired or disposed of, the asset and related depreciation are removed from the accounts and any gain or loss is reflected in income. The Company capitalizes interest costs that are incurred during the construction of property and equipment. Depreciation expense was \$182, \$180 and \$157 for the years ended December 31, 2008, 2007 and 2006, respectively.

Capitalized Software—The Company capitalizes certain costs, such as software coding, installation and testing, that are incurred to purchase or create and implement internal use computer software in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Amortization is recorded on the straight-line basis over the estimated useful lives ranging from 1 to 15 years.

Goodwill and Intangibles—The excess of purchase price over net tangible and identifiable intangible assets of businesses acquired is carried as Goodwill on the Consolidated Balance Sheets. 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 cost (fair value at the time of acquisition) and reported as Other intangible assets on the Consolidated Balance Sheets. The Company does not amortize goodwill or indefinite-lived intangible assets. 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 30 years. See Note 8.

Impairment—The Company reviews property and equipment and all amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Recoverability is based on estimated undiscounted cash flows. Measurement of the impairment loss, if any, is based on the difference between the carrying value and fair value. During the years ended December 31, 2008, 2007 and 2006, impairments of \$11, \$32 and \$12, respectively, were included in Other operating expense, net on the Consolidated Statements of Operations. In addition, during the year ended December 31, 2008, accelerated depreciation on closing facilities of \$12 was included in Other operating expense, net on the Consolidated Statements of Operations. See Note 8 for discussion of amortizable intangible asset impairments.

In 2007, impairment charges of \$12 and \$11 were recorded due to the closure of two manufacturing sites in North America in the Formaldehyde and Forest Products Resins segment and one manufacturing site in Europe in the Coatings and Inks segment, respectively.

The Company tests goodwill for impairment annually, or when events or changes in circumstances indicate impairment may exist, by comparing the fair value of each reporting unit to its carrying value to determine if there is an indication that a potential impairment may exist. The Company uses a probability weighted market and income approach to estimate the values of its reporting units. The Company's market approach is a comparable analysis technique commonly used in the investment banking and private equity industries based on the EBITDA (earnings before interest, income taxes, depreciation and amortization) multiple technique. Under this technique, estimated values are the result of a market-based EBITDA multiple that is applied to an appropriate historical EBITDA amount, adjusted for the additional fair value that would be assigned by a market participant obtaining control over the reporting unit. The Company's income approach is a discounted cash flow model. When the carrying amount of the reporting unit's goodwill is greater than the implied fair value of the reporting unit's goodwill, an impairment loss is recognized for the difference. In the fourth quarter of 2008, the Company recognized goodwill impairments in its Coatings and Inks segment. See Note 8. At December 31, 2008, the fair value of the remaining reporting units exceeded the carrying amount of assets (including goodwill) and liabilities assigned to the units. At December 31, 2007, the fair value of each reporting unit exceeded the carrying amount of assets (including goodwill) and liabilities assigned to the units.

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General Insurance—The Company is generally insured for losses and liabilities for workers' compensation, physical damage to property, business interruption and comprehensive general, product and vehicle liability under high-deductible insurance policies.

Legal Claims and Costs—The Company accrues for legal claims and costs in the period in which a claim is made or an event becomes known, if the amounts are probable and reasonably estimable. Each claim is assigned a range of potential liability and the most likely amount is accrued. If there is no amount in the range of potential liability that is most likely, the low end of the range is accrued. The amount accrued includes all costs associated with the claim, including settlements, assessments, judgments, fines and incurred legal fees. See Note 13.

Environmental Matters—Accruals for environmental matters are recorded following the guidelines of Statement of Position 96-1, *Environmental Remediation Liabilities*, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Environmental accruals are reviewed on a quarterly basis and as events and developments warrant. See Note 13.

Asset Retirement Obligations—Asset retirement obligations are initially recorded at their estimated net present values in the period in which the obligation occurs, with a corresponding increase to the related long-lived asset. Over time, the liability is accreted to its settlement value and the capitalized cost is depreciated over the useful life of the related asset. When the liability is settled, a gain or loss is recognized for any difference between the settlement amount and the liability that was recorded.

Revenue Recognition—Revenue for product sales, net of estimated allowances and returns, is recognized as risk and title to the product transfer to the customer, which either occurs at the time shipment is made or upon delivery. In situations where product is delivered by pipeline, risk and title transfers when the product moves across an agreed-upon transfer point, which is typically the customers' property line. Product sales delivered by pipeline are measured based on daily flow meter readings. The Company's standard terms of delivery are included in its contracts of sale or on its invoices.

Shipping and Handling—Freight costs that are billed to customers are included in Net sales. Shipping costs are incurred to move the Company's products from production and storage facilities to the customer. Handling costs are incurred from the point the product is removed from inventory until it is provided to the shipper and generally include costs to store, move and prepare the products for shipment. Shipping and handling costs are recorded in Cost of sales in the Consolidated Statements of Operations.

Research and Development Costs—Funds are committed to research and development activities for technical improvement of products and processes that are expected to contribute to future earnings. All costs associated with research and development are charged to expense as incurred. Research and development and technical service expense was \$73, \$70 and \$69 for the years ended December 31, 2008, 2007 and 2006, respectively and is included in Selling, general and administrative expense in the Consolidated Statements of Operations.

Terminated Merger and Settlement Costs—The Company incurred terminated merger and settlement costs totaling \$1,027 for the year ended December 31, 2008. These costs primarily represent settlement, legal, consulting, accounting and tax costs related to the terminated Huntsman Corporation ("Huntsman") merger agreement and litigation (see Note 3), including the non-cash push-down of settlement costs paid by Apollo of \$200. These costs also include the write-off of previously deferred acquisition costs (see Note 3). The Company is also negotiating discounts and extended payment terms with providers of services in connection with the terminated merger and will recognize adjustments to its liabilities in the period in which any discounts are agreed to by its vendors.

Transaction Costs—The Company incurred Transaction costs totaling \$1 and \$20 for the years ended December 31, 2007 and, 2006, respectively. For the year ended December 31, 2006, \$15 of these costs represent the write-off of previously deferred accounting, legal, and printing costs associated with the Company's proposed initial public offering of common stock and \$5 were costs associated with terminated acquisition activities.

Integration Costs—The Company incurred Integration costs totaling \$27, \$38 and \$57 for the years ended December 31, 2008, 2007 and 2006, respectively. These costs represent costs to implement a single, company-wide, management information and accounting system and a new consolidations and financial reporting system as well as redundancy and plant rationalization costs and incremental administrative costs from integration programs that resulted from the Hexion Formation and recent acquisitions.

Income Taxes—The Company provides for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of the assets and liabilities.

Deferred tax balances are adjusted to reflect tax rates, based on current tax laws, which will be in effect in the years in which temporary differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. See Note 18.

Unrecognized tax benefits are generated when there are differences between tax positions taken in a tax return and amounts recognized in the consolidated financial statements. Tax benefits are recognized in the consolidated financial statements when it is more likely than not that a tax position will be sustained upon examination. Tax benefits are measured as the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The Company classifies interest and penalties as a component of tax expense.

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Derivative Financial Instruments—The Company is a party to forward exchange contracts, interest rate swaps, cross-currency swaps and natural gas futures to reduce its cash flow exposure to changes in foreign exchange rates, interest rates and natural gas prices. The Company does not hold or issue derivative financial instruments for trading purposes. All derivative financial instruments, whether designated in hedging relationships or not, are recorded on the Consolidated Balance Sheets at fair value. If a derivative financial instrument is designated as a fair-value hedge, the changes in the fair value of the derivative financial instrument and the hedged item are recognized in earnings. If the derivative financial instrument is designated as a cash-flow hedge, changes in the fair value of the derivative financial instrument are recorded in Accumulated other comprehensive income in the Consolidated Balance Sheets, to the extent effective, and are recognized in the income statement when the hedged item impacts earnings. The cash flows from derivative financial instruments accounted for as hedges are classified in the same category as the item being hedged in the Consolidated Statements of Cash Flows. The Company documents effectiveness assessments in order to use hedge accounting at each reporting period. See Note 10.

Stock-Based Compensation—Stock-based compensation cost is measured at the grant date based on the fair value of the award which is amortized as expense over the requisite service period. As the Company is a nonpublic entity, the Company has applied this method of accounting to new awards and to awards that have been modified, repurchased or cancelled since January 1, 2005. See Note 17.

Transfers of Financial Assets—The Company executes factoring and sales agreements with respect to its trade accounts receivable to support its working capital requirements. The Company accounts for these transactions as either sales-type or financing-type transfers of financial assets under the provisions of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* based on the terms and conditions of each agreement. The Company retains the servicing rights on the transfers of accounts receivable and measures these rights at fair value, if material. See Note 9.

Concentrations of Credit Risk—Financial instruments that potentially subject the Company to concentrations of credit risk are primarily temporary investments and accounts receivable. The Company places its temporary investments with high quality institutions and, by policy, limits the amount of credit exposure to any one institution. Concentrations of credit risk for accounts receivable are limited due to the large number of customers in the Company's customer base and their dispersion across many different industries and geographies. The Company generally does not require collateral or other security to support customer receivables.

Concentrations of Supplier Risk—The Company relies on long-term agreements with key suppliers for most of its raw materials. The loss of a key source of supply or a delay in shipments could have an adverse effect on its business. Should any of the suppliers fail to deliver or should any of the key long-term supply contracts be cancelled, the Company would be forced to purchase raw materials at current market prices. The Company's largest supplier provides 11% of raw material purchases. In addition, several of the feedstocks at various facilities are transported through a pipeline from one supplier.

Reclassifications—Certain prior period balances have been reclassified to conform with current presentations.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements*. This statement establishes a standard definition of fair value, establishes a framework under generally accepted accounting principles to measure fair value and expands disclosure requirements for fair value measurements. On January 1, 2008, the Company adopted the provisions of SFAS No. 157 for assets and liabilities measured or disclosed at fair value on a recurring basis. The Company has not yet applied the provisions of SFAS No. 157 to its nonfinancial assets and liabilities measured on a non-recurring basis, in accordance with FSP 157-2, *Effective Date of FASB Statement No. 157*. SFAS No. 157 will be adopted for nonfinancial assets and liabilities measured on a non-recurring basis on January 1, 2009 and is not expected to have a material impact on the Company's consolidated financial statements. The Company's major classes of nonfinancial assets and liabilities measured on a non-recurring basis include long-lived assets and intangible assets measured at fair value for impairment assessments as well as assets and liabilities initially measured at fair value in a business combination.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, a revision to Statement No. 141. This statement establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets (including goodwill) acquired, the liabilities assumed, and any non-controlling interest in the acquiree. This statement will require, among other things, more assets acquired and liabilities assumed to be measured at fair value at the acquisition date, liabilities related to contingent consideration to be remeasured at fair value at each subsequent reporting period, and an acquirer in pre-acquisition periods to expense all acquisition-related costs. In addition, the statement establishes guidance as to what information should be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) applies prospectively and will be effective for the Company on January 1, 2009.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*. SFAS 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 applies retroactively and will be effective for the Company on January 1, 2009. Upon adoption of this statement, the Company expects to reclassify December 31, 2008 and 2007 Minority interest in consolidated subsidiaries of \$39 and \$12, respectively, to Shareholder's Deficit on the Consolidated Statements of Shareholder's Deficit and Comprehensive Income. In addition, the Company expects to recast its Consolidated Statements of Operations so that Minority interest in net income of consolidated subsidiaries of \$5 and \$2 for the years ended December 31, 2008 and 2007, respectively, will be classified as net income attributable to the noncontrolling interest.

In March, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 requires enhanced disclosures about derivative instruments and hedging activities to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 will be effective for the Company on January 1, 2009.

3. Terminated Huntsman Merger

On July 12, 2007, the Company announced the signing of an Agreement and Plan of Merger (the "Agreement") to acquire Huntsman in an all-cash transaction initially valued at approximately \$10,600, which included the assumption of debt. In connection with the transaction, the Company obtained financing commitments from affiliates of Credit Suisse and Deutsche Bank (the "Banks").

Prior to entering into the Agreement, Huntsman terminated an Agreement and Plan of Merger with Basell AF. As a result, Huntsman paid Basell AF a break-up fee in the amount of \$200, of which the Company funded \$100 in July 2007. This amount was recorded as a deferred acquisition cost and was included as a component of Other assets, net in the Consolidated Balance Sheet at December 31, 2007. The Company had also recorded other deferred acquisition costs as a component of Other assets, net in the Consolidated Balance Sheet at December 31, 2007. In June 2008, the Company wrote off its previously deferred acquisition costs in the Consolidated Statement of Operations due to the uncertainty that the transaction would be consummated.

On June 18, 2008, the Company and certain related entities filed suit in the Delaware Court of Chancery to declare their contractual rights with respect to the Agreement (the "Huntsman Action"). In the Huntsman Action, the Company alleged, among other things, that the capital structure agreed to by the Company and Huntsman for the combined company was no longer viable due primarily to Huntsman's increased net debt and lower than expected earnings, and that consummating the merger on the basis of the agreed capital structure would render the combined company insolvent. The Huntsman Action also alleged that Huntsman suffered a Company Material Adverse Effect, as defined in the Agreement. On September 29, 2008, the Delaware Court of Chancery entered a judgment in favor of Huntsman ordering the Company to, among other things, use its reasonable best efforts to take all actions necessary and proper to consummate the merger, which the Company proceeded to do.

On October 29, 2008, after the Banks refused to fund the merger, the Company commenced an action in the Supreme Court of the State of New York against the Banks (New York County Index No. 114552/08) to compel them to do so. On November 20, 2008, the Banks filed an amended answer and counterclaims, seeking a declaration that the Company is required, pursuant to the commitment letter, to indemnify the Banks, and other indemnified persons for costs and expenses resulting from the various Delaware and Texas litigations, and asserting that the Company has breached the indemnification provision of the commitment letter.

On December 13, 2008, Huntsman sent notice to the Company that, pursuant to its terms, Huntsman terminated the Merger Agreement. On December 14, 2008, the Company entered into a settlement agreement and release with Huntsman and other parties concerning the above-described litigation and the proposed merger was terminated. Under the settlement agreement, the Company paid Huntsman a \$325 termination fee, as required by the merger agreement. In addition, on a joint and several basis with certain affiliates of Apollo, the Company paid Huntsman \$225, while reserving all rights with respect to reallocation of the payments to other affiliates of Apollo, and certain affiliates of Apollo paid Huntsman \$200, while reserving all rights with respect to reallocation of the payments to certain other affiliates of Apollo. Finally, certain affiliates of Apollo purchased \$250 of Huntsman's 7% convertible senior notes. As a result of the termination of the Agreement, the Company's agreement to sell a significant portion of its specialty epoxy business was also terminated.

The \$325 termination fee paid to Huntsman was funded through a capital contribution from the Company's parent, Hexion LLC. The capital contribution was financed through a borrowing of \$351 from the Banks to Hexion LLC. The \$225 settlement payment the Company made was funded by an advance from Apollo, while reserving all rights with respect to reallocation of the payments to other affiliates of Apollo. Under the provisions of the settlement agreement and release, the Company is contractually obligated to reimburse Apollo for any insurance recoveries on the \$225 settlement payment, net of expense incurred in obtaining such recoveries. Apollo has agreed that the payment of any such insurance recoveries will satisfy the Company's obligation to repay amounts received under the \$225 advance. The Company has recorded the \$225 settlement payment advance as a long-term liability at December 31, 2008. The \$200 settlement payment made by Apollo has been treated as an expense by the Company with the credit to Paid-in capital at December 31, 2008. This settlement was considered an expense of the Company as the liability was joint and several between the Company and Apollo and the settlement by Apollo was caused by its relationship with the Company as a principal shareholder. The \$325 termination fee, the \$225 settlement payment, the \$200 settlement payment, and the litigation costs associated with the terminated merger are included in Terminated merger and settlement costs in the Company's Consolidated Statements of Operations.

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On December 14, 2008, the Company, Huntsman, and Apollo entered into an agreement that requires Huntsman to pay Apollo 20% of the proceeds it may receive in excess of \$300 relating to Huntsman's lawsuit against the Banks, not to exceed \$425. Any amount paid to Apollo related to this lawsuit, any insurance recoveries by us related to the \$225 settlement payment, and any insurance recoveries by Apollo related to the \$200 settlement payment will be recognized as income in the period when the gains become realizable.

4. Productivity Program

At December 31, 2008, the Company has targeted \$119 of productivity savings to properly align its cost structure in response to the challenging economic environment. Most of the actions to obtain these savings will have been initiated or completed within the next 18 months and will include an approximate 15% reduction in the Company's worldwide staffing levels. The Company expects to incur \$44 in costs to achieve these savings, consisting of \$28 for workforce reductions and \$16 for other one-off projects. These costs will be funded through working capital.

During the year ended December 31, 2008, the Company recognized restructuring charges of \$15 in Other operating expense, net on the Consolidated Statements of Operations related to the workforce reduction portion of this program. These costs primarily relate to employee termination costs and are accounted for in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits* and SFAS No. 146, *Accounting for Costs Associated with Exit and Disposal Activities*. The Company made payments related to this program of \$1 during 2008. At December 31, 2008, the Company had accrued \$14 in Other current liabilities in the Consolidated Balance Sheets.

The following table summarizes restructuring information by reporting segment.

	<u>Epoxy and Phenolic Resins</u>	<u>Formaldehyde and Forest Products</u>	<u>Performance Products</u>	<u>Coatings and Inks</u>	<u>Corporate and Other</u>	<u>Total</u>
Costs expected to be incurred	\$ 15	\$ 15	\$ —	\$ 8	\$ 6	\$ 44
Accrued liability at December 31, 2007	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Restructuring charges	7	1	—	4	3	15
Payments	—	—	—	(1)	—	(1)
Accrued liability at December 31, 2008	<u>\$ 7</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 14</u>

5. Acquisitions and Divestitures

The Company accounts for acquisitions using the purchase method of accounting. As required under this method, results of operations of the acquired entities have been included from the date of acquisition, and any excess of purchase price over the sum of amounts assigned to identified assets and liabilities has been recorded as goodwill.

2008 Divestitures

During the year ended December 31, 2008, the Company completed the sale of a 4.99% interest in HA-International, LLC ("HAI"), a joint venture between the Company and Delta-HA, Inc. At December 31, 2008, the Company's economic interest in HAI was 50.01%. In addition, during the year ended December 31, 2008, the Company completed the sale of certain assets of a non-core product line.

The Company recognized net gains totaling \$5 for asset divestitures during the year ended December 31, 2008. This amount is included in Other operating expense, net in the Company's Consolidated Statements of Operations.

2007 Acquisitions

Orica A&R Acquisition

On February 1, 2007, certain subsidiaries of the Company acquired the adhesives and resins ("A&R") business of Orica Limited (the "Orica A&R Acquisition") for a net purchase price of Australian dollars ("AUD") 77, or \$60, subject to certain adjustments. The Company incurred direct acquisition related costs of \$3, which was included as part of the purchase price. Net working capital and other adjustments were net settled with no additional purchase price impact. The A&R business manufactures formaldehyde and formaldehyde-based binding resins used primarily in the forest products industry, and has three manufacturing facilities in Australia and New Zealand. This acquisition strengthens the Company's presence in the Asia-Pacific region and will enable the Company to expand its service of the forest products marketplace. This acquisition is included in the Formaldehyde and Forest Products Resins segment.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	Fair Value at February 1, 2007
Current assets	\$ 19
Property and equipment	45
Goodwill	7
Other intangible assets	7
Total assets acquired	78
Current liabilities	10
Other long-term liabilities	5
Total liabilities assumed	15
Fair value of net assets acquired	\$ 63

\$7 of acquired intangible assets were assigned to customer relationships and have a weighted average useful life of approximately 10 years.

Goodwill was assigned to the Formaldehyde and Forest Products Resins segment and is not expected to be deductible for tax purposes.

The following unaudited pro forma financial information presents the consolidated results of operations as if the Orica A&R Acquisition had occurred at the beginning of the periods presented. Pro forma adjustments include only the effects of events directly attributable to the acquisition. The pro forma adjustments reflected in the table below include amortization of intangibles, depreciation adjustments from the write-up of property and equipment to estimated fair market value, and interest expense on a new debt facility used to fund the Orica A&R Acquisition (See Note 11) and related income tax effects.

	Year ended December 31,	
	2007	2006
Net sales	\$5,817	\$5,291
Net loss	(65)	(110)
Net loss available to common shareholders	(65)	(143)

The pro forma financial information above does not necessarily reflect the operating results that would have occurred had the acquisition been consummated at the beginning of the periods presented, nor is such information indicative of future operating results.

Arkema Acquisition

On November 1, 2007, the Company completed the purchase of the German forest products resins and formaldehyde business of Arkema GmbH (the "Arkema Acquisition"). This business manufactures formaldehyde and formaldehyde-based resins. The business employs approximately 100 people and had 2006 revenues of approximately €101, or \$127. The purchase price was €44, or \$64, subject to certain adjustments. This business is included in the Formaldehyde and Forest Products Resins segment. The pro forma effects of this acquisition were not material to the Company's financial statements.

2007 Divestitures

On June 4, 2007, the Company completed the sale of a 5% interest in HA-International, LLC ("HAI") to its joint venture partner Delta-HA, Inc. At December 31, 2007, the Company's economic interest in HAI was 55%.

The Company recognized gains totaling \$8 (both on a pretax and after tax basis) for divestitures that are included in Other operating expense (income), net in the Company's Consolidated Statements of Operations for the year ended December 31, 2007.

2006 Acquisitions

On January 31, 2006, the Company completed the purchase of the decorative coatings and adhesives business unit of The Rhodia Group (the "Coatings Acquisition"). The business had 2005 sales of approximately \$200 and has eight manufacturing facilities in Europe, Asia Pacific and Latin America.

On June 1, 2006, the Company acquired the ink and adhesive resins business of Akzo Nobel (the "Inks Acquisition"). The business had 2005 sales of approximately \$215 and has ten manufacturing facilities in Europe, Asia Pacific, North America and South America.

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The aggregate purchase price, net of cash acquired, for the acquisitions in 2006, including related direct costs, was \$201.

The pro forma effects of these acquisitions were not material to the Company's financial statements.

2006 Divestitures

On March 31, 2006, the Company sold Alba Adesivos Industria e Comercio Ltda. ("Alba Adesivos"), a consumer adhesives company based in Boituva, Brazil (the "Brazilian Consumer Divestiture"). Alba Adesivos is a producer of branded consumer and professional grade adhesives. The company had 2005 sales of \$38 and approximately 140 employees. Due to the Company's significant continuing involvement in the operations of Alba Adesivos as a result of a tolling agreement, the sale did not qualify for presentation as a discontinued operation.

On June 1, 2006, the Company completed the sale of a 5% interest in HAI to its joint venture partner Delta-HA, Inc.

The Company recognized gains totaling \$39 (\$33 on an after tax basis) related to these divestitures that are included in Other operating expense (income), net in the Company's Consolidated Statements of Operations for the year ended December 31, 2006.

6. Discontinued Operations

On August 1, 2006, the Company sold its Taro Plast S.p.A. business ("Taro Plast"). Taro Plast was acquired in the Bakelite Acquisition and was formerly reported in the Epoxy and Phenolic Resins segment. Accordingly, Taro Plast has been reported as a discontinued operation for the year ended December 31, 2006.

Net sales and loss from discontinued operations in the Consolidated Statements of Operations for the year ended December 31, 2006 related to the Taro Plast sale follow:

Net sales	<u>2006</u> \$ 28
Loss from discontinued operations	(14)

Loss from discontinued operations for the year ended December 31, 2006 includes an impairment charge of \$13 for the amount by which the carrying amount of the net assets of Taro Plast exceeded the selling price. As the Company is party to a participation exemption, there was no tax benefit on the capital loss for the year ended December 31, 2006.

Losses from discontinued operations are recorded in the Consolidated Statements of Operations net of tax; however, because the Company has a full valuation allowance on its domestic deferred tax assets and is unable to realize an income tax benefit from these losses, the corresponding benefit has been offset by a full valuation allowance.

7. Related Party Transactions

Administrative Service, Management and Consulting Arrangements

The Company is subject to a seven-year Amended and Restated Management Consulting Agreement with Apollo (the "Management Consulting Agreement") under which the Company receives certain structuring and advisory services from Apollo and its affiliates. The annual fees under the Management Consulting Agreement have been \$3. The Management Consulting Agreement provides indemnification to Apollo and its affiliates and their directors, officers and representatives for potential losses arising from these services.

Under the agreements in effect during the years ended December 31, 2008, 2007 and 2006, the Company paid annual fees of \$3. These amounts are included in Other operating expense, net in the Company's Consolidated Statements of Operations.

Financing Agreements

In connection with the termination of the merger agreement with Huntsman, the Company, Hexion LLC and Apollo executed certain transactions, including an advance from affiliates. See Note 3. In addition, pursuant to the settlement agreement and release, certain affiliates of Apollo agreed to make a \$200 investment in the Company. Certain affiliates of Apollo have entered into a commitment letter with the Company and Hexion LLC pursuant to which they committed to purchase \$200 in preferred units and warrants of Hexion LLC by December 31, 2011. Prior to the purchase of all the preferred shares and warrants, certain affiliates of Apollo have committed to provide liquidity facilities to Hexion LLC or the Company on an interim basis. The aggregate liquidity facilities outstanding, together with the purchase price for any purchased preferred shares and warrants, will at no time exceed \$200. In connection therewith, on March 3, 2009, certain affiliates of Apollo extended a \$100 term loan to the Company and an affiliate of the Company (the "Term Loan"). The Term Loan was fully funded on March 6, 2009 and will mature on December 31, 2011 with interest at adjusted LIBOR plus 2.25% per annum.

In November and December 2008, the Company sold trade accounts receivable to affiliates of Apollo. See Note 9.

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Other Transactions and Arrangements

The Company sells products to certain Apollo affiliates. These sales were \$7, \$7 and \$9 for the years ended December 31, 2008, 2007 and 2006, respectively. Accounts receivable from these affiliates were less than \$1 and \$1 at December 31, 2008 and 2007, respectively. The Company also purchases raw materials and services from certain Apollo affiliates. These purchases were \$3, \$8 and \$10 for the years ended December 31, 2008, 2007 and 2006, respectively. The Company had accounts payable to Apollo affiliates of less than \$1 at December 31, 2008 and 2007.

During 2006, the Company assumed the non-qualified pension liabilities of Borden Capital Inc., an affiliate, for a payment of \$2, which approximated the benefit obligations.

8. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2008 and 2007 are as follows:

	Epoxy and Phenolic Resins	Formaldehyde and Forest Products	Performance Products	Coatings and Inks	Total
Goodwill balance at December 31, 2006	\$ 105	\$ 61	\$ 9	\$ 18	\$193
Acquisitions	—	12	—	—	12
Purchase accounting adjustments	—	(1)	—	(7)	(8)
Foreign currency translation	4	4	1	—	9
Goodwill balance at December 31, 2007	109	76	10	11	206
Impairments	—	—	—	(10)	(10)
Purchase accounting adjustments	(14)	(1)	—	(1)	(16)
Foreign currency translation	(4)	(3)	(3)	—	(10)
Goodwill balance at December 31, 2008	<u>\$ 91</u>	<u>\$ 72</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$170</u>

Goodwill impairment charges of \$10 were recognized in the Coatings and the Inks reporting units as a result of the continued weakness in the housing and construction markets and competitive pressures in these reporting units resulting in lower future reporting unit earnings and cash flows than previously projected. The amount of the charge was determined using a probability weighted market approach using EBITDA multiples and an income approach using discounted cash flows. The entire goodwill balances in the Coatings and the Inks reporting units have been impaired as the implied fair value of the reporting units' goodwill was zero. Purchase accounting adjustments in 2008 in the Epoxy and Phenolic Resins segment are a result of changes in estimates about the tax treatment of transaction costs in the Bakelite Transaction that were ultimately allowed by the taxing authority.

The Company's intangible assets with identifiable useful lives consist of the following as of December 31:

	2008			2007		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Intangible assets:						
Patents and technology	\$ 123	\$ 48	\$ 75	\$ 132	\$ 40	\$ 92
Customer lists and contracts	110	35	75	96	16	80
Other	28	6	22	24	3	21
	<u>\$ 261</u>	<u>\$ 89</u>	<u>\$172</u>	<u>\$ 252</u>	<u>\$ 59</u>	<u>\$193</u>

The Company had \$15 of tradenames at December 31, 2007 with indefinite lives. In 2008, the Company determined these tradenames had a finite useful life and commenced amortization. The impact of foreign currency translation on intangible assets is included in accumulated amortization.

During the year ended December 31, 2008, the Company recorded an \$8 charge in the Epoxy and Phenolic Resins segment for the impairment of tradenames from which cash flows are no longer generated. This amount is included in Other operating expense, net on the Consolidated Statements of Operations.

Total intangible amortization expense for the years ended December 31, 2008, 2007 and 2006 was \$20, \$18 and \$14, respectively.

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Estimated annual intangible amortization expense for 2009 through 2013 is as follows:

2009	\$17
2010	15
2011	15
2012	14
2013	14

9. Transfers of Financial Assets

In the fourth quarter of 2008, the Company entered into accounts receivable purchase and sale agreements to sell \$55 of its trade accounts receivable to affiliates of Apollo on terms which management believes were more favorable to the Company than could have been obtained from another party. Under the terms of the agreements, the receivables are sold at a discount relative to their carrying value in exchange for all interests in such receivables; the Company retains the obligation to service the collection of the receivables on the purchasers' behalf; and the purchasers' defer payment of a portion of the receivable purchase price and establish a reserve account with the proceeds. The reserve account is used to reimburse the purchasers for credit and collection risk and remaining amounts are paid to the Company after receipt of all collections on the purchased receivables. Other than amounts held in the reserve account, the purchasers bear all credit risk on the purchased receivables.

These accounts receivable purchase and sale agreements were accounted for as sales-type transfers. Losses recorded on these sales were less than \$1 for the year ended December 31, 2008 and are included in Other operating expense, net in the Consolidated Statements of Operations. Fees for the servicing were less than \$1 for the year ended December 31, 2008.

The Apollo affiliates that purchased trade accounts receivable from the Company are variable interest entities. The Company is the primary beneficiary of one of these variable interest entities as the Company expects to absorb the majority of the expected losses of the entity. At December 31, 2008, \$14 of Cash and cash equivalents, \$10 of Accounts receivable, and \$24 of Minority interest are included in the Company's Consolidated Balance Sheet related to the consolidation of this variable interest entity.

10. Fair Value and Financial Instruments

On January 1, 2008, the Company adopted the provisions of SFAS No. 157 for assets and liabilities measured or disclosed at fair value on a recurring basis, including financial instruments. This statement establishes a standard definition of fair value, establishes a framework under generally accepted accounting principles to measure fair value and expands disclosure requirements for fair value measurements. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 1 primarily consists of financial instruments traded on exchange or futures markets.
- Level 2: Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those derivative instruments transacted primarily in over the counter markets.
- Level 3: Unobservable inputs, for example, inputs derived through extrapolation or interpolation that cannot be corroborated by observable market data.

Following is a summary of assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Derivative liabilities	\$ (3)	\$ (41)	\$ —	\$(44)

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Derivative Financial Instruments

The following table summarizes the Company's derivative financial instruments as of December 31:

	2008				2007			
	Average Days To Maturity	Average Contract Rate	Notional Amount	Fair Value Asset (Liability)	Average Days to Maturity	Average Contract Rate	Notional Amount	Fair Value Asset (Liability)
Currency to Sell for Euros								
U.S. dollars ⁽¹⁾	1,003	1.2038	\$ 25	\$ (4)	274	1.2038	283	(64)
Interest Rate Swap								
Interest swap - 2006	182	—	500	(9)	548	—	750	(12)
Interest swap - 2007	731	—	350	(27)	1,097	—	300	(14)
Interest swap - Australia Multi-Currency Term	1,094	—	24	(1)	1,460	—	28	1
Commodity Future Contracts								
Natural gas futures	—	—	11	(3)	—	—	7	—

(1) Cross-currency and interest rate swap agreement and amendments.

The Company calculates the fair value of its derivative liabilities using quoted market prices whenever available. When quoted market prices are not available, the Company uses standard pricing models with market-based inputs, adjusted for nonperformance risk. When its financial instruments are in a liability position, the Company evaluates its credit risk as a component of fair value. When its financial instruments are in an asset position, the Company is exposed to credit loss in the event of nonperformance by other parties to these contracts and evaluates their credit risk as a component of fair value. At December 31, 2008, the Company reduced its derivative liabilities \$12 for its nonperformance risk (\$10 of which was recognized in Comprehensive income as a significant portion of the Company's derivative liabilities are cash flow hedges).

At December 31, 2008 and 2007, the Company had derivative losses of \$44 and \$90, respectively, that were classified as Other current liabilities. At December 31, 2007, the Company had derivative gains of \$1, respectively, classified as Other current assets. The Company recognized gains (losses) on derivatives in the Consolidated Statements of Operations of \$13, \$(30) and \$(29) for the years ended December 31, 2008, 2007 and 2006, respectively. Gains and losses on cash flow hedges are recognized on a quarterly basis, to the extent the hedges are effective, in Comprehensive income. Gains and losses on other derivatives are recognized on a quarterly basis in Other non-operating expense, net in the Consolidated Statements of Operations.

Foreign Exchange Rate Swaps

International operations account for a significant portion of the Company's revenue and operating income. The Company's policy is to reduce foreign currency cash flow exposure from exchange rate fluctuations by hedging anticipated and firmly committed transactions when it is economically feasible. The Company periodically enters into forward contracts to buy and sell foreign currencies to reduce foreign exchange exposure and protect the U.S. dollar value of certain transactions to the extent of the amount under contract. The counter-parties to our forward contracts are financial institutions with investment grade ratings. The Company does not apply hedge accounting to these derivative instruments.

In 2005, The Company entered into a three-year \$289 cross-currency and interest rate swap agreement structured for a non-U.S. subsidiary's \$290 U.S. dollar denominated floating rate term loan. The swap was designed to offset balance sheet and interest rate exposures and cash flow variability associated with the exchange rate fluctuations on the term loan. The euro to U.S. dollar exchange rate under the swap agreement was 1.2038. The Company paid a variable rate equal to Euribor plus 271 basis points. The Company received a variable rate equal to the U.S. dollar LIBOR plus 250 basis points. In 2008, the Company paid \$29 to settle a portion of its cross-currency and interest rate swaps, which matured in 2008. The Company paid a weighted average interest rate of 7.5%, 6.9% and 5.9% and received a weighted average interest rate of 5.9%, 7.9% and 7.4% in 2008, 2007 and 2006, respectively.

The remaining portion of the cross-currency and interest rate swap was renegotiated and amended with the respective counterparties, effective September 30, 2008, in order to offset the ongoing balance sheet and interest rate exposures and cash flow variability associated with the exchange rate fluctuations of a non-U.S. subsidiary's U.S. dollar denominated floating rate term loan. The amended swap agreement requires the Company to sell euros in exchange for U.S. dollars at a rate of 1.2038. The Company also will pay a variable rate equal to Euribor plus 390 basis points and will receive a variable rate equal to the U.S. dollar LIBOR plus 250 basis points. The amount the Company receives under this agreement is approximately equal to the non-U.S. subsidiary's interest rate on its \$290 term loan. This amended swap agreement has an initial notional amount of \$25 that amortizes quarterly on a straight line basis to \$24, prior to maturing on September 30, 2011. The Company paid a weighted average interest rate of 8% and received a weighted average interest rate of 6.3% on these amended swap agreements in 2008.

Interest Rate Swaps

The Company periodically uses interest rate swaps to alter interest rate exposures between fixed and floating rates on certain long-term debt. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated using an agreed-upon notional principal amount. The counter-parties to the interest rate swap agreements are financial institutions with investment grade ratings.

In May 2006, the Company entered into interest rate swap agreements with two counterparties. These swaps are three-year agreements designed to offset the cash flow variability that results from interest rate fluctuations on the Company's variable rate debt. The initial aggregate notional amount of the swaps is \$1,000, which amortizes quarterly based on the expected payments on the Company's term loan. As a result of the interest rate swaps, the Company pays a fixed rate equal to approximately 7.6% per year and receives a variable rate based on the terms of the underlying debt. The Company accounts for the swaps as qualifying cash flow hedges in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138 and SFAS No. 149.

In January 2007, the Company entered into a three-year interest rate swap agreement designed to offset cash flow variability associated with interest rate fluctuations on the Company's variable rate debt. This swap became effective January 1, 2008. The initial notional amount of the swap is \$300, but will increase to \$700 before being amortized down to \$375, which, when combined with the Company's other interest rate swaps, will effectively maintain a fixed interest rate on approximately 50% to 60% of total debt. As a result of the interest rate swap, the Company pays a fixed rate equal to approximately 7.2% per year and receives a variable rate based on the terms of the underlying debt. The Company accounts for this swap as a qualifying cash flow hedge in accordance with SFAS No. 133, as amended by SFAS No. 138 and SFAS No. 149.

In February 2007, the Company financed the Orica A&R Acquisition with proceeds of approximately \$70 from a new five-year Australian Multi-Currency Term / Working Capital Facility. To effectively fix the interest rate on approximately \$30 of this facility, the Company entered into interest rate swap agreements with two counterparties for an initial notional amount of AUD\$35, which amortizes quarterly based on the expected loan payments. The swap agreements terminate December 30, 2011. The Company pays a fixed interest rate of 6.6% and receives a floating rate based on the terms of the underlying debt. The Company has not applied hedge accounting to this derivative instrument.

Commodity Futures Contracts

The Company is exposed to price fluctuations associated with raw materials purchases, most significantly with methanol, phenol, urea, acetone, propylene and chlorine. For these commodity raw materials, the Company has purchase contracts in place that contain periodic price adjustment provisions. The Company also adds selling price provisions to certain customer contracts that are indexed to publicly available indices for the associated commodity raw materials. The board of directors approves all commodity futures and commodity commitments based on delegation of authority documents.

The Company hedges a portion of its natural gas purchases for certain North American plants. The Company used futures contracts to hedge 72%, 77% and 76% of its 2008, 2007 and 2006 natural gas usage at these plants, respectively. The contracts are settled for cash each month based on the closing market price on the last day the contract trades on the New York Mercantile Exchange. Commitments settled under these contracts totaled \$12, \$10 and \$8 in 2008, 2007 and 2006, respectively. The Company does not apply hedge accounting to these future contracts. The Company recorded a net loss of less than \$1, \$2 and \$1 in 2008, 2007 and 2006, respectively, which are recognized each month as the gas is used. Remaining obligations are marked to market on a quarterly basis. The Company had future commitments under these contracts of \$11 and \$7 at December 31, 2008 and 2007, respectively, and recorded an unrealized loss of \$3 and less than \$1 in 2008 and 2007, respectively, related to future commitments.

Non-derivative Financial Instruments

The following table includes the carrying amount and fair value of the Company's non-derivative financial instruments as of December 31:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt	\$ 3,859	\$ 1,346	\$ 3,720	\$ 3,597

Fair values of debt are determined from quoted, observable market prices, where available, based on other similar financial instruments, or based upon interest rates that are currently available to the Company for the issuance of debt with similar terms and maturities. The carrying amounts of cash and cash equivalents, accounts receivable, accounts and drafts payable and other accrued liabilities are considered reasonable estimates of their fair values due to the short-term maturity of these financial instruments.

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11. Debt and Lease Obligations

Debt outstanding at December 31 is as follows:

	2008		2007	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
Senior Secured Credit Facilities:				
Revolving facility due 2011 at 5% and 7.4% at December 31, 2008 and 2007, respectively	\$ 180	\$ —	\$ —	\$ —
Floating rate term loans due 2013 at 5.5% and 7.5% at December 31, 2008 and 2007, respectively	2,231	23	2,260	22
Senior Secured Notes:				
Floating rate second-priority senior secured notes due 2014 at 6.6% and 9.4% at December 31, 2008 and 2007, respectively	200	—	200	—
9.75% Second-priority senior secured notes due 2014	625	—	625	—
Debentures:				
9.2% debentures due 2021	115	—	115	—
7.875% debentures due 2023	247	—	247	—
8.375% sinking fund debentures due 2016	78	—	78	—
Other Borrowings:				
Australia Multi-Currency Term / Working Capital Facility due 2011 at 8.9% and 8.82% at December 31, 2008 and 2007, respectively	43	7	64	5
Industrial Revenue Bonds due 2009 at 10%	—	34	34	—
Capital Leases	14	1	11	1
Other at 7.0% and 7.6% at December 31, 2008 and 2007, respectively	13	48	1	57
Total debt	\$ 3,746	\$ 113	\$ 3,635	\$ 85

Senior Secured Credit Facilities

The terms of the amended Senior Secured Credit Facilities include a seven-year \$2,300 term loan facility, seven-year \$50 synthetic letter of credit facility (“LOC”), and access to a five-year \$225 revolving credit facility. Each is subject to an earlier maturity date, on any date that more than \$200 in the aggregate principal amount of certain of the Company’s debt will mature within 91 days of that date. Repayment of 1% total per year of the term loan and LOCs must be made (in the case of the term loan facility, quarterly, and in the case of the LOC, annually) with the balance payable at the final maturity date. Further, the Company may be required to make additional repayments on the term loan, upon specific events, or if excess cash flow is generated. The terms of the Senior Secured Credit Facilities also include \$200 in available incremental term loan borrowings.

The interest rates for term loans to the Company under the amended Senior Secured Credit Facilities are based on, at the Company’s option, (a) adjusted LIBOR plus 2.25% or (b) the higher of (i) JPMorgan Chase Bank, N.A.’s (JPMCB) prime rate or (ii) the Federal Funds Rate plus 0.50%, in each case plus 0.75%. Term loans to the Company’s Netherlands subsidiary are at the Company’s option; (a) EURO LIBOR plus 2.25% or (b) the rate quoted by JPMCB as its base rate for those loans plus 0.75%.

The amended Senior Secured Credit Facilities have commitment fees (other than with respect to the LOC) equal to 0.50% per year of the unused line plus a fronting fee of 0.25% of the aggregate face amount of outstanding letters of credit. The LOC has a commitment fee of 0.10% per year. Available borrowings under the amended Senior Secured Credit Facilities were \$42 at December 31, 2008.

Certain Company subsidiaries guarantee obligations under the amended Senior Secured Credit Facilities. The amended Senior Secured Credit Facilities and certain notes are secured by certain assets of the Company and the subsidiary guarantors, subject to certain exceptions.

The credit agreement contains, among other provisions, restrictive covenants regarding indebtedness, payments and distributions, mergers and acquisitions, asset sales, affiliate transactions, capital expenditures and the maintenance of certain financial ratios. Payment of borrowings under the Amended Senior Secured Credit Facilities may be accelerated if there is an event of default. Events of default include the failure to pay principal and interest when due, a material breach of representation or warranty, covenant defaults, events of bankruptcy and a change of control.

The Company amended its credit facilities in June 2007, November 2006 and May 2006. For the year ended December 31, 2006, the Company recognized a loss on the extinguishment of debt related to its 2006 refinancing activities of \$121, consisting of redemption costs net of debt premiums and the write-off of deferred financing costs. In addition, the Company incurred financing costs of \$38, which are included within Other assets on the Consolidated Balance Sheets and are being amortized over the life of the related debt.

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Senior Secured Notes

In November 2006, the Company, through its wholly owned finance subsidiaries, Hexion U.S. Finance Corp. and Hexion Nova Scotia Finance, ULC, sold \$200 of Floating rate second-priority senior secured notes due 2014 and \$625 of 9.75% Second-priority senior secured notes due 2014.

At December 31, 2008 and 2007, the Company was in compliance with all of the financial covenants and restrictions that were contained in the indentures that govern its notes and credit facilities.

Debentures

	<u>Origination Date</u>	<u>Interest Payable</u>	<u>Early Redemption</u>
9.2% debentures due 2021	March 1991	March 15 September 15	None
7.875% debentures due 2023	May 1993	February 15 August 15	None
8.375% sinking fund debentures due 2016	April 1986	April 15 October 15	April 2006

The 8.375% Debentures have a sinking fund requirement of \$20 per year from 2007 to 2015. Previous buybacks of Debentures allows the Company to fulfill sinking fund requirements through 2013.

Other Borrowings

In the first quarter of 2007, the Company financed the Orica A&R Acquisition with approximately \$70 of proceeds from a new five-year Australian Multi-Currency Term / Working Capital Facility. The facility has a variable interest rate equal to the 90 day Australian or New Zealand Bank Bill Rates plus an applicable margin.

The \$34 Parish of Ascension Industrial Revenue Bonds (IRBs) are related to the purchase, construction and installation of air and water pollution control equipment at facilities that are no longer owned by the Company. The tax-exempt status of the IRBs is based on there being no change in the use of the facilities, as defined by the Internal Revenue Code. The Company continues to monitor the use of the facilities by the current owner. If a change in use were to occur, the Company could be required to take remedial action, including redeeming all of the bonds.

The Company's capital leases are included in debt on the Consolidated Balance Sheets and range from one to forty-nine year terms for vehicles, equipment, pipeline, land and buildings. The Company's operating leases consist primarily of vehicles, equipment, tank cars, land and buildings.

In addition, the Company finances certain insurance premiums. Short-term borrowings under this arrangement were \$7 and \$11 at December 31, 2008 and 2007, respectively.

Aggregate maturities of total debt, minimum payments under capital leases, and minimum rentals under operating leases at December 31, 2008 for the Company are as follows:

<u>Year</u>	<u>Debt</u>	<u>Minimum Payments Under Capital Leases</u>	<u>Minimum Rentals Under Operating Leases</u>
2009	\$ 112	\$ 1	\$ 30
2010	32	1	20
2011	240	1	14
2012	24	1	10
2013	1,636	7	7
2014 and thereafter	1,800	4	23
	<u>\$3,844</u>	<u>\$ 15</u>	<u>\$ 104</u>

Rental expense under operating leases amounted to \$38, \$31 and \$28 in the years ended December 31, 2008, 2007 and 2006, respectively.

Covenant Compliance

While the Company is currently in compliance with all of the terms of its outstanding indebtedness, including the financial covenants, if the economic downturn continues at current levels, the Company could fail to comply with the senior secured bank leverage ratio covenant in its Senior Secured Credit Facility. A failure to comply with the Company's debt covenants could result in a default, which if not cured or waived, could have a material adverse effect on the Company's business and financial condition. The Company's Senior Secured Credit Facility permits a default in its senior secured leverage ratio covenant to be cured by cash contributions to the Company's capital from the proceeds of equity purchases or cash contributions to the capital of Hexion LLC, the Company's parent. The cure amount can be no greater than the amount required for purposes of complying with the covenant, and in each four quarter period, the cure right can only be exercised in three quarters. Any amounts of Apollo's \$200 committed financing (see Note 7) converted to equity to cure a default will reduce the amount of available financing remaining under the \$200 financing.

12. Guarantees, Indemnifications and Warranties

Standard Guarantees / Indemnifications

In the ordinary course of business, the Company enters into a number of agreements that contain standard guarantees and indemnities where the Company may indemnify another party for, among other things, breaches of representations and warranties. These guarantees or indemnifications are granted under various agreements, including those governing (i) purchases and sales of assets or businesses, (ii) leases of real property, (iii) licenses of intellectual property, (iv) long-term supply agreements, (v) employee benefits services agreements and (vi) agreements with public authorities on subsidies for designated research and development projects. These guarantees or indemnifications issued are for the benefit of the (i) buyers in sale agreements and sellers in purchase agreements, (ii) landlords or lessors in lease contracts, (iii) licensors or licensees in license agreements, (iv) vendors or customers in long-term supply agreements, (v) service providers in employee benefits services agreements and (vi) governments or agencies subsidizing research or development. In addition, the Company guarantees some of the payables of its subsidiaries to purchase raw materials in the ordinary course of business.

These parties may also be indemnified against any third party claim resulting from the transaction that is contemplated in the underlying agreement. Additionally, in connection with the sale of assets and the divestiture of businesses, the Company may agree to indemnify the buyer for liabilities related to the pre-closing operations of the assets or businesses sold. Indemnities for pre-closing operations generally include tax liabilities, environmental liabilities and employee benefit liabilities that are not assumed by the buyer in the transaction.

Indemnities related to the pre-closing operations of sold assets normally do not represent additional liabilities to the Company, but simply serve to protect the buyer from potential liability associated with the Company's existing obligations at the time of sale. As with any liability, the Company has accrued for those pre-closing obligations that it considers to be probable and reasonably estimable. The amounts recorded at December 31, 2008 and 2007 are not significant.

While some of these guarantees extend only for the duration of the underlying agreement, many survive the expiration of the term of the agreement or extend into perpetuity (unless they are subject to a legal statute of limitations). There are no specific limitations on the maximum potential amount of future payments that the Company could be required to make under its guarantees, nor is the Company able to estimate the maximum potential amount of future payments to be made under these guarantees because the triggering events are not predictable.

Apollo Indemnification

On March 3, 2009, Hexion and affiliates of Apollo entered into an indemnification agreement. This agreement provides that the Company will indemnify affiliates of Apollo, and affiliates of Apollo will indemnify the Company, against any liabilities arising from actions brought by our respective insurance providers against the other as a result of claims paid on the Huntsman settlement.

Warranties

The Company does not make express warranties on its products, other than that they comply with the Company's specifications; therefore, the Company does not record a warranty liability. Adjustments for product quality claims are not material and are charged against net sales.

13. Commitments and Contingencies

Environmental Matters

The Company's operations involve the use, handling, processing, storage, transportation and disposal of hazardous materials. The Company is subject to extensive environmental regulation at the federal, state and local levels as well as foreign laws and regulations, and is therefore exposed to the risk of claims for environmental remediation or restoration. In addition, violations of environmental laws or permits may result in restrictions being imposed on operating activities, substantial fines, penalties, damages or other costs, any of which could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

The following table summarizes all probable environmental remediation, indemnification and restoration liabilities, including related legal expenses, at December 31, 2008 and 2007.

Site Description	Number of Sites		Liability		Range of Reasonably Possible Costs	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007	Low	High
Geismar, LA	1	1	\$ 17	\$ 18	\$ 10	\$ 25
Superfund and offsite landfills – allocated share:						
Less than 1%	25	23	1	1	1	2
Equal to or greater than 1%	13	12	8	8	5	14
Currently-owned	19	15	9	7	6	16
Formerly-owned:						
Remediation	9	8	2	3	2	12
Monitoring only	7	10	1	2	1	3
	<u>74</u>	<u>69</u>	<u>\$ 38</u>	<u>\$ 39</u>	<u>\$ 25</u>	<u>\$ 72</u>

These amounts include estimates for unasserted claims that the Company believes are probable of loss and reasonably estimable. The estimate of the range of reasonably possible costs is less certain than the estimates upon which the liabilities are based. To establish the upper end of a range, assumptions less favorable to the Company among the range of reasonably possible outcomes were used. As with any estimate, if facts or circumstances change, the final outcome could differ materially from these estimates. At December 31, 2008 and 2007, \$7 has been included in Other current liabilities in the Consolidated Balance Sheets with the remaining amount included in Other long-term liabilities.

Following is a discussion of the Company's environmental liabilities and the related assumptions at December 31, 2008:

Geismar, LA Site—The Company formerly owned a basic chemicals and polyvinyl chloride business that was taken public as Borden Chemicals and Plastics Operating Limited Partnership ("BCPOLP") in 1987. The Company retained a 1% interest, the general partner interest and the liability for certain environmental matters after BCPOLP's formation. Under a Settlement Agreement approved by the United States Bankruptcy Court for the District of Delaware among the Company, BCPOLP, the United States Environmental Protection Agency and the Louisiana Department of Environmental Quality, the Company agreed to perform certain of BCPOLP's obligations for soil and groundwater contamination at BCPOLP's Geismar, Louisiana site. The Company bears the sole responsibility for these obligations because there are no other potentially responsible parties ("PRPs") or third parties from whom the Company could seek reimbursement.

A groundwater pump and treat system to remove contaminants is operational, and natural attenuation studies are proceeding. If closure procedures and remediation systems prove to be inadequate, or if additional contamination is discovered, this could result in costs that would approach the higher end of the range of possible outcomes.

Due to the long-term nature of the project, the reliability of timing and the ability to estimate remediation payments, a portion of this liability was recorded at its net present value, assuming a 3% discount rate and a time period of thirty years. The range of possible outcomes is discounted in a similar manner. The undiscounted liability, which is expected to be paid over the next 29 years, is approximately \$24. Over the next five years, the Company expects to make ratable payments totaling \$6.

Superfund Sites and Offsite Landfills—The Company is currently involved in environmental remediation activities at a number of sites for which it has been notified that it is, or may be, a PRP under the United States Comprehensive Environmental Response, Compensation and Liability Act or similar state "superfund" laws. The Company anticipates approximately 45% of the estimated liability for these sites will be paid within the next five years, with the remainder over the next twenty-five years. The Company generally does not bear a significant level of responsibility for these sites, and as a result, has little control over the costs and timing of cash flows.

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The Company's ultimate liability will depend on many factors including its share of waste volume, the financial viability of other PRPs, the remediation methods and technology used, the amount of time necessary to accomplish remediation and the availability of insurance coverage. The range of possible outcomes takes into account the maturity of each project, resulting in a more narrow range as the project progresses. To estimate both its current reserves for environmental remediation at these sites and the possible range of additional costs, the Company has not assumed that it will bear the entire cost of remediation of every site to the exclusion of other known PRPs who may be jointly and severally liable. The Company has limited information to assess the viability of other PRPs and their probable contribution on a per site basis. The Company's insurance provides very limited, if any, coverage for these environmental matters.

Sites Under Current Ownership—The Company is conducting environmental remediation at a number of locations that it currently owns, of which six sites are no longer in operation. As the Company is performing much of the remediation on a voluntary basis, it has some control over the costs to be incurred and the timing of cash flows. The Company expects to pay approximately \$6 of these liabilities within the next five years, with the remainder over the next ten years. The factors influencing the ultimate outcome include the methods of remediation elected, the conclusions and assessment of site studies remaining to be completed, and the time period required to complete the work. No other parties are responsible for remediation at these sites.

Formerly-Owned Sites—The Company is conducting environmental remediation at a number of locations that it formerly owned. The final costs to the Company will depend on the method of remediation chosen and the level of participation of third parties.

In addition, the Company is responsible for a number of sites that require monitoring where no additional remediation is expected. The Company has established reserves for costs related to these sites. Payment of these liabilities is anticipated to occur over the next ten years. The ultimate cost to the Company will be influenced by fluctuations in projected monitoring periods or by findings that are different than anticipated.

Indemnifications—In connection with the acquisition of certain of the Company's operating businesses, the Company has been indemnified by the sellers against certain liabilities of the acquired businesses, including liabilities relating to both known and unknown environmental contamination arising prior to the date of the purchase. The indemnifications may be subject to certain exceptions and limitations, deductibles and indemnity caps. While it is reasonably possible that some costs could be incurred, except for those sites identified above, the Company has inadequate information to allow it to estimate a potential range of liability, if any.

Under the Bakelite environmental indemnification agreement, the sellers have agreed to indemnify the Company for certain pre-existing environmental liabilities. The Company acquired a site in Duisburg, Germany with significant soil and groundwater contamination beneath a facility that is shared with Rütgers Chemicals AG ("Rütgers"). Rütgers is in discussions with the local authorities concerning a proposed remediation plan; however, the scope and extent of that plan and the costs of its possible implementation are not yet reasonably estimable. Rütgers has contractually agreed to indemnify the Company for this matter until 2025, subject to certain exceptions and limitations. Management believes that it is unlikely that the Company will have to take extensive actions for remediation. While it is reasonably possible some costs could be incurred related to this site, the Company has inadequate information to enable it to estimate a potential range of liability, if any. The Company's claims under the environmental indemnity agreement are subject to an indemnity cap of €138, or approximately \$190 at December 31, 2008, for certain liabilities.

Under the Resolution Performance environmental indemnification agreement Royal Dutch/Shell Group of Companies generally will indemnify the Company for environmental damages associated with environmental conditions that occurred or existed before November 2000. Under the Resolution Specialty environmental indemnification agreement, Eastman Chemical generally will remain liable for pre-existing unknown environmental conditions at facilities that were transferred to the Company from the Resolution Specialty Transaction, as well as any pre-existing environmental conditions at the Roebuck, South Carolina facility. The indemnities under each of the environmental indemnity agreements are subject to certain exceptions and limitations. The Company's claims are subject to a deductible of approximately \$1 under the Resolution Specialty agreement and an indemnity cap of \$10 for certain liabilities under the Resolution Performance agreement.

Non-Environmental Legal Matters

The Company is involved in various legal proceedings in the ordinary course of business and has reserves of \$27 and \$15 at December 31, 2008 and 2007, respectively, for all non-environmental legal defense costs incurred and settlement costs that it believes are probable and estimable. At December 31, 2008 and 2007, \$23 and \$10, respectively, has been included in Other current liabilities in the Consolidated Balance Sheets with the remaining amount included in Other long-term liabilities.

Following is a discussion of significant non-environmental legal proceedings:

Litigation Related to the Huntsman Agreement—

Hexion Specialty Chemicals, Inc., et. al. v. Huntsman Corporation, C.A. No. 3841-VC

On June 18, 2008, the Company and certain related entities filed suit in the Delaware Court of Chancery to declare their contractual rights with respect to the pending Agreement with Huntsman (the "Huntsman Action"). The Huntsman Action is captioned *Hexion Specialty Chemicals, Inc., et. al. v. Huntsman Corporation, C.A. No. 3841-VCL*. In the Huntsman Action, the Company alleged, among other things, that the capital structure agreed to by the Company and Huntsman for the combined company was no longer viable due primarily to Huntsman's increased net

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debt and lower than expected earnings, and that consummating the merger on the basis of the agreed capital structure would render the combined company insolvent. The Huntsman Action also alleged that Huntsman had suffered a Company Material Adverse Effect, as defined in the Agreement, in which case the Company would not be required to pay the \$325 termination fee.

On June 23, 2008, Huntsman filed suit against various Apollo parties, including two of its principals (the “Apollo Defendants”), in the District Court of Montgomery County, Texas related to matters arising out of the Huntsman merger agreement (the “Texas Action”). The Texas Action is captioned *Huntsman Corporation v. Leon Black, et. al, Cause No. 08-0606037CV*. In the Texas Action, Huntsman alleges fraud and tortious interference with the contract Huntsman had with Basell AF and seeks, among other things, damages in excess of \$3 billion. The Company is not a party to the Texas Action.

Although the Company is not a party to the Texas Action, pursuant to the Management Consulting Agreement between the Company and Apollo and its affiliates, the Company is obligated in certain circumstances to indemnify Apollo and its affiliates and their directors, officers and representatives (including the Apollo Defendants) for potential losses from the services performed by such persons pursuant to the Management Consulting Agreement, which include services rendered in connection with the Company’s Agreement with Huntsman.

On July 2, 2008, Huntsman filed an answer and asserted counterclaims against the Company and the other plaintiffs in the Huntsman Action alleging, among other things, breach of contract, breach of the duty of good faith and fair dealing, tortious interference with contract, and defamation, injurious falsehood, and/or commercial disparagement (the “Counterclaims”). On September 29, 2008, the Delaware Court of Chancery entered a judgment in favor of Huntsman in the Huntsman Action ordering the Company, among other things, to use its reasonable best efforts to take all actions necessary and proper to consummate the merger, which the Company proceeded to do.

On October 29, 2008, after the Banks refused to fund the merger, the Company commenced an action in the Supreme Court of the State of New York against the Banks (New York County Index No. 114552/08) to compel them to do so.

On December 14, 2008, the Company entered into a settlement agreement and release with Huntsman and other parties concerning certain litigation matters related to the Agreement dated July 12, 2007, among the Company, Huntsman and Nimbus Merger Sub Inc. Under the settlement agreement, the Company paid Huntsman a \$325 termination fee, as required by the Agreement. In addition, on a joint and several basis with certain affiliates of Apollo, the Company paid Huntsman \$225, while reserving all rights with respect to reallocation of the payments to other affiliates of Apollo, and certain affiliates of Apollo paid Huntsman \$200, while reserving all rights with respect to reallocation of the payments to certain other affiliates of Apollo. Finally, certain affiliates of Apollo purchased \$250 of Huntsman’s 7% convertible senior notes. Separately, pursuant to the settlement agreement, certain affiliates of Apollo agreed to provide \$200 of financing to the Company (see Note 7).

Under the terms of the settlement agreement and release, the parties obtained the dismissal with prejudice of (i) the lawsuit in the Delaware Chancery Court, (ii) the Company’s claims in New York against affiliates of Credit Suisse and Deutsche Bank, and (iii) Huntsman’s lawsuit in Texas State Court against certain affiliates of Apollo. A motion for summary judgment on Credit Suisse’s and Deutsche Bank’s third-party petition against the Apollo defendants in Montgomery County, Texas will be heard in 2009. The Company allowed its and the Apollo parties’ complaint against Huntsman filed in New York to lapse. Huntsman also agreed to cooperate with the Company in a shareholder action brought in New York by certain Huntsman shareholders. The Company agreed to cooperate with Huntsman in their Texas action against the banks, including by causing certain individuals to testify at trial if Huntsman so requests. The parties also agreed to release each other from all claims and actions that they have or may have against each other, other than claims arising out of ordinary course business commercial dealings and certain other specified matters.

Sandra Lifschitz v. Hexion Specialty Chemicals, Inc., et al. No. 08-CV-6394 (S.D.N.Y.)

On July 17, 2008, an individual Huntsman shareholder filed suit against the Company, Craig O. Morrison, President and Chief Executive Officer, and Joshua J. Harris, Director, in the United States District Court in the Southern District of New York related to matters arising out of the Huntsman Agreement (the “New York Shareholder Action”). The New York Shareholder Action is captioned *Sandra Lifschitz v. Hexion Specialty Chemicals, Inc., et al. No. 08-CV-6394 (S.D.N.Y.)*. The plaintiff in the New York Shareholder Action seeks to represent a class of purchasers of Huntsman common stock between May 14, 2008 and June 18, 2008 (the “Class Period”). The complaint alleges that the defendants disseminated false and misleading statements and failed to disclose material facts regarding the merger during the Class Period in violation of U.S. securities laws. On September 15, 2008, two competing motions for appointment of lead plaintiff and lead counsel were filed. The Court by order of February 17, 2009, appointed Sandra Lifschitz lead plaintiff and her counsel as lead counsel. On March 4, 2009, the Court ordered the parties to mediate and set the next status conference for May 11, 2009. At this time there is inadequate information from which to estimate a potential range of liability, if any.

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Brazil Tax Claim—In 1992, the State of Sao Paulo Administrative Tax Bureau issued an assessment against the Company’s Brazilian subsidiary claiming that excise taxes were owed on certain intercompany loans made for centralized cash management purposes. These loans were characterized by the Tax Bureau as intercompany sales. Since that time, management and the Tax Bureau have held discussions and the subsidiary filed an administrative appeal seeking cancellation of the assessment. The Administrative Court upheld the assessment in December 2001. In 2002, the subsidiary filed a second appeal with the highest-level Administrative Court, again seeking cancellation of the assessment. In February 2007, the highest-level Administrative Court upheld the assessment. The Company requested a review of this decision. On April 23, 2008, the Brazilian Administrative Tax Tribunal issued its final decision upholding the assessment against the subsidiary. The Company filed an Annulment action in the Brazilian Judicial Courts in May 2008 along with a request for an injunction to suspend the tax collection. The injunction was denied but the Annulment action is being pursued. The Company obtained court approval to pledge certain properties and assets in Brazil during the pendency of the Annulment action in lieu of paying the assessment. The Company continues to believe it has a strong defense against the assessment and does not believe a loss contingency is probable. At December 31, 2008, the amount of the assessment, including tax, penalties, monetary correction and interest, is 62 Brazilian reais, or approximately \$27.

CTA Acoustics—From the third quarter 2003 to the first quarter 2004, six lawsuits were filed against the Company and others in the 27th Judicial District, Laurel County Circuit Court, in Kentucky, arising from an explosion at a customer’s plant where seven plant workers were killed and other workers were injured. Lawsuits seeking recovery for wrongful death, emotional and personal injury and loss of consortium were settled in the fourth quarter 2005. The Company’s share of these settlement amounts was covered by insurance. The litigation also included claims by the Company’s customer against the Company for property damage, which was tried April 2007. In May 2007, a jury awarded CTA Acoustics \$122 in damages related to their loss of property, plant and equipment in the 2003 explosion. The Company’s insurance carriers appealed the jury verdict, and on July 17, 2008, they agreed to a settlement with CTA Acoustics, which has been paid.

Formosa Plant—Several lawsuits were filed in Sangamon County, Illinois in May 2006 against the Company on behalf of individuals injured or killed in an explosion at a Formosa Plastics Corporation (“Formosa”) plant in Illiopolis, Illinois that occurred on April 23, 2004. The Company sold the facility in 1987. The facility was operated by BCPOLP until it was sold to Formosa out of BCPOLP’s bankrupt estate in 2002. In March 2007, an independent federal agency found that operator errors caused the explosion, but that current and former owners could have implemented systems to minimize the impacts from these errors. In March 2008, the Company filed a motion for summary judgment. At this time there is inadequate information from which to estimate a potential range of liability, if any.

Hillsborough County—The Company is named in a lawsuit filed in Hillsborough County, Florida Circuit Court, for an animal feed supplement processing site formerly operated by the Company and sold in 1980. The lawsuit is filed on behalf of multiple residents of Hillsborough County living near the site and it alleges various injuries from exposure to toxic chemicals. The Company does not have adequate information from which to estimate a potential range of liability, if any. The court dismissed a similar lawsuit brought on behalf of a class of plaintiffs in November 2005.

Other Legal Matters—The Company is involved in various other product liability, commercial and employment litigation, personal injury, property damage and other legal proceedings in addition to those described above, including actions that allege harm caused by products the Company has allegedly made or used, containing silica, vinyl chloride monomer and asbestos. The Company does not believe that it has a material exposure for these claims and believes it has adequate reserves and insurance to cover pending and foreseeable future claims.

Other Commitments and Contingencies

The Company entered into contractual agreements with Shell and other third parties for the supply of site services, utilities, materials and facilities and for operation and maintenance services necessary to operate certain of the Company’s facilities on a stand-alone basis. The duration of the contracts range from less than one year to 20 years, depending on the nature of services. These contracts may be terminated by either party under certain conditions as provided for in the respective agreements; generally, 90 days notice is required for short-term contracts and three years notice is required for longer-term contracts (generally those contracts in excess of five years). Contractual pricing generally includes a fixed and variable component.

In addition, the Company entered into contractual agreements with Shell and other third parties to purchase feedstocks or other services. The terms of these agreements vary from one to ten years and may be extended at the Company’s request and cancelable by either party as provided for in each agreement. Feedstock prices are based on market prices less negotiated volume discounts or cost input formulas.

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The Company is required to make minimum annual payments under these contracts as follows:

<u>Year</u>	<u>Minimum Annual Purchase Commitments</u>
2009	\$ 133
2010	89
2011	75
2012	32
2013	24
2014 and beyond	94
Total minimum payments	447
Less: Amount representing interest	(55)
Present value of minimum payments	<u>\$ 392</u>

14. Redeemable Preferred Stock

In May 2005, a subsidiary of the Company offered 14 million shares of Redeemable Series A Floating Rate Preferred Stock, par value \$0.01 per share, and a liquidation preference of \$25 per share (the "Preferred Stock"). On May 12, 2006, the Company paid \$397 from the proceeds it received from amending its Senior Secured Credit Facilities to redeem all of this Preferred Stock. The Company recorded preferred stock accretion of \$18 for the year ended December 31, 2006 against Paid-in deficit. In addition, for the year ended December 31, 2006, the Company recorded \$15 of accretion related to the excess of the redemption price of the Preferred Stock over its carrying value at the date of redemption.

15. Pension and Non-Pension Postretirement Benefit Plans

The Company sponsors defined benefit pension plans covering most U.S. employees and certain non-U.S. employees primarily in Canada, Netherlands, Germany, France, Belgium and Malaysia. Depending on the plan, benefits are based on eligible compensation and/or years of credited service. Retirement benefits in other foreign locations are primarily defined contribution plans.

The Company also provides non-pension postretirement benefit plans to certain U.S. employees, to Canadian employees, and to certain employees in the Netherlands. The North American plans provide retirees and their dependents with limited medical and life insurance benefits. U.S. participants who are not eligible for Medicare are offered the same plans as active employees, but the premiums are paid by the retiree. Participants eligible for Medicare are provided with life insurance benefits. Canadian participants are provided with supplemental benefits to the respective provincial healthcare plan in Canada. The Netherlands' plan provides a lump sum payment at retirement. The Company's non-pension postretirement benefits are non-contributory except for the U.S. postretirement medical benefits which are contributory.

The Company adopted SFAS 158, *Employers' Accounting for Defined Benefit and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106 and 132(R)*, as of December 31, 2006. The initial impact of the standard was recognized as a component of Accumulated other comprehensive income in Shareholder's deficit, net of their related tax effect.

The following table presents the change in benefit obligation, change in plan assets and components of funded status for the Company's defined benefit pension and non-pension postretirement benefit plans for the years ended December 31:

	Pension Benefits				Non-Pension Postretirement Benefits			
	2008		2007		2008		2007	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Change in Benefit Obligation								
Benefit obligation at beginning of year	\$ 283	286	\$279	277	\$ 14	6	\$ 17	6
Service cost	6	8	6	8	—	—	—	—
Interest cost	16	16	15	13	1	—	1	—
Actuarial (gains) losses	(7)	(6)	10	(36)	(1)	(1)	(2)	(2)
Foreign currency exchange rate changes	—	(16)	—	31	—	(1)	—	2
Benefits paid	(23)	(8)	(27)	(7)	(1)	—	(2)	—
Acquisitions / divestitures	—	—	—	2	—	—	—	—
Plan amendments	1	—	—	—	—	—	—	—
Plan curtailments / settlements	—	—	—	(3)	—	—	—	—
Employee contributions	—	1	—	1	—	—	—	—
Transfers in	—	1	—	—	—	—	—	—
Benefit obligation at end of year	276	282	283	286	13	4	14	6
Change in Plan Assets								
Fair value of plan assets at beginning of year	223	149	228	127	—	—	—	—
Actual return on plan assets	(65)	2	9	(1)	—	—	—	—
Foreign currency exchange rate changes	—	(9)	—	15	—	—	—	—
Employer contribution	21	26	13	17	1	—	2	—
Benefits paid	(23)	(8)	(27)	(7)	(1)	—	(2)	—
Employee contributions	—	1	—	1	—	—	—	—
Transfers in	—	1	—	—	—	—	—	—
Settlements	—	—	—	(3)	—	—	—	—
Fair value of plan assets at end of year	156	162	223	149	—	—	—	—
Funded status of the plan at end of year	<u>\$(120)</u>	<u>\$ (120)</u>	<u>\$ (60)</u>	<u>\$ (137)</u>	<u>\$(13)</u>	<u>\$ (4)</u>	<u>\$(14)</u>	<u>\$ (6)</u>

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	Pension Benefits				Non-Pension Postretirement Benefits			
	2008		2007		2008		2007	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Amounts recognized in the Consolidated Balance Sheets at December 31 consist of:								
Other current liabilities	\$ —	\$ (4)	\$ —	\$ (3)	\$ (1)	\$ —	\$ (1)	\$ —
Long-term pension and post employment benefit obligations	(120)	(116)	(60)	(134)	(12)	(4)	(13)	(6)
Accumulated other comprehensive loss (income)	175	12	107	12	(47)	(5)	(58)	(6)
Net amounts recognized	\$ 55	\$ (108)	\$ 47	\$ (125)	\$(60)	\$ (9)	\$(72)	\$ (12)
Amounts recognized in Accumulated other comprehensive loss (income) at December 31 consist of:								
Net actuarial loss (gain)	\$ 176	\$ 3	\$ 109	\$ 2	\$ (6)	\$ (3)	\$ (6)	\$ (4)
Net prior service (benefit) cost	(1)	9	(2)	10	(41)	(2)	(52)	(2)
Net amounts recognized	\$ 175	\$ 12	\$ 107	\$ 12	\$(47)	\$ (5)	\$(58)	\$ (6)
Accumulated benefit obligation	\$ 265	\$ 265	\$ 269	\$ 254				
Pension plans with underfunded or non-funded accumulated benefit obligations at December 31:								
Aggregate projected benefit obligation	\$ 276	\$ 123	\$ 281	\$ 134				
Aggregate accumulated benefit obligation	265	115	267	120				
Aggregate fair value of plan assets	156	6	221	8				
Pension plans with projected benefit obligations in excess of plan assets at December 31:								
Aggregate projected benefit obligation	\$ 276	\$ 282	\$ 281	\$ 286				
Aggregate fair value of plan assets	156	162	221	149				

The Arkema Acquisition during the year ended December 31, 2007 included two unfunded defined benefit plans with a total projected benefit obligation at the date of acquisition of \$2.

The valuation of the U.S. plans at December 31, 2008 resulted in actuarial gains of \$8 relating primarily to an increase in the discount rate and favorable experience. Actuarial gains of \$7 arising from the valuation of the Non-U.S. plans at December 31, 2008 relate to the plans in Germany and Canada and primarily resulted from higher discount rates and favorable experience. The Company's funded plans incurred unrealized actuarial losses in plan assets versus expected returns due to the downturn in the markets in the second half of 2008. These losses more than offset the gains in the projected benefit obligations, and resulted in net reductions in accumulated other comprehensive income.

The foreign currency impact reflected in these rollforward tables are primarily for changes in the euro and Canadian dollar versus the U.S. dollar.

For U.S. plans, assets of \$156 and \$223 at December 31, 2008 and 2007, respectively, relate to the Company's funded pension plans that have an accumulated benefit obligation of \$262 and \$265 at December 31, 2008 and 2007, respectively. For International plans, assets of \$162 and \$149 at December 31, 2008 and 2007, respectively, relate to the Company's funded pension plans that have an accumulated benefit obligation of \$157 and \$145 at December 31, 2008 and 2007, respectively.

Following are the components of net pension and non-pension postretirement expense (benefit) recognized by the Company for the years ended December 31:

	Pension Benefits					
	U.S. Plans			Non-U.S. Plans		
	2008	2007	2006	2008	2007	2006
Service cost	\$ 6	\$ 6	\$ 6	\$ 8	\$ 8	\$ 8
Interest cost on projected benefit obligation	16	15	15	16	13	12
Expected return on assets	(18)	(17)	(17)	(9)	(8)	(8)
Amortization of prior service cost	—	—	—	1	1	1
Recognized actuarial loss	8	9	9	—	2	3
Net expense	\$ 12	\$ 13	\$ 13	\$ 16	\$ 16	\$ 16

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	Non-Pension Postretirement Benefits					
	U.S. Plans			Non-U.S. Plans		
	2008	2007	2006	2008	2007	2006
Service cost	\$—	\$—	\$—	\$—	\$—	\$—
Interest cost on projected benefit obligation	1	1	1	—	—	—
Amortization of prior service benefit	(11)	(12)	(11)	—	—	—
Recognized actuarial gain	—	—	—	(1)	(1)	(1)
Settlement gain	—	—	—	—	(1)	(2)
Net benefit	<u>\$ (10)</u>	<u>\$ (11)</u>	<u>\$ (10)</u>	<u>\$ (1)</u>	<u>\$ (2)</u>	<u>\$ (3)</u>

The settlement gains recognized during the years ended December 31, 2007 and December 31, 2006 for non-pension postretirement plans resulted from lump sum payments made under the Netherlands' plan.

The following amounts were recognized in other comprehensive income during the year ended December 31, 2008:

	Non-Pension					
	Pension Benefits		Postretirement Benefits		Total	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Net actuarial losses (gains) arising during the year	76	1	(1)	(1)	75	—
Amortization of prior service (cost) benefit	—	(1)	11	—	11	(1)
Amortization of net (losses) gains	(8)	—	—	1	(8)	1
Loss (gain) recognized in other comprehensive income	68	—	10	—	78	—
Deferred income taxes	—	—	—	—	—	—
Loss (gain) recognized in other comprehensive income, net of tax	<u>68</u>	<u>—</u>	<u>10</u>	<u>—</u>	<u>78</u>	<u>—</u>

The amounts in Accumulated other comprehensive income that are expected to be recognized as components of net periodic benefit cost (benefit) during the next fiscal year are as follows:

	Non-Pension					
	Pension Benefits		Postretirement Benefits		Total	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Prior service cost (benefit)	\$—	\$ 1	\$ (11)	\$ —	\$ (11)	\$ 1
Net actuarial loss (gain)	11	(1)	1	—	12	(1)

Determination of actuarial assumptions

The Company's actuarial assumptions are determined separately for each plan, taking into account the demographics of the population, target asset allocations for funded plans, regional economic trends, statutory requirements and other factors that could impact the benefit obligation and plan assets.

The discount rates selected reflect the rate at which pension obligations could be effectively settled. Beginning in 2007, the Company selected the discount rates based on cash flow models using the yields of high-grade corporate bonds or the local equivalent with maturities consistent with the Company's anticipated cash flow projections.

The expected rates of future compensation level increases are based on salary and wage trends in the chemical and other similar industries, as well as the Company's specific compensation targets by country. Input is obtained from the Company's internal Human Resources group and from outside actuaries. These rates include components for wage rate inflation and merit increases.

The expected long-term rates of return on plan assets are determined based on the plans' current and projected asset mix. To determine the expected overall long-term rate of return on assets, the Company takes into account the rates on long-term debt investments held within the portfolio, as well as expected trends in the equity markets, for plans including equity securities. Peer data and historical returns are reviewed and the Company consults with its actuaries, as well as investment professionals, to confirm that the Company's assumptions are reasonable.

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The weighted average rates used to determine the benefit obligations were as follows at December 31:

	Pension Benefits				Non-Pension Postretirement Benefits			
	2008		2007		2008		2007	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Discount rate	6.1%	5.8%	6.1%	5.5%	6.1%	7.1%	6.1%	5.5%
Rate of increase in future compensation levels	4.0%	3.3%	4.0%	3.3%	—	—	—	—
The weighted average assumed health care cost trend rates are as follows at December 31:								
Health care cost trend rate assumed for next year	—	—	—	—	8.0%	7.9%	8.5%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	—	—	—	—	5.0%	4.9%	5.0%	4.7%
Year that the rate reaches the ultimate trend rate	—	—	—	—	2015	2017	2015	2017

The weighted average rates used to determine net periodic pension expense (benefit) were as follows for the years ended December 31:

	Pension Benefits					
	U.S. Plans			Non-U.S. Plans		
	2008	2007	2006	2008	2007	2006
Discount rate	6.1%	5.8%	5.5%	5.5%	4.5%	4.3%
Rate of increase in future compensation levels	4.0%	4.0%	3.9%	3.3%	3.1%	3.3%
Expected long-term rate of return on plan assets	8.3%	8.3%	8.3%	5.8%	5.8%	6.3%

	Non-Pension Postretirement Benefits					
	U.S. Plans			Non-U.S. Plans		
	2008	2007	2006	2008	2007	2006
Discount rate	6.1%	5.8%	5.6%	5.5%	5.1%	4.7%

A one-percentage-point change in the assumed health care cost trend rates would change the projected benefit obligation for international non-pension postretirement benefits by less than \$1 and service cost and interest cost by a negligible amount. The impact on U.S. plans is negligible.

Pension Investment Policies and Strategies

The Company's investment strategy for the assets of its North American defined benefit pension plans is to maximize the long-term return on plan assets using a mix of equities and fixed income investments with a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and expected timing of future cash flow requirements. The investment portfolio contains a diversified blend of equity and fixed-income investments. Equity investments are also diversified across U.S. and international stocks, as well as growth, value and small and large capitalization investments. Investment risk and performance is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements and periodic asset and liability studies.

The Company periodically reviews its target allocation of North American plan assets among the various asset classes. The targeted allocations are based on anticipated asset performance, discussions with investment professionals, and on the projected timing of future benefit payments.

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The Company observes local regulations governing its European pension plans in determining asset allocations, which generally require a blended weight leaning toward more fixed income securities, including government bonds.

	Actual		Target
	2008	2007	2009
Weighted average allocations of U.S. pension plan assets at December 31:			
Equity securities	54%	60%	62%
Debt securities	41%	35%	38%
Cash, short-term investments and other	5%	5%	— %
	<u>100%</u>	<u>100%</u>	<u>100%</u>
Weighted average allocations of non-U.S. pension plan assets at December 31:			
Equity securities	12%	17%	21%
Debt securities	86%	78%	79%
Cash, short-term investments and other	2%	5%	— %
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Projections of Plan Contributions and Benefit Payments

The Company expects to make contributions totaling \$37 to its defined benefit pension plans in 2009.

Estimated future plan benefit payments as of December 31, 2008 are as follows:

Year	Pension Benefits		Non-Pension Postretirement Benefits	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
	\$	\$	\$	\$
2009	25	7	1	—
2010	25	8	1	—
2011	24	9	1	—
2012	23	10	1	—
2013	23	11	1	—
2014-2018	112	68	5	2

The Company has a U.S. defined benefit pension plan that was converted to a cash balance plan prior to 2006. Under the Pension Protection Act of 2006 (the “2006 PPA”), cash balance plans are generally not considered to be discriminatory if certain requirements are met; however, plans converted prior to the effective date of the 2006 PPA, such as the Company’s, are not grandfathered under the act. While there has not been any guidance issued regarding cash balance plans converted prior to the effective date of the 2006 PPA, it is possible that the Company’s cash balance plan may need to be modified for the period prior to 2006. Such a requirement may increase the Company’s obligations under the plan, but there is insufficient information at this time to assess the potential impact.

Defined Contribution Plans

The Company sponsors a number of defined contribution plans for its employees, primarily in the U.S., Canada, Europe and Asia. Full-time employees are eligible to participate immediately and may make pre-tax and after-tax contributions subject to plan and statutory limitations. For certain plans, the Company has the option to make contributions above the match provided in the plan based on financial performance. The Company incurred expense for contributions under these plans in 2008, 2007 and 2006 of \$13, \$13 and \$10, respectively.

Non-Qualified, Profit-Sharing and Other Plans

The Company provides key executives with nonqualified benefit plans that provide participants with an opportunity to elect to defer compensation and also provide retirement benefits, or “top-ups”, in cases where executives cannot fully participate in the defined benefit or defined contribution plans because of plan or Internal Revenue Service limitations. The Company has elected to freeze benefits under its U.S. Non-Qualified plans beginning January 1, 2009. Most of the Company’s non-qualified benefit plans are unfunded; however, certain participants may elect to defer up to 50% of base wages and 100% of bonus pay in a funded Rabbi trust. Depending on the plan, certain deferrals are matched by the Company based on years of service. The liabilities related to defined pension top-up are included in the previously discussed defined benefit pension disclosures. The Company’s liability for the other components of these non-qualified benefit plans of \$8 and \$7 at December 31, 2008 and 2007, respectively, is included in Other long-term liabilities.

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Certain employees also receive profit sharing contributions based on age and years of service. Contributions range from 1% to 15% on wages up to FICA limits and 2% to 20% on wages in excess of FICA limits. The Company's contributions totaled \$2 in 2008 and \$3 in 2007.

The Company's German subsidiaries offer a government subsidized early retirement program ("Altersteilzeit" or "AZT Plans") to eligible employees, which are accounted for under the guidance of Emerging Issues Task Force Issue No. 05-5. The Company has liabilities for these arrangements totaling \$3 and \$2 for the years ended December 31, 2008 and 2007, respectively. The expense for these plans was \$2 for the year ended December 31, 2008 and less than \$1 for the years ended December 31, 2007 and 2006.

Some employees who are not covered by the Company's U.S. and foreign defined benefit pension plans are covered by collective bargaining agreements, which are generally for five year terms. Under Federal pension law, the Company would have continuing liability to these pension trusts if it ceased all or most of its participation in any of these trusts, and under certain other specified conditions.

Also included in the Consolidated Balance Sheets at December 31, 2008 and 2007 are other post-employment benefit obligations relating to long-term disability of \$5.

16. Shareholder's Deficit

The Company has 82,556,847 shares of \$0.01 par value common stock outstanding at December 31, 2008.

In December 2008, in connection with the settlement agreement with Huntsman, Hexion LLC made a capital contribution of \$325 allowing the Company to fund the \$325 termination fee and affiliates of Apollo paid a \$200 settlement payment, while reserving all rights with respect to reallocation of the payments to certain other affiliates of Apollo. The \$200 settlement payment made by Apollo has been treated as an expense by the Company with the credit to Paid-in capital at December 31, 2008. This settlement was considered an expense of the Company as the liability was joint and several between the Company and Apollo and the settlement by Apollo was caused by its relationship with the Company as a principal shareholder.

In 2007, the Company declared a dividend to its parent of \$1.

In 2006, the Company declared a dividend to its parent of \$500 in connection with the debt refinancing in November of the same year. Approximately \$480, funded from the proceeds of newly issued debt, was paid in 2006. The Company expects to pay the remaining dividends as required by our parent between 2009 and 2012. The Company declared and paid additional dividends to its parent totaling \$5 during 2006.

In conjunction with the Hexion Formation, the Company declared a dividend to its parent of \$550, of which \$523 was paid during 2005. The dividend was funded through proceeds from the issuance of preferred stock and from amounts borrowed under the Company's credit facility. \$13 was paid in 2007 and \$2 was paid in 2008. The remainder is expected to be paid as required by our parent through 2012 and is classified in Other current liabilities.

17. Stock Option Plans and Stock Based Compensation

Summary of Plans

Prior to the Hexion Formation, Resolution Performance, Resolution Specialty and BHI Acquisition (now Hexion LLC) maintained five stock-based compensation plans: the Resolution Performance 2000 Stock Option Plan (the "Resolution Performance Plan"), the Resolution Performance 2000 Non-Employee Directors Option Plan (the "Resolution Performance Director Plan"), the Resolution Performance Restricted Unit Plan (the "Resolution Performance Unit Plan"), the Resolution Specialty 2004 Stock Option Plan (the "Resolution Specialty Plan") and the BHI Acquisition 2004 Stock Incentive Plan (the "Borden Chemical Plan"). In addition to these plans, the Company's parent maintains a stock-based deferred compensation plan. The options granted under each of the option plans were to purchase common stock of the parent company of each of the respective companies. Upon the Hexion Formation, the stock options under the Resolution Performance Plan, the Resolution Performance Director Plan, the Resolution Performance Unit Plan and Resolution Specialty Plan were exchanged for an equivalent number of options to purchase Hexion LLC units under the Borden Chemical Plan based on relative fair value.

Resolution Performance Plan and Resolution Performance Director Plan

Resolution Performance adopted stock option plans under which options related to 727,134 shares on a post-combination and reverse split basis are available for grant. The right to grant options under these plans will expire in 2010, but the Company does not intend to make any future grants from these plans. Options granted under these plans were all nonqualified stock options. One third of the options granted vest ratably over a five-year period, while the remaining options (the "Resolution Performance Options") vest after the eighth anniversary of the grant date. The Resolution Performance Options provided for accelerated vesting upon the sale of Resolution Performance and the achievement of certain financial targets. At the time of the Hexion Formation, these financial targets were not met, so vesting of the Resolution Performance Options was not accelerated. Options under both plans were granted at the fair market value on the date of the

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grant and expire thirty days following the eighth anniversary of the grant date. At the time of the Hexion Formation, all options that were granted to Resolution Performance directors under the Resolution Performance Director Plan vested and became exercisable. In December 2008, 337,506 stock option awards granted in 2000 and 2001 were modified to extend the option expiration date one year and 11 months. There was no incremental compensation cost resulting from the modification.

Resolution Performance Unit Plan

A grant of the equivalent of 191,276 Hexion LLC restricted units was made under the Resolution Performance Unit Plan to Mr. Schlanger, former Chairman and Chief Executive Office of Resolution Performance on November 14, 2000. Mr. Schlanger's rights under the plan are fully vested and nonforfeitable. The restricted units were distributed to Mr. Schlanger in January 2009.

Resolution Specialty Plan

In August 2004, Resolution Specialty created the Resolution Specialty Plan under which options for 1,027,197 shares on a post-combination and reverse split basis are available for grant. The right to grant options under the option plan will expire in 2014, but the Company does not intend to make any future grants from this plan. Options granted under this plan were nonqualified stock options. One third of the options vest ratably over a five-year period. The remaining options were immediately vested upon the achievement of certain performance criteria as a result of the Hexion Formation. Options were granted at the fair market value on the date of the grant and expire thirty days following the eighth anniversary of the grant date.

Borden Chemical Plan

In August 2004, BHI Acquisition adopted the Borden Chemical Plan, under which up to 3,670,635 options to purchase Hexion LLC units are available for grant to employees, consultants, and independent directors of Hexion. At December 31, 2008, there were 1,523,360 options under the Borden Chemical Plan available for future grant. The right to grant options under this plan will expire in 2014, but the Company does not intend to make any future grants from this plan. On August 12, 2004, Hexion LLC granted options to purchase 2,519,860 Hexion LLC membership units, half of which vest ratably over a five-year period, while the remainder (the "Performance Options") vest after the eighth anniversary of the grant date. The Performance Options provide for accelerated vesting upon the sale of the Company and the achievement of certain financial targets. The options were granted at fair value, and were initially designated as liability awards as the value was determined by a formula. The options expire on the tenth anniversary of the grant date.

Hexion 2007 Long-Term Incentive Plan

On April 30, 2007, the Board of Managers of Hexion LLC adopted the Hexion LLC 2007 Long-Term Incentive Plan (the "2007 Plan"). The 2007 Plan provides for the grant of options to purchase units (with performance conditions) and restricted unit awards to selected employees of the Company. Options granted under the 2007 Plan cover common units of Hexion LLC and will become vested only if Apollo realizes certain internal rates of return on its investment in the Company from a sale or other transfer to independent third parties of a majority interest in Hexion LLC (the "performance condition"). Restricted unit awards granted under the 2007 Plan are payable on a one-for-one basis in common units of Hexion LLC and will generally vest on the third or fourth anniversary of the grant date, subject to accelerated vesting on a change in control of Hexion LLC. Restricted unit awards include the right to receive cash dividends (subject to the same vesting requirements as the underlying units), and any units that become vested will generally be paid upon a termination of the award recipient's employment. A maximum of 1,700,000 common units of Hexion LLC may be subject to all awards granted under the 2007 Plan. At December 31, 2008, there were 970,000 awards under the 2007 Plan available for grant. On April 30, 2007, Hexion LLC granted 170,000 restricted unit awards and options to purchase 676,000 units (with performance conditions). Half of the restricted unit awards vest over three years, while the other half vest over four years. The options expire on the eighth anniversary of the grant date.

Financial Statement Impact

Effective January 1, 2005, the Company elected to adopt SFAS No. 123(R) (revised 2004), *Share-Based Payment*. As the Company was a nonpublic entity at the date of adoption that used the minimum value method for pro forma disclosures under SFAS No. 123, *Accounting for Stock-Based Compensation*, it is required to apply the prospective transition method. As a result, the Company applies the statement to new awards and to awards modified, repurchased or cancelled since January 1, 2005. Share-based compensation expense is recognized, net of estimated forfeitures, over the requisite service period on a straight-line basis. The Company adjusts compensation expense periodically for forfeitures.

The Company recognized share-based compensation expense of \$5, \$5 and \$6 for the years ended December 31, 2008, 2007 and 2006, respectively, which is included in Selling, general and administrative expense in the Consolidated Statements of Operations. The Company expects additional compensation expense of \$10, which will be recognized over the vesting period of the underlying share-based awards. \$8 is expected to be recognized ratably over a weighted-average period of 2.1 years, while the remaining \$2 will be recognized upon an initial public offering or other future contingent event.

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During 2006, in connection with their separation from the Company, the options of four participants were modified to allow immediate vesting. As a result of these modifications, the Company recognized a compensation charge of \$2 for the year ended December 31, 2006. In addition, the Company repurchased the outstanding options of four participants for \$3 for a price equal to the fair market value of the underlying securities less the exercise price of the options.

When it filed a registration statement with the SEC in 2005, the Company became subject to the measurement requirements as a public company and consequently remeasured its liability designated awards. In addition, modifications to the awards under the 2004 Incentive Plan and the stock-based deferred compensation plan were made for the value of the awards to be determined by fair market value instead of by formula. Also, certain directors' options that were granted under the Resolution Performance Plan and Resolution Specialty Plan, which would have been forfeited upon the Hexion Formation, were modified to allow immediate vesting. These equity modifications were treated in accordance with the provisions of SFAS No. 123(R) and they impacted the options held by 195 participants.

As a result of this remeasurement and modifications that were made at the Hexion Formation to the Resolution Performance Plan, the Resolution Specialty Plan, the 2004 Incentive Plan and the deferred compensation plan, the Company recognized a compensation charge of \$5, \$5 and \$4 for the years ended December 31, 2008, 2007 and 2006, respectively.

Fair Value

The fair value of 2007 option award grants was calculated at the grant date using a modified Black-Scholes pricing model. Following is a summary of assumptions used to calculate fair value for the year ended December 31, 2007:

	<u>2007</u>
Risk-free weighted average interest rates	4.47%
Expected lives (years)	4.3
Dividend rate	0%
Volatility	27.6%

The expected lives represent the period of time the Company believes the options will be outstanding. Expected volatility was based on a calculation that factored historical daily volatility and the implied volatility of comparable public companies. The fair value of the Company's common stock was calculated using a multiple of EBITDA (earnings before interest, income taxes, depreciation and amortization) approach, which is a valuation technique commonly used by the investment banking community. Under this technique, estimated enterprise values are the result of an EBITDA multiple derived from comparable company multiples applied to an appropriate EBITDA amount. The equity value is then calculated by subtracting the amount of debt from the calculated enterprise value.

The fair value of 2007 restricted unit awards is based upon the fair value of the Company's common stock at the grant date.

Options Activity

Following is a summary of the Company's stock option plan activity for the year ended December 31, 2008:

	<u>Hexion LLC Common Units</u>	<u>Weighted Average Exercise Price</u>	<u>Intrinsic Value</u>
Options outstanding at December 31, 2007	3,788,797	\$ 7.07	\$ 20
Options granted	—	—	—
Options exercised	(39,565)	\$ 3.51	—
Options forfeited	(181,257)	\$ 7.16	—
Options outstanding at December 31, 2008	3,567,975	\$ 7.11	\$ —
Exercisable at December 31, 2008	1,600,155	\$ 6.44	\$ —
Expected to vest at December 31, 2008	3,388,643	\$ 7.16	\$ —

At December 31, 2008, exercise prices for options outstanding ranged from \$3.51 to \$29.42 with a weighted average remaining contractual life of 5.1 years. The weighted average remaining contractual life for options exercisable and options expected to vest was 4.3 and 5.1 years, respectively.

The weighted-average per share grant date fair value of options granted during 2007 was \$1.76. The total amount of cash received and total intrinsic value (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) of options exercised during the years ended December 31, 2008, 2007 and 2006 was less than \$1, \$1 and \$3, respectively.

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Restricted Unit Activity

Following is a summary of the Company's restricted unit plan activity for the year ended December 31, 2008:

	Hexion LLC Common Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2007	155,000	\$ 10.81
Restricted units granted	—	—
Restricted units vested	—	—
Restricted units forfeited	(14,000)	10.81
Nonvested at December 31, 2008	141,000	\$ 10.81

The weighted average remaining contractual life for restricted units outstanding was 1.8 years.

Stock-Based Deferred Compensation Plan

In 2004, in connection with the acquisition of Borden Chemical by Apollo, certain key employees of the Company deferred the receipt of compensation and were credited with a number of deferred stock units that were equal in value to the amount of compensation deferred. In total, the Company granted 1,007,944 deferred common stock units under the Hexion LLC 2004 Deferred Compensation Plan (the "2004 DC Plan"), which is an unfunded plan. Each unit gives the grantee the right to one common stock unit of Hexion LLC. Under the 2004 DC Plan, the deferred common stock units are not distributed to participants until their employment with the Company ends. At December 31, 2008, there were 836,384 undistributed units under the 2004 DC Plan.

18. Income Taxes

Income tax (benefit) expense detail for continuing operations for the years ended December 31 is as follows:

	2008	2007	2006
Current			
Federal	\$ (6)	\$—	\$—
State and local	(4)	3	(2)
Foreign	6	44	34
Total current	(4)	47	32
Deferred			
Federal	1	1	7
State and local	—	(6)	—
Foreign	(14)	2	(25)
Total deferred	(13)	(3)	(18)
Income tax (benefit) expense	\$ (17)	\$ 44	\$ 14

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A reconciliation of the differences between income taxes for continuing operations that were computed at the federal statutory tax rate of 35% and provisions for income taxes for the years ended December 31 follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Income tax benefit computed at federal statutory tax rate	\$(421)	\$ (8)	\$ (28)
State tax provision, net of federal benefits	2	2	—
Foreign tax rate differential	2	2	(4)
Foreign source income subject to U.S. taxation	3	—	6
Losses and other expenses (income) not deductible for tax	116	(5)	—
Increase in the taxes due to changes in valuation allowance	294	58	14
Additional tax on foreign unrepatriated earnings	(1)	—	35
Changes in enacted tax rates	(1)	(5)	(9)
Adjustments of prior year estimates and other	(11)	—	—
Income tax (benefit) expense	<u>\$ (17)</u>	<u>\$ 44</u>	<u>\$ 14</u>

Losses and other expenses not deductible for tax include the \$200 non-cash push-down of settlement costs paid by Apollo (see Note 3) and increases in unrecognized tax benefits related to various intercompany transaction costs. The Company is reviewing the deductibility of these intercompany transaction costs and has not recognized a related tax benefit at December 31, 2008. The increase in the valuation allowance was due to the significant domestic losses in the U.S. for which no benefit can be recognized. The adjustment of prior year estimates was due to settlements with various taxing authorities.

The domestic and foreign components of the loss from continuing operations before income taxes for the years ended December 31 is as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Domestic	\$(1,031)	\$(151)	\$(137)
Foreign	(173)	128	57
	<u>\$ (1,204)</u>	<u>\$ (23)</u>	<u>\$ (80)</u>

The tax effects of significant temporary differences and net operating loss and credit carryforwards, which comprise the deferred tax assets and liabilities at December 31, is as follows:

	<u>2008</u>	<u>2007</u>
Assets		
Non-pension post-employment benefit obligations	\$ 7	\$ 10
Accrued and other expenses	75	96
Loss and credit carryforwards	725	441
Pension liabilities	56	40
Gross deferred tax assets	863	587
Valuation allowance	(626)	(360)
Net deferred tax asset	<u>237</u>	<u>227</u>
Liabilities		
Property, equipment and intangibles	(202)	(227)
Unrepatriated earnings of foreign subsidiaries	(99)	(90)
Amortization of intangibles	(31)	(27)
Gross deferred tax liabilities	<u>(332)</u>	<u>(344)</u>
Net deferred tax liability	<u>\$ (95)</u>	<u>\$ (117)</u>

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The following table summarizes the presentation of the net deferred tax liability on the Consolidated Balance Sheets at December 31:

	<u>2008</u>	<u>2007</u>
Assets		
Current deferred income taxes (Other current assets)	\$ 2	\$ 8
Long-term deferred income taxes (Other assets)	30	19
Liabilities		
Current deferred income taxes (Other current liabilities)	(5)	(3)
Long-term deferred income taxes	<u>(122)</u>	<u>(141)</u>
Net deferred tax liability	<u>\$ (95)</u>	<u>\$ (117)</u>

Hexion LLC and its eligible subsidiaries file a consolidated U.S. Federal income tax return. As Hexion LLC is not a member of the registrant, its tax attributes are not reflected in the tables above. However, because Hexion LLC is the Company's parent, the Company can utilize Hexion LLC's attributes. These attributes are comprised of \$366 of deferred interest deductions, which have significant restrictions on their use, \$70 of net operating loss carryforwards, which expire starting in 2020, and capital loss carryforwards of \$18, expiring in 2010. Hexion LLC maintains a full valuation allowance against these attributes because it is more likely than not that some portion of these assets will not be realized.

As of December 31, 2008, the Company has a \$626 valuation allowance for a portion of its net deferred tax assets that management believes, more likely than not, will not be realized. In the United States, a consolidated return will be filed and future taxable income and losses of the consolidated group may be offset. The Company's deferred tax assets include federal, state and foreign net operating losses carryforwards. The federal net operating loss carryforwards available are \$1,459, which expire starting in 2020. The Company's deferred assets also include minimum tax credits of \$9, which are available indefinitely as well as capital loss carryforwards of \$45, which were generated in 2005 and will begin to expire in 2010. A valuation allowance of \$461 has been provided against these items. The Company had undistributed earnings of certain foreign subsidiaries of \$166, on which deferred taxes have not been provided because these earnings are considered permanently invested outside of the United States.

The following table summarizes the changes in the valuation allowance for the years ending December 31, 2008 and 2007:

	<u>Balance at Beginning of Period</u>	<u>Changes in related Gross Deferred Tax Assets/Liabilities</u>	<u>Charge/Release</u>	<u>Balance at End of Period</u>
Valuation allowance on Deferred tax assets:				
Year ended December 31, 2007	\$ 224	\$ (2)	\$ 138	\$ 360
Year ended December 31, 2008	360	(30)	296	\$ 626

Examination of Tax Returns

The Company conducts business globally and, as a result, certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examinations by taxing authorities throughout the world, including major jurisdictions such as Belgium, Brazil, Canada, the Czech Republic, France, Germany, Italy, South Korea, Netherlands and the United States.

The Internal Revenue Service completed auditing the Company's federal tax returns for the years ended December 31, 2004 and 2006. The audits resulted in no changes for both years. In addition, certain state and foreign tax returns are under examination by various regulatory authorities.

The Company continuously reviews issues that are raised from ongoing examinations and open tax years to evaluate the adequacy of its liabilities. As the various taxing authorities continue with their audit/examination programs, the Company will adjust its reserves accordingly to reflect these settlements.

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Unrecognized Tax Benefits

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (“FIN 48”). Upon adoption of FIN 48, the Company recorded \$4 as an increase to Accumulated deficit for the cumulative effect of adoption. The liability for unrecognized tax benefits and related interest and penalties is included in Other long-term liabilities in the Consolidated Balance Sheets because payments are not anticipated to be made within one year of the balance sheet date. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 15	\$ 15
Additions based on tax positions related to the current year	45	—
Additions for tax positions of prior years	—	—
Reductions for tax positions of prior years	(3)	—
Settlements	—	—
Balance at end of year	<u>\$ 57</u>	<u>\$ 15</u>

During the year ended December 31, 2008, the company increased its amount of unrecognized tax benefits, including its accrual for interest and penalties, by \$38 for various intercompany transactions and settlements with various taxing authorities. During the year ended December 31, 2008 and 2007, the Company recognized approximately \$(1) and \$2, respectively, in interest and penalties. The Company had approximately \$21 and \$22 accrued for the payment of interest and penalties at December 31, 2008 and 2007, respectively.

\$57 of unrecognized tax benefits, if recognized, would affect the effective tax rate. The Company anticipates recognizing a range of \$8 to \$45 of the total amount of unrecognized tax benefits within the next 12 months as a result of receiving additional information from foreign jurisdictions related to transfer pricing.

19. Summarized Financial Information of Unconsolidated Affiliates

Summarized financial information of unconsolidated affiliates Asia Dekor Borden (Hong Kong) Chemical Company and Hexion UV Coatings (Shanghai) Co., Ltd as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current assets	\$18	\$16	
Noncurrent assets	3	3	
Current liabilities	3	6	
Equity	18	13	
Net sales	\$35	\$30	\$27
Gross profit	8	10	8
Pre-tax income	5	8	6
Net income	5	7	6

20. Segment Information

The Company’s business segments are based on the products that the Company offers and the markets that it serves. At December 31, 2008, the Company had four reportable segments: Epoxy and Phenolic Resins, Formaldehyde and Forest Products Resins, Coatings and Inks, and Performance Products. A summary of the major products of the Company’s reportable segments follows:

- Epoxy and Phenolic Resins: epoxy resins and intermediates, composite resins, molding compounds, versatic acids and derivatives, phenolic specialty resins and epoxy coating resins
- Formaldehyde and Forest Products Resins: forest products resins and formaldehyde applications
- Coatings and Inks: polyester resins, alkyd resins, acrylic resins, vinylic resins and ink resins and additives
- Performance Products: phenolic encapsulated substrates for oilfield and foundry applications

The Company’s organizational structure continues to evolve. It is also continuing to refine its operating structure to more closely link similar products, minimize divisional boundaries and improve the Company’s ability to serve multi-dimensional common customers. These refinements, when complete, may result in future changes to the Company’s reportable segments.

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Reportable Segments

Following are net sales and Segment EBITDA (earnings before interest, income taxes, depreciation and amortization) by reportable segment. Segment EBITDA is defined as EBITDA adjusted to exclude certain non-cash and certain non-recurring expenses. Segment EBITDA is the primary performance measure used by the Company's senior management, the chief operating decision-maker and the board of directors to evaluate operating results and allocate capital resources among segments. Segment EBITDA is also the profitability measure used to set management and executive incentive compensation goals. Corporate and Other is primarily corporate general and administrative expenses that are not allocated to the segments.

Net Sales to Unaffiliated Customers for the years ended December 31⁽¹⁾⁽²⁾⁽³⁾:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Epoxy and Phenolic Resins	\$2,432	\$2,370	\$2,114
Formaldehyde and Forest Products Resins	2,033	1,776	1,524
Coatings and Inks	1,248	1,332	1,255
Performance Products	380	332	312
Total	<u>\$6,093</u>	<u>\$5,810</u>	<u>\$5,205</u>

Segment EBITDA for the years ended December 31⁽²⁾⁽³⁾:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Epoxy and Phenolic Resins	\$ 192	\$ 334	\$ 283
Formaldehyde and Forest Products Resins ⁽⁴⁾	194	177	149
Coatings and Inks ⁽⁴⁾	35	81	78
Performance Products	90	73	59
Corporate and Other	(50)	(54)	(45)

(1) Intersegment sales are not significant and, as such, are eliminated within the selling segment.

(2) Net sales and Segment EBITDA include the results of the Coatings Acquisition, Inks Acquisition, Orica A&R Acquisition and Arkema Acquisition from January 31, 2006, June 1, 2006, February 1, 2007, and November 1, 2007, respectively, and exclude the results from the Brazilian Consumer Divestiture since March 31, 2006.

(3) Certain of the Company's product lines have been realigned, resulting in reclassifications among segments. Prior period balances have been reclassified to conform to current presentations.

(4) Included in Formaldehyde and Forest Products Resins Segment EBITDA are Earnings from unconsolidated entities, net of taxes of \$1 for the years ended December 31, 2008, 2007 and 2006. Included in Coatings and Inks Segment EBITDA are Earnings from unconsolidated entities, net of taxes of \$1, \$3 and \$2 for the years ended December 31, 2008, 2007 and 2006, respectively.

[Table of Contents](#)**Depreciation and Amortization Expense for the years ended December 31⁽¹⁾:**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Epoxy and Phenolic Resins	\$104	\$106	\$ 95
Formaldehyde and Forest Products Resins	48	40	30
Coatings and Inks	33	30	24
Performance Products	6	6	5
Corporate and Other	12	16	17
Total	<u>\$203</u>	<u>\$198</u>	<u>\$171</u>

Total Assets as of December 31⁽¹⁾:

	<u>2008</u>	<u>2007</u>
Epoxy and Phenolic Resins	\$1,653	\$1,910
Formaldehyde and Forest Products Resins	724	913
Coatings and Inks	541	675
Performance Products	102	112
Corporate and Other	160	396
Total	<u>\$3,180</u>	<u>\$4,006</u>

Capital Expenditures for the years ended December 31⁽¹⁾⁽²⁾:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Epoxy and Phenolic Resins	\$ 60	\$ 60	\$ 65
Formaldehyde and Forest Products Resins	46	32	31
Coatings and Inks	19	22	17
Performance Products	4	4	8
Corporate and Other	5	5	4
Total	<u>\$134</u>	<u>\$123</u>	<u>\$125</u>

(1) Certain of the Company's product lines have been realigned, resulting in reclassifications among segments. Prior period balances have been reclassified to conform to current presentations.

(2) Includes capitalized interest costs that are incurred during the construction of property and equipment.

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Reconciliation of Segment EBITDA to Net Loss:

	2008	2007	2006
Segment EBITDA:			
Epoxy and Phenolic Resins	\$ 192	\$ 334	\$ 283
Formaldehyde and Forest Products Resins	194	177	149
Coatings and Inks	35	81	78
Performance Products	90	73	59
Corporate and Other	(50)	(54)	(45)
Reconciliation:			
Items not included in Segment EBITDA			
Terminated merger and settlement costs	(1,027)	—	—
Transaction costs	—	(1)	(20)
Integration costs	(27)	(38)	(57)
Non-cash charges	(26)	(54)	(22)
Unusual items:			
Gain on divestitures of assets	5	8	39
Purchase accounting effects/inventory step-up	—	(1)	(3)
Discontinued operations	—	—	(14)
Business realignments	(41)	(21)	2
Derivative settlements	(37)	—	—
Other	(8)	(17)	(10)
Total unusual items	(81)	(31)	14
Total adjustments	(1,161)	(124)	(85)
Interest expense, net	(304)	(310)	(242)
Loss on extinguishment of debt	—	—	(121)
Income tax benefit (expense)	17	(44)	(14)
Depreciation and amortization	(203)	(198)	(171)
Net loss	<u>\$ (1,190)</u>	<u>\$ (65)</u>	<u>\$ (109)</u>

Items not included in Segment EBITDA

Terminated merger and settlement costs primarily represented accounting, consulting, tax and legal costs related to the terminated Huntsman merger and related litigation, including the \$550 payment to Huntsman to terminate the merger and settle litigation and the non-cash push-down of settlement costs paid by Apollo of \$200. Terminated merger and settlement costs also include the write-off of previously deferred acquisition costs.

In 2006, Transaction costs primarily represented the write-off of deferred accounting, legal and printing costs as the result of the Company's suspension of its IPO, as well as costs from terminating acquisition activities.

Integration costs primarily represented redundancy and incremental administrative costs for integration programs as a result of the Hexion Formation and other acquisitions, as well as costs to implement a single, company-wide, management information and accounting system and a new consolidations and financial reporting system.

Non-cash charges primarily represented stock-based compensation expense, impairments of property, plant and equipment and unrealized derivative and foreign exchange gains and losses. In 2008, Non-cash charges also included accelerated depreciation on closing facilities and goodwill and intangible asset impairments.

Not included in Segment EBITDA are certain non-cash and certain non-recurring income or expenses that are deemed by management to be unusual in nature. For 2008, these items consisted of business realignment costs, derivative settlements, realized foreign exchange gains and losses, management fees, a gain on the sale of a portion of the Company's ownership in HA-International, LLC ("HAI") and a gain on the sale of certain assets of a non-core product line. For 2007, these items consisted of gains on sale of assets, a gain on the sale of a portion of the Company's ownership in HAI, business realignment costs, income related to the European solvent coating resins business (the "announced Alkyds Divestiture"), management fees, realized foreign currency activity and costs to settle a lawsuit. For 2006, these items primarily consisted of a gain recognized on the Brazilian Consumer Divestiture, a charge related to the discontinued operations of Taro Plast, business realignments, and the Alkyds Divestiture.

[Table of Contents](#)**Geographic Information****Sales to Unaffiliated Customers for the years ended December 31⁽¹⁾:**

	2008	2007	2006
United States	\$2,557	\$2,466	\$2,349
Netherlands	1,222	1,194	704
Germany	494	399	510
Canada	276	330	368
Other international	1,544	1,421	1,274
Total	<u>\$6,093</u>	<u>\$5,810</u>	<u>\$5,205</u>

⁽¹⁾ Sales are attributed to the country in which the individual business locations reside.

Long-Lived Assets as of December 31:

	2008	2007
United States	\$ 631	\$ 650
Netherlands	316	341
Germany	146	168
Canada	63	83
Other international	305	373
Total	<u>\$1,461</u>	<u>\$1,615</u>

Product Line Information**Net Sales to Unaffiliated Customers for the years ended December 31:**

	2008	2007	2006
Epoxy resins and intermediates	\$1,501	\$1,449	\$1,290
Forest products resins	1,478	1,288	1,089
Coating products	845	937	928
Phenolic specialty resins	630	608	598
All other ⁽¹⁾	1,639	1,528	1,300
Total	<u>\$6,093</u>	<u>\$5,810</u>	<u>\$5,205</u>

⁽¹⁾ Net sales of other product lines that individually account for less than 10% of consolidated Net sales.

21. Guarantor/Non-Guarantor Subsidiary Financial Information

The Company and certain of its U.S. subsidiaries guarantee debt issued by its wholly owned subsidiaries Hexion Nova Scotia, ULC and Hexion U.S. Finance Corporation (together, the "Subsidiary Issuers"), which includes the \$625 second-priority notes due 2014 and the \$200 floating rate second-priority senior secured notes due 2014.

The following information contains the condensed consolidating financial information for Hexion (the parent), the subsidiary issuers, the combined subsidiary guarantors (Borden Chemical Investments, Inc., Borden Chemical Foundry, LLC, Lawter International, Inc., HSC Capital Corporation, Borden Chemical International, Inc., Hexion CI Holding Company and Oilfield Technology Group, Inc.) and the combined non-guarantor subsidiaries, which includes all of the Company's foreign subsidiaries and HAI.

All of the subsidiary issuers and subsidiary guarantors are 100% owned by Hexion. All guarantees are full and unconditional, and are joint and several. There are no significant restrictions on the ability of the Company to obtain funds from its domestic subsidiaries by dividend or loan. While the Company's Australian and New Zealand subsidiaries and HAI are restricted in the payment of dividends and intercompany loans due to the terms of their credit facilities, there are no material restrictions on the Company's ability to obtain cash from the remaining non-guarantor subsidiaries.

This information includes allocations of corporate overhead to the combined non-guarantor subsidiaries based on net sales. Income tax expense has been provided on the combined non-guarantor subsidiaries based on actual effective tax rates. All other tax expense is reflected in the parent.

HEXION SPECIALTY CHEMICALS, INC.

Notes to Consolidated Financial Statements
(dollars in millions)YEAR ENDED DECEMBER 31, 2008
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Hexion Specialty Chemicals, Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 2,656	\$ —	\$ —	\$ 3,904	\$ (467)	\$ 6,093
Cost of sales	2,417	—	—	3,517	(467)	5,467
Gross profit	239	—	—	387	—	626
Selling, general and administrative expense	110	—	1	282	—	393
Terminated merger and settlement costs	868	—	—	159	—	1,027
Integration costs	17	—	—	10	—	27
Other operating expense (income), net	18	1	(2)	55	—	72
Operating (loss) income	(774)	(1)	1	(119)	—	(893)
Interest expense, net	160	77	—	67	—	304
Intercompany interest expense (income)	93	(90)	(1)	(2)	—	—
Other non-operating (income) expense, net	(5)	10	1	1	—	7
(Loss) income from continuing operations before income tax, earnings from unconsolidated entities and minority interest	(1,022)	2	1	(185)	—	(1,204)
Income tax (benefit) expense	(12)	(1)	—	(4)	—	(17)
(Loss) income from continuing operations before earnings from unconsolidated entities and minority interest	(1,010)	3	1	(181)	—	(1,187)
Earnings from unconsolidated entities, net of taxes	(175)	—	6	2	169	2
Minority interest in net income of consolidated subsidiaries	(5)	—	—	—	—	(5)
Net (loss) income	\$ (1,190)	\$ 3	\$ 7	\$ (179)	\$ 169	\$ (1,190)

HEXION SPECIALTY CHEMICALS, INC.

Notes to Consolidated Financial Statements
(dollars in millions)YEAR ENDED DECEMBER 31, 2007
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Hexion Specialty Chemicals, Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 2,464	\$ —	\$ —	\$ 3,581	\$ (235)	\$ 5,810
Cost of sales	2,153	—	—	3,101	(235)	5,019
Gross profit	311	—	—	480	—	791
Selling, general and administrative expense	171	—	—	219	—	390
Transaction costs	1	—	—	—	—	1
Integration costs	14	—	—	24	—	38
Other operating expense (income), net	7	—	(4)	57	—	60
Operating income	118	—	4	180	—	302
Interest expense, net	181	82	—	47	—	310
Intercompany interest expense (income)	72	(95)	(1)	24	—	—
Other non-operating expense (income), net	(11)	10	—	16	—	15
(Loss) income from continuing operations before income tax, earnings from unconsolidated entities and minority interest	(124)	3	5	93	—	(23)
Income tax expense (benefit)	(2)	3	—	43	—	44
(Loss) income from continuing operations before earnings from unconsolidated entities and minority interest	(122)	—	5	50	—	(67)
Earnings from unconsolidated entities, net of taxes	59	—	3	4	(62)	4
Minority interest in net income of consolidated subsidiaries	(2)	—	—	—	—	(2)
Net (loss) income	\$ (65)	\$ —	\$ 8	\$ 54	\$ (62)	\$ (65)

HEXION SPECIALTY CHEMICALS, INC.

Notes to Consolidated Financial Statements
(dollars in millions)YEAR ENDED DECEMBER 31, 2006
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Hexion Specialty Chemicals, Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ 2,283	\$ —	\$ —	\$ 3,199	\$ (277)	\$ 5,205
Cost of sales	1,992	—	—	2,770	(277)	4,485
Gross profit	291	—	—	429	—	720
Selling, general and administrative expense	209	—	—	175	—	384
Transaction costs	18	—	—	2	—	20
Integration costs	37	—	—	20	—	57
Intercompany royalty expense (income)	6	—	(6)	—	—	—
Other operating expense (income), net	(2)	—	(5)	(20)	—	(27)
Operating income (loss)	23	—	11	252	—	286
Interest expense, net	147	67	—	28	—	242
Loss on extinguishment of debt	121	—	—	—	—	121
Intercompany interest expense (income)	33	(75)	(1)	43	—	—
Other non-operating expense (income), net	(78)	75	—	6	—	3
(Loss) income from continuing operations before income tax, earnings from unconsolidated entities and minority interest	(200)	(67)	12	175	—	(80)
Income tax expense (benefit)	7	(6)	—	13	—	14
(Loss) income from continuing operations before earnings from unconsolidated entities and minority interest	(207)	(61)	12	162	—	(94)
Earnings from unconsolidated entities, net of taxes	102	—	8	4	(111)	3
Minority interests in net loss of consolidated subsidiaries	(4)	—	—	—	—	(4)
(Loss) income from continuing operations	(109)	(61)	20	166	(111)	(95)
Loss from discontinued operations	—	—	—	(14)	—	(14)
Net (loss) income	\$ (109)	\$ (61)	\$ 20	\$ 152	\$ (111)	\$ (109)

HEXION SPECIALTY CHEMICALS, INC.
Notes to Consolidated Financial Statements
(dollars in millions)
DECEMBER 31, 2008
CONDENSED CONSOLIDATING BALANCE SHEET

	Hexion Specialty Chemicals, Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	\$ 23	\$ —	\$ —	\$ 104	\$ —	\$ 127
Short-term investments	—	—	—	7	—	7
Accounts receivable, net	180	—	—	402	—	582
Inventories:						
Finished and in-process goods	147	—	—	181	—	328
Raw materials and supplies	51	—	—	90	—	141
Other current assets	31	—	—	53	—	84
Total current assets	<u>432</u>	<u>—</u>	<u>—</u>	<u>837</u>	<u>—</u>	<u>1,269</u>
Other assets						
Investment in subsidiaries	610	—	24	—	(634)	—
Other assets	35	13	—	60	—	108
	645	13	24	60	(634)	108
Property and equipment, net	624	—	—	837	—	1,461
Goodwill	94	—	—	76	—	170
Other intangible assets, net	74	—	—	98	—	172
Total assets	<u>\$ 1,869</u>	<u>\$ 13</u>	<u>\$ 24</u>	<u>\$ 1,908</u>	<u>\$ (634)</u>	<u>\$ 3,180</u>
Liabilities and Shareholder's (Deficit) Equity						
Current liabilities						
Accounts and drafts payable	\$ 146	\$ —	\$ —	\$ 226	\$ —	\$ 372
Accounts (receivable from) payable to affiliates	(170)	(5)	(5)	180	—	—
Debt payable within one year	58	—	—	55	—	113
Loans payable to (receivable from) affiliates	599	—	(3)	(596)	—	—
Interest payable	40	10	—	1	—	51
Income taxes payable	14	—	—	20	—	34
Other current liabilities	222	—	—	87	—	309
Total current liabilities	909	5	(8)	(27)	—	879
Long-term debt	2,112	825	—	809	—	3,746
Intercompany loans payable (receivable)	529	(805)	(11)	287	—	—
Long-term pension and post employment benefit obligations	136	—	—	123	—	259
Deferred income taxes	37	—	—	85	—	122
Other long-term liabilities	103	—	—	25	—	128
Advance from affiliates	225	—	—	—	—	225
Total liabilities	<u>4,051</u>	<u>25</u>	<u>(19)</u>	<u>1,302</u>	<u>—</u>	<u>5,359</u>
Minority interest in consolidated subsidiaries	36	—	—	3	—	39
Shareholder's (deficit) equity	(2,218)	(12)	43	603	(634)	(2,218)
Total liabilities and shareholder's (deficit) equity	<u>\$ 1,869</u>	<u>\$ 13</u>	<u>\$ 24</u>	<u>\$ 1,908</u>	<u>\$ (634)</u>	<u>\$ 3,180</u>

HEXION SPECIALTY CHEMICALS, INC.
Notes to Consolidated Financial Statements
(dollars in millions)
DECEMBER 31, 2007
CONDENSED CONSOLIDATING BALANCE SHEET

	Hexion Specialty Chemicals, Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	\$ 107	\$ —	\$ —	\$ 92	\$ —	\$ 199
Accounts receivable, net	239	4	—	631	—	874
Inventories:						
Finished and in-process goods	183	—	—	235	—	418
Raw materials and supplies	71	—	—	114	—	185
Other current assets	39	—	—	39	—	78
Total current assets	<u>639</u>	<u>4</u>	<u>—</u>	<u>1,111</u>	<u>—</u>	<u>1,754</u>
Other assets						
Investment in subsidiaries	861	—	23	—	(884)	—
Other assets	156	14	—	53	—	223
	<u>1,017</u>	<u>14</u>	<u>23</u>	<u>53</u>	<u>(884)</u>	<u>223</u>
Property and equipment, net	641	—	—	974	—	1,615
Goodwill	101	—	—	105	—	206
Other intangible assets, net	82	—	—	126	—	208
Total assets	<u>\$ 2,480</u>	<u>\$ 18</u>	<u>\$ 23</u>	<u>\$ 2,369</u>	<u>\$ (884)</u>	<u>\$ 4,006</u>
Liabilities and Shareholder's Deficit						
Current liabilities						
Accounts and drafts payable	\$ 279	\$ —	\$ —	\$ 439	\$ —	\$ 718
Accounts payable to (receivable from) affiliates	20	(5)	(8)	(7)	—	—
Debt payable within one year	29	—	—	56	—	85
Loans payable to (receivable from) affiliates	413	—	—	(413)	—	—
Interest payable	43	10	—	1	—	54
Income taxes payable	13	—	—	34	—	47
Other current liabilities	144	—	—	198	—	342
Total current liabilities	<u>941</u>	<u>5</u>	<u>(8)</u>	<u>308</u>	<u>—</u>	<u>1,246</u>
Long-term debt	2,153	825	—	657	—	3,635
Intercompany loans payable (receivable)	529	(901)	(13)	385	—	—
Long-term pension and post employment benefit obligations	80	—	—	140	—	220
Deferred income taxes	39	—	—	102	—	141
Other long-term liabilities	116	—	—	22	—	138
Total liabilities	<u>3,858</u>	<u>(71)</u>	<u>(21)</u>	<u>1,614</u>	<u>—</u>	<u>5,380</u>
Minority interest in consolidated subsidiaries	8	—	—	4	—	12
Shareholder's (deficit) equity	(1,386)	89	44	751	(884)	(1,386)
Total liabilities and shareholder's deficit (equity)	<u>\$ 2,480</u>	<u>\$ 18</u>	<u>\$ 23</u>	<u>\$ 2,369</u>	<u>\$ (884)</u>	<u>\$ 4,006</u>

HEXION SPECIALTY CHEMICALS, INC.
Notes to Consolidated Financial Statements
(dollars in millions)
YEAR ENDED DECEMBER 31, 2008
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Hexion Specialty Chemicals, Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows (used in) provided by operating activities	\$ (825)	\$ 3	\$ (7)	\$ 197	\$ —	\$ (632)
Cash flows (used in) provided by investing activities						
Capital expenditures	(59)	—	—	(75)	—	(134)
Dividend from subsidiary	8	—	—	—	(8)	—
Change in restricted cash	—	—	—	(6)	—	(6)
Purchases of investments	—	—	—	(7)	—	(7)
Proceeds from the sale of assets	—	—	5	8	—	13
	(51)	—	5	(80)	(8)	\$ (134)
Cash flows provided by (used in) financing activities						
Net short-term debt (repayments) borrowings	(5)	—	—	13	—	8
Borrowings of long-term debt	389	—	—	703	—	1,092
Repayments of long-term debt	(396)	—	—	(533)	—	(929)
Affiliated loan borrowings (repayments)	232	(3)	7	(236)	—	—
Capital contribution from parent	325	—	—	—	—	325
Contingent affiliate advance	225	—	—	—	—	225
Dividends paid	(2)	—	(5)	(3)	8	(2)
Minority interest in variable interest entity	24	—	—	—	—	24
Cash settlement of derivatives	—	—	—	(37)	—	(37)
	792	(3)	2	(93)	8	706
Effect of exchange rates on cash and cash equivalents	—	—	—	(18)	—	(18)
(Decrease) increase in cash and cash equivalents	(84)	—	—	6	—	(78)
Cash and cash equivalents at beginning of year	107	—	—	92	—	199
Cash and cash equivalents at end of year	<u>\$ 23</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 98</u>	<u>\$ —</u>	<u>\$ 121</u>

HEXION SPECIALTY CHEMICALS, INC.
Notes to Consolidated Financial Statements
(dollars in millions)
YEAR ENDED DECEMBER 31, 2007
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Hexion Specialty Chemicals, Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	\$ (103)	\$ —	\$ 1	\$ 276	\$ —	\$ 174
Cash flows (used in) provided by investing activities						
Capital expenditures	(54)	—	—	(68)	—	(122)
Capitalized interest	(1)	—	—	—	—	(1)
Acquisition of businesses, net of cash acquired	—	—	—	(130)	—	(130)
Dividend from subsidiary	12	—	6	—	(18)	—
Deferred acquisition costs	(101)	—	—	—	—	(101)
Proceeds from sale of assets	—	—	5	14	—	19
	<u>(144)</u>	<u>—</u>	<u>11</u>	<u>(184)</u>	<u>(18)</u>	<u>(335)</u>
Cash flows provided by (used in) financing activities						
Net short-term debt borrowings (repayments)	(2)	—	—	3	—	1
Borrowings of long-term debt	766	—	—	1,639	—	2,405
Repayments of long-term debt	(806)	—	—	(1,294)	—	(2,100)
Affiliated loan (repayments) borrowings	404	—	(1)	(403)	—	—
Dividends paid	(13)	—	(11)	(7)	18	(13)
Long-term debt and credit facility financing fees	(2)	—	—	(3)	—	(5)
	<u>347</u>	<u>—</u>	<u>(12)</u>	<u>(65)</u>	<u>18</u>	<u>288</u>
Effect of exchange rates on cash and cash equivalents	—	—	—	8	—	8
Increase (decrease) in cash and cash equivalents	100	—	—	35	—	135
Cash and cash equivalents at beginning of year	7	—	—	57	—	64
Cash and cash equivalents at end of year	<u>\$ 107</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 92</u>	<u>\$ —</u>	<u>\$ 199</u>

HEXION SPECIALTY CHEMICALS, INC.
Notes to Consolidated Financial Statements
(dollars in millions)
YEAR ENDED DECEMBER 31, 2006
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Hexion Specialty Chemicals, Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) from operating activities	\$ (108)	\$ —	\$ 3	\$ 126	\$ —	\$ 21
Cash flows provided by (used in) from investing activities						
Capital expenditures	(73)	—	—	(49)	—	(122)
Capitalized interest	(2)	—	—	(1)	—	(3)
Acquisition of business, net of cash acquired	(48)	—	—	(153)	—	(201)
Proceeds from the sale of business	—	—	5	42	—	47
Insurance proceeds from casualty loss	2	—	—	—	—	2
	(121)	—	5	(161)	—	(277)
Cash flows provided by (used in) financing activities						
Net short-term debt borrowings (repayments)	3	—	—	10	—	13
Borrowings of long-term debt	3,717	—	—	754	—	4,471
Repayments of long-term debt	(2,671)	—	—	(762)	—	(3,433)
Proceeds from issuance of preferred stock, net of issuance costs	(397)	—	—	—	—	(397)
Affiliated loan (repayments) borrowings	80	—	7	(87)	—	—
Deferred financing costs	(38)	—	—	—	—	(38)
IPO related costs	(4)	—	—	—	—	(4)
Dividends paid	(462)	—	(15)	(8)	—	(485)
Discontinued operations	—	—	—	1	—	1
	228	—	(8)	(92)	—	128
Effect of exchange rates on cash and cash equivalents	—	—	—	9	—	9
Increase (decrease) in cash and cash equivalents	(1)	—	—	(118)	—	(119)
Cash and cash equivalents at beginning of year	8	—	—	175	—	183
Cash and cash equivalents at end of year	\$ 7	\$ —	\$ —	\$ 57	\$ —	\$ 64

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of
Hexion Specialty Chemicals, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Hexion Specialty Chemicals, Inc. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 15 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit and other postretirement plans as of December 31, 2006. As discussed in Note 18 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions as of January 1, 2007.

PricewaterhouseCoopers LLP
Columbus, Ohio
March 11, 2009

Schedule II – Valuation and Qualifying Accounts

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>		<u>Column D</u>	<u>Column E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions</u>	<u>Balance at End of Period</u>
		<u>Charged to cost and expenses⁽¹⁾</u>	<u>Charged to other accounts</u>		
Allowance for Doubtful Accounts:					
Year ended December 31, 2008	\$ 22	\$ 3	\$ —	\$ (1)	\$ 24
Year ended December 31, 2007	21	2	—	(1)	22
Year ended December 31, 2006	19	5	—	(3)	21

(1) Includes the impact of foreign currency translation

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A(T) - CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, we, under the supervision and with the participation of our Disclosure Committee and our management, including our President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e). Based on that evaluation, our President and Chief Executive Officer, and Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2008.

Management's Annual Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (COSO). Based on our assessment, we have concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation described above in "Management's Annual Report on Internal Control Over Financial Reporting" that occurred during the Company's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B - OTHER INFORMATION**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers**

On March 9, 2009, the Compensation Committee of the Board of Directors of the Company approved the Hexion Specialty Chemicals, Inc. 2009 Incentive Compensation Plan (the "2009 Plan"). Each of our executive officers and other specified members of management are eligible to participate in the 2009 Plan. Under the 2009 Plan, participants earn cash bonus compensation based upon the achievement of business unit, division, and/or overall Company financial targets, environmental safety and health goals, and cash flow targets. Any payments under the plan are subject to the approval of the Company's audited annual financial results by our Audit Committee and are normally paid in April of the following year. The 2009 Plan is filed as an exhibit to this Annual Report on Form 10-K.

PART III**ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****Directors, Executive Officers, Promoters and Control Persons**

Set forth below are the names, ages and current positions of our executive officers and directors as of March 2, 2009.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Craig O. Morrison	53	Director, Chairman, President and Chief Executive Officer
William H. Carter	55	Director, Executive Vice President and Chief Financial Officer
Marvin O. Schlanger	60	Director, Vice Chairman
Joseph P. Bevilaqua	53	Executive Vice President, President – Epoxy and Phenolic Division
Peter J. Hartland	51	Executive Vice President, President – Coatings and Inks Division
Dale N. Plante	51	Executive Vice President, President – Forest Products Division
Judith A. Sonnett	52	Executive Vice President, Human Resources
Joseph Chan	53	Executive Vice President – Asia
Mary Ann Jorgenson	67	Executive Vice President and General Counsel
Richard L. Monty	61	Executive Vice President – Environmental Health and Safety
George F. Knight	52	Senior Vice President – Finance and Treasurer
Joshua J. Harris	44	Director
Scott M. Kleinman	36	Director
Robert V. Seminara	37	Director
Jordan C. Zaken	34	Director

Craig O. Morrison was elected President and Chief Executive Officer effective March 25, 2002 and Chairman of the Board of Directors on June 29, 2005. Prior to joining our Company, he served as President and General Manager of Alcan Packaging's Pharmaceutical and Cosmetic Packaging business from 1999 to 2002. From 1993 to 1998 he was President and General Manager for Van Leer Containers, Inc. Prior to joining Van Leer Containers, Mr. Morrison served in a number of management positions with General Electric's Plastics division from March 1990 to November 1993, and as a consultant with Bain and Company from 1987 to 1990. He is a member of the Environmental, Health and Safety and Executive Committees of the Board of Directors.

William H. Carter was elected Executive Vice President and Chief Financial Officer effective April 3, 1995 and a director November 20, 2001. Throughout his tenure with us, Mr. Carter has been instrumental in the restructuring of our holdings, including serving as a director and interim President and Chief Executive Officer of a former subsidiary, BCP Management Inc., from January to June 2000. Prior to joining our Company in 1995, Mr. Carter was a partner, and the engagement partner for Borden Chemical, with Price Waterhouse LLP, which he joined in 1975. He is a member of the Environmental, Health and Safety Committee of the Board of Directors.

Marvin O. Schlanger was elected Director and Vice Chairman of the Board of Directors of the Company on June 29, 2005. Mr. Schlanger served as Chairman and Chief Executive Officer of Resolution Performance and RPP Capital Corporation since November 2001 until the closing of the Hexion Formation. Since October 1998, Mr. Schlanger has been a principal in the firm of Cherry Hill Chemical Investments, LLC, which provides management services and capital to the chemical and allied industries. Mr. Schlanger is also a director of AmeriGas Partners L.P., UGI Corporation, UGI Utilities, and Momentive Performance Materials, Inc., and a director and Chairman of the Board of CEVA Group Plc. Prior to the Hexion Formation, he was a director and Chairman of the Board of RPP Capital and Resolution Specialty Materials, Inc. Mr. Schlanger is Chairman of the Environmental, Health and Safety Committee of the Board of Directors.

Joseph P. Bevilaqua is an Executive Vice President and President of the Epoxy and Phenolics Division, a position he has held since August 10, 2008. Prior to that, he was Executive Vice President and President of the Phenolic and Forest Products Division, a position he held from January 2004 to August 2008. Mr. Bevilaqua joined the Company in April 2002 as Vice President—Corporate Strategy and

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Development. From February 2000 to March 2002, he was the Vice President and General Manager of Alcan's global plastics packaging business. Prior to Alcan, Mr. Bevilaqua served in leadership positions with companies such as General Electric, Woodbridge Foam Corporation and Russell-Stanley Corporation.

Peter J. Hartland was elected an Executive Vice President and appointed President of the Coatings and Inks Division on January 5, 2009. In this role, Mr. Hartland is responsible for the Company's global coatings and inks businesses, including polyester resins, acrylic resins, and ink resins and additives. Mr. Hartland has held a number of general management and functional leadership roles during his twenty-four years with the Company and its predecessor, Borden Chemical, Inc. Prior to retiring from the Company in April 2006, Mr. Hartland, located in the U.K., held the position of Vice President Global Phenolic Resins from May 2005. Prior to May 2005, Mr. Hartland was European Managing Director for Borden Chemical Inc, a position he held from August 2001.

Dale N. Plante was elected an Executive Vice President and appointed President of the Forest Products Division on September 1, 2008. In this role, Mr. Plante is responsible for the Company's global forest products resins and formaldehyde businesses, as well as our Australian-based Applied Technology Group additives business. Mr. Plante has held a number of assignments with increasing responsibility in his twenty-seven years in the forest products sector with the Company and its predecessor, Borden Chemical, Inc. Prior to becoming President of the Forest Products division, in 2005 Mr. Plante relocated to Rotterdam to become Managing Director of Forest Products and Formaldehyde – Europe. Prior to 2005, Mr. Plante was located in Canada working for the Company's Canadian subsidiary and, from 2004-2005 was North American Sales Manager – Wood Fiber.

Judith A. Sonnett was elected Executive Vice President, Human Resources in September 2007. She has served in various HR leadership roles for the Company and its predecessor, Borden Chemical, Inc., since November 1998. Prior to her election to the position she currently holds, Ms. Sonnett was Vice President, People and Organizational Development from November 2004 thru September 2007, and prior to that, she held the title Vice President, Human Resources for Borden Chemical Inc. from November 1998 thru November 2004. From 1995 to 1998 Ms. Sonnett worked in Human Resources for W.L. Gore and Associates.

Joseph Chan was elected an Executive Vice President for the Company and appointed Managing Director -Asia on January 5, 2009. In this role, Mr. Chan leads the Company's business expansion efforts in Asia and the building of regional infrastructure and shared services support across the three divisions. Prior to that, from October 2006 through December 2008, Mr. Chan held the position of Vice President- Asia for the Epoxy and Coatings Resins Division. Prior to joining the Company, from May 2000 to September 2006, Mr. Chan was the Regional Director—Asia Pacific for Johnson Polymer LLC.

Mary Ann Jorgenson was elected Executive Vice President and General Counsel of our Company effective August 1, 2007. She is also a partner in the law firm Squire, Sanders & Dempsey L.L.P., having joined that law firm in 1975. Ms. Jorgenson's services to the Company are provided pursuant to an arrangement between Squire, Sanders & Dempsey L.L.P. and the Company.

Richard L. Monty was promoted to Executive Vice President—Environmental, Health & Safety June 1, 2005. Prior to the Hexion Formation, he held the position of Vice President—Environmental Health & Safety for Borden Chemical, Inc. beginning January 26, 2004. Prior to joining the Company, he was employed by Huntsman Corporation from July 1992 to January 2004 in various Environmental, Health and Safety positions, ultimately serving as Director, Global Environmental Health & Safety from 2001 to January 2004.

George F. Knight joined the Company in 1997. From 1999-2001 he served as Vice President of Finance for Borden Foods Corporation, an affiliate of the Company. In 2001, he re-joined the Company and was appointed Vice President—Finance and Treasurer of the Company in July 2002. He was promoted to Senior Vice President in June 2005.

Joshua J. Harris was elected a director of the Company on August 12, 2004. Mr. Harris is a founding Senior Partner at Apollo and has served as an officer of certain affiliates of Apollo since 1990. Prior to that time, Mr. Harris was a member of the Mergers and Acquisitions Department of Drexel Burnham Lambert Incorporated. Mr. Harris is also a director of the general partner of Apollo Alternative Assets, L.P., Apollo Global Management, LLC., Berry Plastics Group, CEVA Logistics, Momentive Performance Materials, Noranda Aluminum and several non-profit organizations. Prior to the Hexion Formation, Mr. Harris was a director of Resolution Performance Products LLC and Resolution Specialty Materials, Inc. He is Chairman of the Executive Committee and the Compensation Committee of the Board of Directors.

Scott M. Kleinman was elected a director of the Company on August 12, 2004. Mr. Kleinman is a Partner at Apollo, where he has worked since February 1996. Prior to that time, Mr. Kleinman was employed by Smith Barney Inc. in its Investment Banking division. Mr. Kleinman is also a director of Verso Paper Corp., Momentive Performance Materials, Noranda Aluminum, and Realogy Corporation. Prior to the Hexion Formation, Mr. Kleinman was also a director of Resolution Performance Products LLC and Resolution Specialty Materials, Inc. He is a member of the Executive, Audit and Environmental, Health and Safety Committees of the Board of Directors.

Robert V. Seminara was elected a director of the Company on August 12, 2004. Mr. Seminara is a Partner at Apollo, where he has worked since January 2003. From June 1996 to January 2003, Mr. Seminara served as an officer in the private equity investment group at Evercore Partners LLC, where he held the title Managing Director. Mr. Seminara is also a director of Berry Plastics Group. He is Chairman of the Audit Committee of the Board of Directors.

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Jordan C. Zaken was elected a director of the Company on June 29, 2005. Mr. Zaken is a Partner at Apollo, where he has worked since 1999. Prior to that time, Mr. Zaken was employed by Goldman, Sachs & Co. in its Mergers and Acquisitions Department. Mr. Zaken is also a director of Verso Paper Corp. He is a member of the Compensation and Environmental, Health and Safety Committees of the Board of Directors.

Nominating Committee

As a controlled company, we have no Nominating Committee nor do we have written procedures by which security holders may recommend nominees to our Board of Directors.

Audit Committee Financial Expert

Since we are not a listed issuer, there are no requirements that we have an independent Audit Committee. Our Audit Committee consists of Messrs. Kleinman and Seminara, both of whom are audit committee financial experts, as such term is defined in Item 407(d)(5) of Regulation S-K, and neither of whom is independent.

Code of Ethics

We have a Code of Business Ethics that applies to all associates, including our Chief Executive Officer and senior financial officers. These standards are designed to deter wrongdoing and to promote the honest and ethical conduct of all employees. Our Code of Business Ethics is posted on our website: www.hexion.com under "Investor Relations – Corporate Governance." Any substantive amendment to, or waiver from, any provision of the Code of Business Ethics with respect to any senior executive or financial officer shall be posted on this website.

ITEM 11 - EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Oversight of the Executive Compensation Program

The Compensation Committee of our Board of Directors (the "Committee") is responsible for establishing and monitoring compliance with our executive compensation philosophy. The Committee's overarching goal is that the compensation and benefits provided to executives are reasonable, fair and competitive. The Committee has the authority to approve all executive compensation, equity, and benefit programs.

The Committee sets the principles and strategies that guide the design of our executive compensation program. They annually evaluate the performance and compensation levels of the Chief Executive Officer (the "CEO") and each of the executive officers who report directly to the CEO. Based on this evaluation, the Committee establishes and approves each executive's compensation level, including base salary, and annual and long-term incentive opportunities, including any equity-based awards. Throughout this discussion, we refer to the executives named in the Summary Compensation Table in Part III, Item 11 of this Annual Report as the "Named Executive Officers." We also refer to our CEO and the executives who report directly to him as the "Senior Leadership Team." The Senior Leadership Team is currently comprised of 14 individuals. The employment of two of our 2008 Named Executive Officers ended in September 2008 and February 2009. Their 2008 compensation and severance are included herein.

Executive Compensation Philosophy and Objectives of Executive Compensation Program

Our executive compensation program is designed to focus our CEO and the Senior Leadership Team on our key strategic, financial and operational goals that will translate into long-term value creation for our owners. As a result, we believe that the compensation packages we provide to executives should include both short-term cash-based awards that incentivise the achievement of annual goals, and long-term equity-based elements that reward sustained performance. The Committee also believes that equity-based awards play an important role in creating incentives for our executives to maximize Company performance and further align the interests of our executives with those of our owners.

Our annual compensation review process includes an evaluation of executive compensation to ensure that the incentives are not only aligned with the Company's strategic goals, but also enable us to attract and retain a highly qualified and effective management team. The Committee bases its executive compensation decisions on the following philosophy:

- The compensation program should be designed to support the business with an emphasis on critical short-term objectives and long-term strategy;
- Each executive's total compensation should correlate to the scope of his or her responsibilities and relative contribution to the Company's performance; and,
- A significant portion of each executive's total compensation should be variable and contingent upon the achievement of specific financial and operational performance goals.

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Our general philosophy is to set base salaries at levels comparable to the general market for the given position, and provide the opportunity for short-term and long-term incentive compensation that will exceed the general market if we perform above target levels. The Committee does not believe in providing perquisites to our executives, other than in international locations where certain perquisites are customary.

Roles and Responsibilities

The Committee makes all final decisions regarding the compensation of our Senior Leadership Team, and is also responsible for approving equity award grants for all other employees. These decisions, other than the compensation of our CEO, are based on recommendations made by the CEO and the Executive Vice President of Human Resources. The CEO's compensation is determined by the Committee in consultation with the Executive Vice President of Human Resources. The Committee uses its discretion and judgment in accepting or modifying management's recommendations in making its final compensation decisions.

Use of Compensation Data

In setting executive compensation levels, the Committee considers general market data on total compensation packages provided to executives with similar responsibilities at comparable companies within the chemical industry, as well as companies of similar revenues and operational complexity outside the chemical industry. We also have access to a variety of salary surveys, including Hay Group PayNet, Towers Perrin Executive Compensation Database, and Watson Wyatt Data Services. When making its executive compensation decisions, the Committee does not engage in formal benchmarking against any peer group of companies, but uses this external data as a reference point and evaluates each executive's scope of responsibility, his or her specific role in value creation, and overall contributions to Company performance.

The Committee also reviews historical total compensation data on each executive, which includes base salary, target and actual annual incentive compensation and long-term incentive compensation, including equity ownership.

Executive Compensation Components

The following paragraphs describe and analyze the essential components of our executive compensation program: base salaries, annual incentive awards, long-term incentive awards, retirement benefits, international assignment compensation, and severance benefits.

Base Salaries

We provide our executives with an annual, fixed base salary commensurate with their professional status, accomplishments and scope of responsibility. The Committee reviews our executives' base salary levels annually in conjunction with the annual performance review. In addition, the Committee reviews base salaries in conjunction with promotions or significant changes in job responsibilities. When approving increases to base salaries, the Committee considers many factors including job performance, total target compensation, impact on value creation, and the competitive marketplace. We believe that it is appropriate that the base salaries of our CEO and Chief Financial Officer are set higher than those of our other executive officers due to the broad scope of responsibilities they have for the overall operations of the Company. The base salaries of our Division Presidents, in relation to each other, generally reflect the size and complexity of the business operations they manage. In March 2008, during its annual compensation review, the Committee approved merit increases for our Named Executive Officers in the range of 4% to 5%, based upon prior year performance. Mr. Morrison's salary was additionally increased by approximately 10% to more closely align his salary with CEO's at companies of similar revenue size and complexity and in recognition of his leadership since the Company's formation. In August 2008, we realigned our business divisions, and, in connection with Mr. Bevilaqua's appointment as the President of the reorganized Epoxy, Phenolics and Resins Division, his base salary was increased by 13%, in recognition of the additional responsibilities pertaining to the Company's largest division. Also at this time, Ms. Coffin's base salary was increased 13% in recognition of the increased complexity and responsibilities she assumed as the President of the reorganized Coatings and Inks Division.

In 2009, in anticipation of a continued economic slowdown, the Company instituted a base salary freeze for all salaried and hourly non-bargaining associates, where possible, including the Senior Leadership Team. In addition, as part of an across-the-board cost reduction program, the Committee approved a 10% reduction in base salary for our CEO and Senior Leadership Team, effective April 1, 2009.

Annual Incentive Awards

The purpose of our annual incentive program is to reward the executive for delivering increased value to the organization over the prior year. Annual incentive awards are targeted at a level that, when combined with base salaries, is intended to yield total annual compensation that is competitive in the marketplace, while performance above the target is intended to yield total annual compensation above the market median. The financial targets for the annual incentive plan for executives and other eligible, salaried employees are identical. We believe setting annual incentive compensation targets achievable only through strong performance, motivates our executives and other eligible employees to deliver ongoing value creation, while allowing the Company to attract and retain a highly talented Senior Leadership Team.

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Annual incentive award targets are designed to reward strong operating performance and are determined by the Committee as part of the Company's annual planning process. The annual planning process involves the development of an overall budget, which includes incentive compensation targets that consider a number of factors, such as: our prior-year performance; current market trends; integration efforts around acquired businesses; potential pricing actions; raw material projections; the realization of planned productivity initiatives; expansion plans; new product development; and other factors that could potentially impact our operations.

The Committee uses Segment EBITDA as the primary profitability measure for determining the level of the Company's financial performance for management and executive annual incentive compensation purposes. Segment EBITDA is defined as earnings before interest, income taxes, depreciation and amortization (EBITDA) that is adjusted to exclude certain non-cash or non-recurring expenses (see Item 7 of Part II of this Annual Report on Form 10-K for a reconciliation of Segment EBITDA to Net Loss). The Segment EBITDA target for the annual incentive plan is set by the Board of Directors based upon factors including, but not limited to, competitive business dynamics in the markets in which we operate, raw material trends, anticipated business unit growth, anticipated cost synergies, and business unit budget projections. Under the 2008 Annual Incentive Plan, the minimum threshold for annual incentive compensation payment was established at 95% of the targeted Segment EBITDA and the maximum was established at 108% of the targeted Segment EBITDA. If the minimum financial threshold is achieved, the executive could receive a payout equal to one-half of their targeted annual incentive. If the maximum financial target is achieved, the executive could earn up to two times his or her targeted annual incentive.

Each participant's incentive target award is based on a percentage of his or her base salary. All executives have 70% of their annual incentive compensation tied to annual Segment EBITDA and 30% tied to individual goals. The following table summarizes the targets, performance components including individual goals, and weightings for each of our Named Executive Officers.

<u>Name</u>	<u>Incentive Target (% of Base Salary)</u>	<u>Award Payout Range (% of Incentive Target)</u>	<u>Performance Components Individual Goals</u>	<u>Weight</u>
C. Morrison	100%	50% - 200%	Hexion Segment EBITDA Individual Goals	70% 30%
W. Carter	70%	50% - 200%	Hexion Segment EBITDA Individual Goals	70% 30%
J. Sonnett	60%	50% - 200%	Hexion Segment EBITDA Individual Goals	70% 30%
J. Bevilaqua, S. Coffin, K. Verhaar	70%	50% - 200%	Hexion Segment EBITDA Division Segment EBITDA Individual Goals	20% 50% 30%

We believe that our Division Presidents' incentive compensation must have a strong tie to their division's performance where they have the greatest impact, while retaining a tie to the overall Hexion results. We believe this fosters line-of-sight business performance as well as teamwork and collaboration. Therefore, for our division Presidents, the 70% financial goal is weighted 20% on overall Hexion Segment EBITDA and 50% on their division's segment EBITDA. The 30% tied to their individual goals is weighted 10% on the achievement of division working capital targets, 10% on the achievement of division environmental health and safety (EH&S) targets, and 10% on the achievement of other individual goals as determined by the CEO. Payments are made for the achievement of, EH&S, Working Capital, and other individual goals only if the minimum financial performance threshold is met. Our CEO's individual goals are established annually in consultation with our Board of Directors, while the other Named Executive Officers' goals are established by the CEO in consultation with each executive at the beginning of the year. For 2008, the CEO's individual goals focused on environmental safety and health, leveraging current technology and new product development for internal volume growth, Asia business strategies, and productivity and six sigma initiatives. Although a realignment of our business divisions occurred late in the third quarter of 2008, it was determined that the Division Presidents' incentive targets would remain aligned with their prior divisions for the full 2008 incentive year.

The 2008 Hexion Segment EBITDA achieved was below the minimum threshold; therefore, no Named Executive Officer received an incentive payment for 2008.

Long-term Incentive Awards

The Committee may, from time to time, approve the grant of equity-based awards to our Named Executive Officers, other members of the Senior Leadership Team and other eligible associates. We believe that our executives are rewarded for their performance through the realization of value in their long-term equity incentive awards. Our equity incentive awards cover equity securities of our parent, Hexion LLC, and are generally subject to time-based or performance-based vesting requirements. Time-based awards function as a retention incentive, while performance-based awards are linked to the Company's attainment of specific long-term objectives.

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In 2004, in connection with the Borden Transaction, Messrs. Morrison, Carter and Bevilaqua deferred the receipt of compensation and were credited with a number of deferred stock units in Hexion LLC, and were granted options to acquire additional units. These deferred stock units are held pursuant to the 2004 Deferred Compensation Plan (the “2004 DC Plan”) and will be distributed upon termination of employment or retirement. The options vest over specified periods of time (subject to accelerated vesting if there is a sale of the Company and certain performance requirements are met). The material terms of the options are further described in the narrative to the Outstanding Equity Awards table. The Committee believes that the equity positions held by Messrs. Morrison, Carter and Bevilaqua remain appropriate for their respective positions, and therefore they have not received any additional equity grants since the Borden transaction. No new equity awards were granted to any executives in 2008.

Retirement Benefits

Each of our Named Executive Officers, other than Mr. Verhaar, participates in qualified defined-benefit and defined-contribution retirement plans offered to U.S. employees of one of our predecessor entities, Borden Chemical, on substantially the same terms as our other participating employees. However, due to maximum limitations imposed by the Employee Retirement Income Security Act of 1974 (“ERISA”) and the Internal Revenue Code (“IRC”) on the annual amount of a pension which may be paid under a qualified defined benefit plan, the benefits that would otherwise be payable to the Named Executive Officers under the Employees Retirement Income Plan, our qualified defined benefit plan (the “ERIP”), are required to be limited. Similarly, the tax law limits the contributions that may otherwise be made each year to our Named Executive Officers’ accounts under our qualified defined contribution plan, the Retirement Savings Plan. Because we do not believe that it is appropriate for the Named Executive Officers’ retirement benefits to be reduced because of limits under ERISA and the IRC, we have established a non-qualified supplemental retirement plan that permits the Named Executive Officers to receive the full amount of benefits that would be paid under the ERIP and the contributions that would be made under the Retirement Savings Plan but for such limitations. In December 2008, as a result of the economic downturn, the Company halted further employee and employer contributions to the non-qualified plan until further notice. As a Dutch citizen, during his term of employment with the Company, Mr. Verhaar participated in a government-sponsored defined benefit plan and a company-sponsored defined benefit-type supplemental pension plan on substantially the same terms as our other Dutch employees. There is a description of these plans in the narrative following the Pension Benefits table below.

International Assignment Compensation

Benefits provided to executives as part of an international assignment are viewed by the Committee as a means to compensate the executive for financial expenses which would not exist if the executive remained in his or her home country. We believe that, as a growing global company, it is necessary to offer this compensation to encourage key executives to temporarily relocate for strategic business reasons. In November 2008, as part of his new role as President of the Epoxy, Phenolics and Resins division, Mr. Bevilaqua was placed on an international assignment to Rotterdam, The Netherlands. Consistent with the Company’s international assignment policy, Mr. Bevilaqua receives a housing allowance, a goods and services allowance, a settling-in allowance at the beginning and end of his assignment to cover incidental expenses of the move not otherwise reimbursed, tax preparation support and tax equalization for his allowances and Dutch taxes. In addition, Mr. Bevilaqua will have the use of a car under the European Automobile Policy.

Severance Benefits

We believe that providing severance benefits helps us to attract and retain highly qualified employees. In 2004, in connection with the Borden Transaction, we entered into separate employment agreements with Messrs. Morrison, Bevilaqua and Carter that, among other things, provide that the executive would be entitled to severance benefits in the event of a termination of employment by the Company without cause or by the executive for good reason. The Committee determined that it was appropriate to provide these executives with severance benefits in the event of a termination of employment by the Company without cause or by the executive for good reason, as part of their overall compensation package under the circumstances existing at that time, which involved a change in control of the Company, and in light of their positions with the Company. The severance benefits for these executives are generally determined as if they continued to remain employed by the Company for certain periods of time following their actual termination date, as described below under “Potential Payments Upon Termination or Change in Control.”

Ms. Coffin was, and Ms. Sonnett is, covered under corporate severance guidelines that apply to our U.S. associates whose employment is terminated by us without cause. These guidelines are applicable to U.S. associates who are not entitled to severance benefits under an employment or union agreement. Mr. Verhaar’s employment agreement provided that he would be entitled to severance benefits in the event of termination of employment by the Company without cause. Upon their termination of employment, the Company negotiated severance agreements with Mr. Verhaar and Ms. Coffin, which provide for severance pay, a transition bonus, and other benefits in consideration for their continued cooperation on certain ongoing business matters. These benefits are quantified in the “Potential Payments Upon Termination of Employment” table.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION⁽¹⁾

The Compensation Committee has certain duties and powers as described in its charter. The Compensation Committee is currently composed of the two non-employee directors named at the end of this report. The Compensation Committee has reviewed and discussed with management the disclosures contained in the above Compensation Discussion and Analysis. Based upon this review and discussion, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis section be included in our Annual Report on Form 10-K.

Compensation Committee of the Board of Directors

Joshua J. Harris (Chairman)

Jordan C. Zaken

⁽¹⁾ SEC filings sometimes “incorporate information by reference.” This means the Company is referring you to information that has previously been filed with the SEC, and that this information should be considered as part of the filing you are reading. Unless the Company specifically states otherwise, this report shall not be deemed to be incorporated by reference and shall not constitute soliciting material or otherwise be considered filed under the Securities Act or the Securities Exchange Act.

Summary Compensation Table – Fiscal 2008, 2007 and 2006

The following table presents information about the compensation of our CEO, Chief Financial Officer, our three next most highly compensated executive officers at December 31, 2008, and one former executive officer who would have been among our most highly compensated executive officers had he been serving as an executive officer at year-end, whom we collectively refer to as our Named Executive Officers, for the years ended December 31, 2008, 2007 and 2006.

SUMMARY COMPENSATION TABLE

Names and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (1) (d)	Stock Awards (\$) (2) (e)	Options Awards (\$) (2) (f)	Non-Equity Incentive Plan Compensation (\$) (3) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (4) (h)	All Other Compensation (\$) (5) (i)	Total (\$) (j)
Craig O. Morrison President and Chief Executive Officer	2008	847,956	—	—	680,566	—	107,804	75,916	1,712,242
	2007	759,451	—	—	680,566	649,711	63,534	36,601	2,189,863
	2006	728,373	—	—	729,217	—	110,205	84,912	1,652,707
William H. Carter Executive Vice President and Chief Financial Officer	2008	646,683	—	—	544,453	—	86,824	66,431	1,344,391
	2007	622,382	—	—	544,453	372,372	67,087	31,664	1,637,958
	2006	598,564	—	—	583,373	—	87,304	56,369	1,325,610
Joseph P. Bevilaqua ⁽⁶⁾ Executive Vice President, Phenolic & Forest Product Resins Division	2008	459,203	—	—	226,856	—	51,317	111,591	848,967
	2007	417,853	—	—	226,856	275,322	31,076	19,473	970,580
	2006	398,672	—	—	243,073	—	39,649	26,790	708,184
Sarah R. Coffin Executive Vice President, Performance Products Division	2008	368,046	27,778	63,058	—	—	33,727	26,717	519,326
	2007	331,827	41,667	42,039	—	136,564	26,309	18,897	597,303
	2006	299,375	63,287	—	—	78,380	30,413	13,087	484,542
Judith A. Sonnett Executive Vice President, Human Resources	2008	350,200	31,111	18,918	—	—	33,950	12,295	446,474
Cornelis Kees Verhaar ⁽⁶⁾ Former Executive Vice President Epoxy and Coatings Resins	2008	481,489	—	—	—	—	61,032	776,779	1,319,300
	2007	456,179	—	29,427	—	356,137	101,597	132,814	1,076,154

- (1) The amounts shown in column (d) for Ms. Coffin and Ms. Sonnett include the portion of a their awards under the 2005 Long-Term Value Creation Reward Program that vested during 2006, 2007 and 2008. The awards vested ratably over three years with the full award being paid in September 2008. For 2006, Ms. Coffin's amount also includes a discretionary bonus award of \$21,620.
- (2) The amounts shown in columns (e) and (f) reflect the amounts that were recognized for financial statement reporting purposes for each of the fiscal years with respect to awards granted or modified in accordance with SFAS 123(R), *Share-Based Payment* (disregarding any estimate of forfeitures related to service-based vesting conditions). Assumptions that were used to calculate these amounts are included in Note 14 of Item 8 of Part II of this Annual Report on Form 10-K. See the Narrative to the Equity Awards Table for a description of the stock and option awards. Mr. Verhaar's unvested restricted stock units and unvested options were forfeited upon his separation from the Company in August 2008.
- (3) The amounts shown in column (g) reflect the amounts awarded under our Annual Incentive Plans. The material terms of the 2008 plan are described in the "Compensation Discussion & Analysis" above. No awards were paid under the 2008 Plan.
- (4) The amounts shown in column (h) reflect the actuarial increase in the present value of each Named Executive Officers' benefits under our Employees' Retirement Income Plan and our Executive Supplemental Pension Plan (a non-qualified deferred compensation plan) for Messrs. Morrison, Carter, and Bevilaqua, Ms. Coffin and Ms. Sonnett and under the Pensioenregeling sponsored by our Dutch subsidiary, Hexion Specialty Chemicals B.V. for Mr. Verhaar.
- (5) The amounts shown for Messrs. Morrison, Carter, and Bevilaqua, Ms. Coffin and Ms. Sonnett in column (i) include company matching contributions to our Retirement Savings Plan and the Executive Supplemental Pension Plan, and company-paid life insurance premiums. The aggregate amount of the company matching contributions to the defined contribution plans for each Named Executive Officer for 2008 was as follows: Morrison—\$74,883, Carter—\$62,735, Bevilaqua—\$26,218, Coffin—\$25,231, and Sonnett—\$11,500. In addition, for Mr. Bevilaqua, the amount shown includes perquisite benefits for international assignment compensation of \$84,352, which includes a settling-in allowance of \$50,000, housing expenses and allowances of \$23,189, goods and services allowances, and moving expenses. Also included in Mr. Bevilaqua's international assignment compensation are tax gross-ups of \$868. The amount shown for Mr. Verhaar represents accrued severance payments of \$512,037 which are paid monthly in twelve installments of \$42,670 through August 2009, a transition bonus paid to him under his separation agreement of \$239,002, and perquisite benefits of \$25,740, which included the use of a company car in accordance with the European Automobile Policy which totaled \$22,501 for 2008, a monthly allowance to partially compensate him for the cost of private medical insurance, and a home office allowance.

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- (6) Mr. Verhaar was paid in euros. Amounts in columns (c), (g), (h) and (i) were converted to U.S. dollars using the Company's average annual internal exchange rate of 1 euro = U.S. \$1.4708. A portion of Mr. Bevilaqua's perquisite benefits were paid in euros. A portion of the amount in column (i) was converted to U.S. dollars using the Company's average fourth quarter 2008 internal exchange rate of 1 euro = U.S. \$1.3196.

Narrative to the Summary Compensation Table

In August 2004, we entered into employment agreements with Messrs. Morrison, Bevilaqua and Carter. Under the terms of each of these employment agreements, each executive has agreed not to disclose any confidential information concerning our business. In addition, each executive has agreed not to solicit or hire any of our employees or solicit any of our customers, suppliers, licensees or other business relations until one year after he or she ceases to receive any payments under the agreement. Furthermore, each executive has agreed not to engage in any business competing with our business or products anywhere in the world where we are doing business until after he or she ceases to receive any payments pursuant to the agreement (or in certain circumstances, the first anniversary of such date). The employment agreements for Messrs. Morrison, Bevilaqua and Carter also provide that the executive will be entitled to severance benefits on certain terminations of employment. Additional information on these severance benefits is provided under "Potential Payments Upon Termination or Change in Control" below. The other employment terms described in these agreements relate to base salary, bonus opportunities and other benefits which are now out of date. In December 2008, certain clarifications to Messrs Morrison, Bevilaqua and Carter's agreements were made to bring them into compliance with Internal Revenue Code §409A regulations.

In November of 2008, in connection with his new role as EVP and President of the Epoxy and Phenolic Resins Division, Mr. Bevilaqua accepted an international assignment with the Company, which is expected to last for a period of 36 months. Under the terms of his assignment agreement, Mr. Bevilaqua will receive annual compensation of \$500,000, which will be reviewed on April 1, 2010. He will continue to participate in the annual incentive plan with an incentive target of 70% of base salary. During the term of his assignment, the Company will pay for tax preparation assistance for Mr. Bevilaqua. In addition to four weeks vacation pay, the Company will reimburse Mr. Bevilaqua for up to \$25,000 for personal travel for himself and family members each year. Relocation and repatriation expenses for Mr. Bevilaqua and his spouse are paid by the Company in addition to a relocation allowance at the beginning and end of his assignment equal to 10% of his base salary. Also during the term of his assignment, Mr. Bevilaqua will receive a housing allowance of up to \$5,000 per month, and a monthly goods and services allowance of \$4,800 to compensate for the difference in the cost of living internationally. He is also provided with a vehicle under the Company's European Automobile Policy and will be reimbursed up to \$1,500 for the loss of value from the forced sale of a car due to his relocation. The Company provides six months of language and cultural lessons for Mr. Bevilaqua and his spouse and he remains eligible to participate in the Company's medical and retirement plans. Upon the completion of his international assignment, the Company will seek to offer a suitable alternative position to Mr. Bevilaqua in the U.S., and will pay to relocate him if no such position is available. Upon repatriation, the Company will provide 60 days of temporary housing and \$2,500 for expenses. This agreement can be terminated upon three months notice by either party. In the event that the agreement is terminated by the Company prior to its term, the Company will pay repatriation expenses and other unavoidable expenses incurred as a result of the termination, for up to three months following repatriation.

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Grants of Plan Based Awards – Fiscal 2008

The following table presents information about grants of awards during the year ended December 31, 2008 under our 2008 annual cash incentive plan, which is described in the Compensation Discussion and Analysis.

Name (a)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards:	All Other Option Awards:	Exercise or Base Price of Options Awards (\$/Sh) (k)	Grant Date Fair Value of Stock Option Awards (\$)	
	Grant Date (b)	Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	Number of Shares of Stock or Units (#) (i)			Number of Securities Underlying Options (#) (j)
Craig O. Morrison	—	437,500	875,000	1,750,000	—	—	—	—	—	—	—
William H. Carter	—	228,537	457,073	914,147	—	—	—	—	—	—	—
Joseph P. Bevilaqua	—	163,211	326,423	652,846	—	—	—	—	—	—	—
Sarah R. Coffin	—	130,527	261,053	522,107	—	—	—	—	—	—	—
Judith A. Sonnett	—	106,080	212,160	424,320	—	—	—	—	—	—	—
Cornelis Kees Verhaar	—	169,577	339,155	678,309	—	—	—	—	—	—	—

(1) The 2008 Hexion Segment EBITDA achieved was below the minimum threshold; therefore, there are no amounts payable under the Company's 2008 annual cash incentive plan.

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Outstanding Equity Awards at Fiscal 2008 Year-End

The following table presents information about outstanding and unexercised options and outstanding and unvested stock awards held by our Named Executive Officers at December 31, 2008. The securities underlying the awards are common units of our parent, Hexion LLC. See the Narrative to Equity Awards Tables for a discussion of the vesting conditions applicable to the awards.

Name (a)	Options Awards					Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (d)	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (h) (1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (j)	
Craig O. Morrison										
Hexion LLC Tranche A	241,211	60,303	—	6.22	8/12/2014	—	—	—	—	
Hexion LLC Tranche B	—	301,514	—	6.22	8/12/2014	—	—	—	—	
William H. Carter										
Hexion LLC Tranche A	192,969	48,242	—	6.22	8/12/2014	—	—	—	—	
Hexion LLC Tranche B	—	241,211	—	6.22	8/12/2014	—	—	—	—	
Joseph P. Bevilacqua										
Hexion LLC Tranche A	80,404	20,101	—	6.22	8/12/2014	—	—	—	—	
Hexion LLC Tranche B	—	100,505	—	6.22	8/12/2014	—	—	—	—	
Sarah R. Coffin⁽²⁾										
Hexion LLC Options (with performance conditions)	—	—	60,000	10.81	4/30/2015	—	—	—	—	
Hexion LLC 3 Year Vest Restricted Unit Awards	—	—	—	—	—	10,000	12,700	—	—	
Hexion LLC 4 Year Vest Restricted Unit Awards	—	—	—	—	—	10,000	12,700	—	—	
Judith A. Sonnett										
Hexion LLC Options (with performance conditions)	—	—	18,000	10.81	4/30/2015	—	—	—	—	
Hexion LLC 3 Year Vest Restricted Unit Awards	—	—	—	—	—	3,000	3,810	—	—	
Hexion LLC 4 Year Vest Restricted Unit Awards	—	—	—	—	—	3,000	3,810	—	—	
Cornelis Kees Verhaar⁽³⁾										

(1) Since equity interests in our parent, Hexion LLC, are not publicly traded, there is no closing market price at the completion of the fiscal year. The market values shown in column (h) are based on the most recent value of a unit of Hexion LLC as determined by Hexion LLC's board of managers for management equity transaction purposes. In light of differences between the companies, including differences in capitalization, a value of a unit in Hexion LLC does not necessarily equal the value of a share of the Company's common stock.

(2) Ms. Coffin's 20,000 unvested restricted stock units and 60,000 unvested options were forfeited upon her separation from the Company in 2009.

(3) Mr. Verhaar's equity awards were all forfeited upon his termination of employment prior to year-end.

Narrative to Equity Awards Tables

The outstanding options held by Messrs. Morrison, Carter and Bevilaqua were granted under the Hexion LLC 2004 Stock Incentive Plan (the “2004 Incentive Plan”) and cover equity securities of our parent, Hexion LLC. The “Tranche A” options reported in the table above vest in annual installments on each of the first five anniversaries of the grant date, which was August 2004. To the extent outstanding and not yet vested, these options would also vest one year after the Company is sold or upon a termination of the optionee’s employment by the Company without cause or by the optionee for good reason, within the one-year period following a Company sale. The “Tranche B” options reported in the table are designed to vest on the eighth anniversary of the grant date (August 2004) but are subject to accelerated vesting in connection with a sale of the Company, if specified internal rates of return for the Company’s investors and target EBITDA levels are met. Since the specified rates of return have already been achieved, if a Company sale occurs, the options would vest six months after the date of the Company sale (or upon a termination of the optionee’s employment by the Company without cause or by the optionee for good reason during this six-month period). Definitions of specific terms used above in relation to vesting of options are found in the 2004 Incentive Plan or the agreement that evidences the individual award.

The outstanding options and restricted unit awards held by Ms. Coffin and Ms. Sonnett at year-end were granted under the 2007 Long-Term Plan and cover equity securities of our parent, Hexion LLC. The option awards vest only if our owner realizes certain internal rates of return on its investment in a sale or other transfer to independent third parties of a majority interest in Hexion LLC. The restricted unit awards vest 100% on the third or fourth anniversary of the grant date, which was April 2007, or, upon a change in control event (as defined in the 2007 Long-Term Plan). Vested units will be distributed to the participants upon termination of employment with the Company. Options and restricted unit awards that were granted to Ms. Coffin and Mr. Verhaar under the 2007 Long-Term Plan were forfeited upon their separation from the Company.

The Compensation Committee administers the 2004 Incentive Plan and the 2007 Long-Term Plan. As is customary in incentive plans of this nature, the terms of outstanding awards under the plans are subject to adjustment upon the occurrence of certain corporate events affecting the securities underlying the award.

In 2005 and 2006, Hexion LLC declared extraordinary dividends to its unit holders. To preserve the value of the then-outstanding Hexion LLC options, dividend equivalent payments were designated for the holders of the Hexion LLC options based on the dividends paid by Hexion LLC. Payment of these dividend equivalents was deferred until two years after the dividend payment date (or, if later, until the date the underlying option vests). Messrs. Morrison, Carter and Bevilaqua received dividend equivalent payments in October 2008 of \$421,284, \$337,027 and \$140,428, respectively, on their vested Hexion LLC options in respect of the dividend declared in 2005. In connection with the 2006 dividend, Messrs. Morrison, Carter and Bevilaqua were entitled to dividend equivalent payments in November 2008, to be paid in January 2009, on vested options in the amounts of \$1,401,438, \$1,121,150, and \$467,146, respectively. Due to the economic downturn, Messrs. Morrison and Carter voluntarily declined receipt of the November dividend equivalent payments. In addition, Mr. Morrison voluntarily returned the after-tax portion of the dividend equivalent payment he received in October, which totaled \$252,815. At the time of the dividend equivalent payments, these executives also received distributions from Hexion LLC of membership interests in Borden Holdings LLC. The value of the membership interests distributed to the three executives was \$11,483 for Mr. Morrison, \$9,187 for Mr. Carter, and \$3,828 for Mr. Bevilaqua.

Option Exercises and Stock Vested – Fiscal 2008

This table is omitted because none of our Named Executive Officers exercised options during 2008, and no stock awards held by any Named Executive Officer vested during 2008.

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Pension Benefits – 2008

The following table presents information regarding the present value of accumulated benefits that may become payable to each of the Named Executive Officers under our qualified and nonqualified defined-benefit pension plans as of December 31, 2008.

Name (a)	Plan Name (b)	Number of Years Credited Service (#) (c)	Present Value of Accumulated Benefit (\$) (d)	Payments During Last Fiscal Year (\$) (e)
Craig O. Morrison	ERIP	6.75	101,394	—
	Supplemental Plan		388,034	—
William H. Carter	ERIP	13.75	189,811	—
	Supplemental Plan		525,512	—
Joseph P. Bevilaqua	ERIP	6.75	90,612	—
	Supplemental Plan		114,221	—
Sarah R. Coffin	ERIP	3.92	51,273	—
	Supplemental Plan		48565	—
Judith A. Sonnett	ERIP	10.17	124,987	—
	Supplemental Plan		70,138	—
Cornelis Kees Verhaar ⁽¹⁾	Dutch Plan	3.33	257,446	—

(1) Mr. Verhaar's pension plan is valued in euros. The present value in column (d) was converted to U.S. dollars based upon the Company's internal conversion rate for December 31, 2008 of 1 euro = U.S. \$1.3917 and payments in column (e) were converted to U.S. dollars using the Company's average monthly internal exchange rate. Mr. Verhaar's number of years credited service includes 0.67 years from a previous employer.

Narrative to Pension Benefits Table

Employees' Retirement Income Plan ("ERIP")

The ERIP covers U.S. employees who work in locations and/or business units associated with the former Borden Chemical. This plan was amended as of January 1, 1987 to provide benefit credits equal to 3% of earnings to the extent that this credit does not exceed the Social Security wage base for the year plus 6% of eligible earnings in excess of the social security wage base. Earnings include annual incentive awards that are paid currently, but exclude any long-term incentive awards. Benefits for service through December 31, 1986 are based on the plan formula then in effect and have been converted to opening balances in the plan. Both opening balances and benefit credits receive interest credits at one-year Treasury bill rates until the participant begins to receive benefit payments. For the year ended December 31, 2008, the interest rate that was determined under the plan was 3.62%. Benefits vest after the completion of five years of employment for all employees hired on or after July 1, 1990.

Retirement Savings Plan ("Savings Plan")

The Savings Plan, which is a defined contribution plan, covers U.S. employees who work in locations and/or business units associated with the former Borden Chemical. This plan allows eligible employees, including four of our five Named Executive Officers, to make pre-tax contributions from 1% to 15% of eligible earnings for highly compensated employees and 25% for all other employees. Those employees are also eligible to receive matching contributions from the Company at 100% on contributions of up to 5% of eligible earnings. Additional company contributions may be made if we achieve specified annual financial measures established at the beginning of the plan year. Participants in the Savings Plan begin vesting in the company matching contributions after two years of service and are fully vested after five years of service. Messrs. Morrison, Carter, and Bevilaqua, Ms. Coffin and Ms. Sonnett participate in this plan.

Executives' Supplemental Pension Plan ("Supplemental Plan")

Generally, we only provide supplemental benefits when the terms of the benefit programs that all other employees participate in are limited or restricted by federal compensation limits. As a result, for employees who participate in our ERIP, including Messrs. Morrison, Carter, and Bevilaqua, Ms. Coffin and Ms. Sonnett, we sponsor the Supplemental Plan, which provides supplemental pension benefits (1) to the extent that benefits provided under the ERIP are limited by Sections 401(a)(17) and 415 of the IRC and (2) with respect to compensation deferred under the Supplemental Plan that would have been included for purposes of calculating

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benefits under the ERIP but for such deferral, in each case, using the same formula as the ERIP. The Supplemental Plan also provides an opportunity for employees whose compensation exceeds the limit under Section 401(a)(17) of the IRC to voluntarily elect to defer compensation, and also provides other employees with an opportunity to elect a “make-up benefit” for the benefits that are limited under Section 415 of the IRC for defined contribution plans, in each case, using the same formula as the Savings Plan. (These Supplemental Plan benefits that are intended to supplement the benefits under our Savings Plan are reported below in the “Nonqualified Deferred Compensation” table.) The Supplemental Plan benefits are unfunded and paid from our general assets. In December 2008, as a result of the economic downturn, the Company halted further employee and employer contributions to the Supplemental Plan until further notice.

Dutch Pension Plan

As a Dutch citizen, Mr. Verhaar participated in a defined benefit type supplemental pension plan based on career average salary, which provides a pension benefit at retirement age of approximately 70% of the average salary earned during his employment (above an annual threshold of 12,100 euro). Eligible participants accrue 2.25% of their pension benefit for each year of active participation in the plan. At the time of his departure, Mr. Verhaar was credited with his years of service with Hexion and is entitled to 100% of his benefits.

Nonqualified Deferred Compensation - Fiscal 2008

The following table presents information on contributions to, earnings accrued under and distributions from our non tax-qualified defined contribution and other nonqualified deferred compensation plans. We have two non tax-qualified deferred compensation plans: the Supplemental Plan and the 2004 DC Plan.

Name (a)	Executive Contributions in Last FY (\$)(1)(b)	Registrant Contributions in Last FY (\$)(c)	Aggregate Earnings in Last FY (\$)(d)	Aggregate Withdrawals/ Distributions (\$)(e)	Aggregate Balance at Last FYE (\$)(f)
Craig O. Morrison					
Supplemental Plan	126,767	63,383	30,604	—	800,281
2004 DC Plan	—	—	—	—	306,338
William H. Carter					
Supplemental Plan	73,337	51,235	63,814	—	1,530,042
2004 DC Plan	—	—	—	—	245,071
Joseph P. Bevilaqua					
Supplemental Plan	25,226	14,719	11,502	—	290,181
2004 DC Plan	—	—	—	—	102,113
Sarah R. Coffin					
Supplemental Plan	27,461	13,731	2,102	—	76,414
Judith A. Sonnett					
Supplemental Plan	—	—	3,088	—	71,137
Cornelis Kees Verhaar	—	—	—	—	—

(1) The amounts in column (b) are included in the amounts reported as salary in the Summary Compensation Table for each of the Named Executive Officers who participate in the Supplemental Plan. The amounts in column (b) and (c) are only the “make-up benefit” for the benefits limited under the IRC for our Savings Plan.

Potential Payments Upon Termination or Change-in-Control

As noted above, we have entered into separate employment agreements with Messrs. Morrison, Bevilaqua and Carter that, among other things, provide that the executive would be entitled to severance benefits in the event of a termination of employment by the Company without cause or by the executive for good reason. The severance benefits for these executives are generally determined as if they continued to remain employed by the Company for 18 months in the case of Mr. Morrison, for 24 months in the case of Mr. Carter, and for 12 months in the case of Mr. Bevilaqua, following their actual termination date.

Upon a termination of employment for any reason, we would distribute to Messrs. Morrison, Carter, and Bevilaqua the Hexion LLC common units credited to them under the 2004 DC Plan as described in the “Nonqualified Deferred Compensation” table above. We have given these executives a right to require the Company to purchase their common units, and any units acquired upon the exercise of vested options, at fair value following their separation from the Company if the Company has not consummated an initial public offering.

As previously described, Ms. Coffin was covered and Ms. Sonnett is covered under corporate severance guidelines that apply to any of our U.S. associates. Under these guidelines, Ms. Coffin and Ms. Sonnett could receive a minimum of 52 weeks and a maximum of 78 weeks of base salary determined based upon their years of service at termination and their contributions to the Company. The cash severance in the table below for Ms. Sonnett and Ms. Coffin is based upon the low end of the range under the guidelines.

In January 2009, we entered into Severance Pay Agreement and Release of all Claims with Ms. Coffin. The agreement provides for the continuation of her current base salary of \$400,000 for fifty-two weeks to be paid in bi-weekly installments of \$15,385 each and a transition bonus of \$126,000. The agreement also provides for payment of a lump sum intended to cover the approximate cost of the Company’s portion of medical care coverage premiums under COBRA for twenty-six weeks following February 16, 2009, which amount will be grossed-up for federal income tax withholding. Ms. Coffin will receive payment for accrued but unused vacation through her termination date and twelve months of executive outplacement support. In consideration, she released all employment-related claims against the Company and affirmed the terms of a preexisting Confidentiality, Trade Secret and Non-Compete Agreement with the Company.

In August 2008, we entered into a Deed of Settlement with Mr. Verhaar that supersedes his 2006 employment agreement. The Deed of Settlement provides for a transition bonus payment of \$239,002 and one year of his salary in severance payments paid in twelve monthly installments of \$42,670 through August 2009. In consideration he agreed not to disclose confidential information concerning our business, not to engage in any business activities similar to or competitive with those of the Company for one year following termination of his employment, and to remain available to the Company for pending and future litigation.

The table below presents the dollar value of the estimated severance benefits to which each executive, other than Mr. Verhaar, would have been entitled had a qualifying termination of employment occurred on December 31, 2008. The payments shown for Mr. Verhaar represent the actual value of the severance and benefits to which he is entitled under his August 2008 arrangement with the Company.

**Potential Payments Upon Termination of Employment
No Accelerating Event**

<u>Name</u>	<u>Cash Severance (\$)</u>	<u>Continued Health Benefits (\$)</u>	<u>Outplacement Services Allowance (\$)</u>
Craig O. Morrison	1,312,500	24,670	40,000
William H. Carter	1,305,924	24,407	40,000
Joseph P. Bevilaqua	500,000	16,131	40,000
Sarah R. Coffin	400,000	7,457	40,000
Judith A. Sonnett	353,600	—	40,000
Cornelis Kees Verhaar	751,039	—	—

As noted above in the Narrative to Equity Awards Tables, our Named Executive Officers may also be entitled to accelerated vesting of their outstanding equity awards under the 2004 Incentive Plan and 2007 Long-Term Plan in connection with a sale of the Company or Hexion LLC. Please see the Narrative to Equity Awards Tables above for additional information on the outstanding awards held by our Named Executive Officers at December 31, 2008 and the terms of these awards. The following table shows the value of the outstanding and unvested equity awards held by each of our Named Executive Officers at December 31, 2008. There was no value

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in the stock options at December 31, 2008 as the exercise prices exceeded the stock value. Ms. Coffin's restricted stock units at December 31, 2008 were forfeited upon her separation from the Company in early in 2009. (See footnote (1) to the "Outstanding Equity Awards at Fiscal 2008 Year End" table for the valuation of Hexion LLC units used to calculate these values.)

Value of Unvested Stock Options and Restricted Stock Units

Name	2004 Incentive Plan Stock Options Tranche A (\$)	2004 Incentive Stock Options Tranche B (\$)	2007 Incentive Plan Restricted Stock Units (\$)	2007 Incentive Plan Stock Options (\$)
Craig O. Morrison	—	—	—	—
William H. Carter	—	—	—	—
Joseph P. Bevilaqua	—	—	—	—
Sarah R. Coffin	—	—	25,400	—
Judith A. Sonnett	—	—	7,620	—
Cornelis Kees Verhaar	—	—	—	—

Director Compensation – Fiscal 2008

The table below summarizes the compensation we paid to non-employee Directors for the year ended December 31, 2008.

Name (a)	Fees Earned or Paid in Cash (\$) (b)	Stock Awards (\$) (c)	Option Awards (\$) (1) (d)	Non-Equity Incentive Plan Compensation (\$) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (f)	All Other Compensation (\$) (2) (g)	Total (\$) (h)
Joshua J. Harris	33,500	—	—	—	—	—	33,500
Scott M. Kleinman	36,500	—	—	—	—	—	36,500
Marvin O. Schlanger	34,500	—	—	—	—	158,091	192,591
Robert V. Seminara	35,500	—	—	—	—	—	35,500
Jordan C. Zaken	35,000	—	—	—	—	—	35,000

- At December 31, 2008, Messrs. Harris, Kleinman, Schlanger, Seminara, and Zaken held options covering 86,748; 86,748; 278,412; 28,141, and 28,141 common units, respectively, in Hexion LLC. All of the options held by Mr. Schlanger and Mr. Zaken are fully vested. Of the options held by Messrs. Harris and Kleinman, 58,607 are fully vested. The remainder of Messrs. Harris and Kleinman's options and all of Mr. Seminara's options vest upon an initial public offering of the company.
- Of the amount reported for Mr. Schlanger in column (g), \$150,000, represents consulting fees and the remainder is reimbursement for health insurance coverage, both pursuant to a consulting agreement, the material terms of which are described below.

Narrative to Directors' Compensation Table

Until fourth quarter of 2008, we paid our non-employee directors an annual cash retainer of \$40,000, paid quarterly after each fiscal quarter of service, and a fee of \$1,000 for each board and committee meeting attended in person. Fifty percent of the meeting fee is paid for board and committee meetings attended by teleconference. Directors who are also employees of the Company receive no additional compensation for their service as Directors. Directors are eligible to receive equity-based awards from time to time on a discretionary basis. Beginning with fourth quarter 2008, in anticipation of the economic downturn, we suspended payment of director fees.

We had a consulting agreement with Mr. Schlanger, which ran through December 31, 2008. Under the terms of the consulting agreement, Mr. Schlanger agreed not to disclose any confidential information concerning our business and not to solicit or hire any of our employees or solicit any of our customers until 24 months after termination of his consulting engagement. Furthermore, he agreed not to engage in any business that is in competition with our business at any time during the term of the consulting agreement. The consulting agreement provided for Mr. Schlanger (i) to be paid a monthly consulting fee of \$12,500, (ii) to be paid or reimbursed for his costs to maintain health insurance coverage for himself and his dependents that is similar to the coverage we provided during his employment, (iii) to be paid the normal fees paid to other non-employee directors for so long as he remains a member of our Board of Directors, and (iv) to continue to be eligible to vest in his stock options until the termination of the consulting agreement.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Harris and Zaken, whose names appear on the Compensation Committee Report above, were Compensation Committee members during all of 2008. Both of these directors are partners of Apollo Management, L.P., our controlling shareholder. Neither of these directors is or has been an executive officer of the Company. None of our executive officers served as a director or a member of a compensation committee (or other committee serving an equivalent function) of any other entity, the executive officers of which served as a director or member of our Compensation Committee during the fiscal year ended December 31, 2008.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of Hexion common stock, as of March 2, 2009, and shows the number of shares and percentage owned by:

- each person known to beneficially own more than 5% of the common stock of Hexion;
- each of Hexion's 2008 Named Executive Officers;
- each member of the Board of Directors of Hexion; and
- all of the executive officers and members of the Board of Directors of Hexion as a group.

Hexion LLC owns 100% of our outstanding common stock. Apollo, other investors and certain members of our management own their interests in our common stock set forth below through their ownership of Hexion LLC. Apollo has sole voting power and investment power with respect to the shares of the Company owned by Hexion LLC. Leon D. Black and John J. Hannan are the directors and executive officers of entities which have dispositive voting or investment control over the other entities or funds affiliated with Apollo that control Hexion LLC. Although Messrs. Black and Hannan may each be deemed a beneficial owner of shares of Hexion beneficially owned by Apollo, each such person disclaims beneficial ownership of such shares.

The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. Except as otherwise indicated in the footnotes below, each of the beneficial owners has, to our knowledge, sole voting and investment power with respect to the indicated shares of common stock, and has not pledged any such shares as security.

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<u>Name of Beneficial Owner</u>	<u>Beneficial Ownership of Equity Securities</u>	
	<u>Shares</u>	<u>Percent</u>
Apollo Management, L.P. ⁽¹⁾	75,154,789	90.8%
Joshua J. Harris ⁽¹⁾⁽²⁾	58,607	*
Scott M. Kleinman ⁽¹⁾⁽²⁾	58,607	*
Robert V. Seminara ⁽¹⁾⁽²⁾	0	*
Jordan C. Zaken ⁽¹⁾⁽²⁾	28,141	*
Marvin O. Schlanger ⁽³⁾	803,586	*
Craig O. Morrison ⁽⁴⁾	241,211	*
William H. Carter ⁽⁵⁾	192,969	*
Joseph P. Bevilaqua ⁽⁶⁾	80,404	*
Sarah R. Coffin	0	*
Cornelis Kees Verhaar	0	*
Judy Sonnett	0	*
All Directors and Executive Officers as a group (17 persons) ⁽⁷⁾	1,522,521	1.9

* less than 1%

- (1) Represents the ownership interest in the Company indirectly attributable to Apollo through Apollo's ownership of Hexion LLC. The address of AIF Hexion Holdings, LP and Apollo is c/o Apollo Management, L.P., 9 West 57th Street, New York, New York 10019.
- (2) Although each of Messrs. Harris, Kleinman, Seminara and Zaken may be deemed a beneficial owner of Hexion units beneficially owned by Apollo due to his status as a partner or senior partner of Apollo, each such person disclaims beneficial ownership of any such units. For Messrs. Harris and Kleinman, includes 58,607 units issuable upon the exercise of options granted to each of Messrs. Harris and Kleinman that were vested as of the date hereof. For Mr. Zaken, includes 28,141 units issuable upon the exercise of options granted that were vested as of the date hereof. The address of Messrs. Harris, Kleinman, Seminara and Zaken is c/o Apollo Management, L.P., 9 West 57th Street, New York, New York 10019.
- (3) Includes 278,368 units subject to option currently exercisable.
- (4) Represents 241,211 units subject to option currently exercisable. Does not include 241,211 deferred units credited to Mr. Morrison's account.
- (5) Represents 192,969 units subject to option currently exercisable. Does not include 192,969 deferred units credited to Mr. Carter's account.
- (6) Represents 80,404 units subject to option currently exercisable. Does not include 80,404 deferred units credited to Mr. Bevilaqua's account.
- (7) Includes 997,303 units of common stock issuable upon the exercise of options granted to our directors and executive officers that were vested as of the date hereof. Does not include 573,580 deferred common stock units.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Review, Approval or Ratification of Transactions with Related Persons

We have a written Statement of Policy and Procedures Regarding Related Person Transactions that has been adopted by our Board of Directors.

The policy requires the Company to establish and maintain procedures for identifying potential or existing transactions between the Company and related persons. The policy generally adopts the definitions of “related person” and “transaction” set forth in Regulation S-K Item 404 under the Securities Act of 1933 and the Securities Exchange Act of 1934.

The types of transactions that are covered by our policy include financial and other transactions, arrangements or relationships in which the Company or any of its subsidiaries is a participant and in which a related person has a direct or indirect material interest, where the amount involved exceeds \$75,000.

Related persons include directors and director nominees, executive officers, shareholders beneficially owning more than 5% of the Company’s voting stock, and immediate family members of any of the previously described persons. A related person could also be an entity in which a director, executive officer or 5% shareholder is an employee, general partner or 5% shareholder.

Transactions identified by management that are between the Company and a related person that involve amounts exceeding \$75,000 will be reviewed by the Board, the Audit Committee, or another appropriate committee of the Board. In certain situations, the Board or a committee may delegate authority to an individual Board member to review related person transactions.

Under the policy, the Board or a committee of the Board is directed to approve only those related person transactions that are determined by them in good faith to be in, or not inconsistent with, the best interest of the Company and its shareholders. In making this determination, all available, relevant facts and circumstances will be considered, including the benefits to the Company; the impact of the transaction on the related person’s independence; the availability of other sources of comparable products or services; the terms of the transaction; and the terms available to unrelated third parties or to employees in general.

Our policy recognizes that there are situations where related person transactions may be in, or may not be inconsistent with, the best interests of the Company and its shareholders, especially while we are a “controlled company”.

There were no new related person transactions that were deemed material since the beginning of the last fiscal year. In addition, there were no material related person transactions where our policies and procedures did not require review, approval or ratification or where such policies and procedures were not followed.

Related Transactions

Management Consulting Agreement

We have an amended and restated management consulting agreement (the “Agreement”) with Apollo which allows Apollo and its affiliates to provide certain advisory services to us for a seven year period, with an automatic extension of the term for a one year period beginning on the fourth anniversary of the commencement of the Agreement, which was May 31, 2005, and at the end of each year thereafter, unless notice to the contrary is given by either party. The Agreement provides for an annual fee equal to the greater of \$3 million or 2% of Adjusted EBITDA, as defined in the indentures governing our notes. In addition, we are also required to pay Apollo a transaction fee if we engage in any merger, acquisition or similar transaction unless we are unable to mutually agree upon the terms of Apollo’s engagement, in which case, we will be able to retain another special advisor. We paid Apollo annual fees of \$3 million in 2008, pursuant to the Agreement. Under the Agreement, we have also agreed to indemnify Apollo and its affiliates and their directors, officers and representatives for potential losses relating to the services contemplated under this Agreement. If this Agreement is terminated in connection with a sale of the company or an initial public offering, we will be required under the terms of the Agreement to pay Apollo a lump-sum amount equal to the net present value of the remaining annual management fees owing and payable by us until the expiration of the Agreement, determined using an applicable discount rate.

Transactions related to the Terminated Merger Agreement and Settlement with Huntsman

As further described in Note 3 to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, the proposed merger between Huntsman and us was terminated and related litigation was settled in December 2008 pursuant to a settlement agreement and release dated December 14, 2008. Under the settlement agreement, we paid Huntsman a \$325 million termination fee, as required by the Merger Agreement. In addition, on a joint and several basis with certain affiliates of Apollo, we paid Huntsman

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\$225 million, while reserving all rights with respect to reallocation of the payments to other affiliates of Apollo, and certain affiliates of Apollo paid Huntsman \$200 million to settle all claims, while reserving all rights with respect to reallocation of the payments to certain other affiliates of Apollo. Finally, certain affiliates of Apollo purchased \$250 million of Huntsman's 7% convertible senior notes. Separately, pursuant to the settlement agreement, certain affiliates of Apollo agreed to provide \$200 million of financing to us.

The \$325 million termination fee we paid to Huntsman was funded through a capital contribution from our parent, Hexion LLC. Our parent financed the capital contribution through a borrowing from Credit Suisse and Deutsche Bank. The \$225 settlement payment was funded by an advance from Apollo. Any amount of this payment that we recover from our insurance carriers, net of expense incurred in obtaining such recoveries, will be reimbursed to Apollo.

Other Financing Arrangements

Pursuant to the settlement agreement and release, certain affiliates of Apollo have entered into a commitment letter with the Company and Hexion LLC pursuant to which they committed to purchase \$200 million in preferred units and warrants of Hexion LLC by December 31, 2011. Prior to the purchase of all the preferred shares and warrants, certain affiliates of Apollo have committed to provide liquidity facilities to Hexion LLC or us on an interim basis. The aggregate liquidity facilities outstanding, together with the purchase price for any purchased preferred shares and warrants, will at no time exceed \$200 million. In connection therewith, on March 3, 2009, certain affiliates of Apollo extended a \$100 term loan to us and an affiliate of ours (the "Term Loan"). The Term Loan was fully funded on March 6, 2009 and will mature on December 31, 2011 with interest at adjusted LIBOR plus 2.25% per annum.

In the fourth quarter of 2008, we entered into accounts receivable purchase and sale agreements to sell \$55 million of our trade accounts receivable to affiliates of Apollo on terms which management believes were more favorable to the Company than could have been obtained from another party. The agreements provide for the sale of receivables at a discount relative to their carrying value in exchange for all interests in such receivables. We also retain the obligation to service the collection of the receivables on the affiliates' behalf. Fees for the servicing were less than \$1 million for the year ended December 31, 2008.

Director Independence

We have no securities listed for trading on a national securities exchange or in an automated inter-dealer quotation system of a national securities association which has requirements that a majority of our board of directors be independent. For purposes of complying with the disclosure requirements of the Securities and Exchange Commission, we have adopted the definition of independence used by the New York Stock Exchange. Under the New York Stock Exchange's definition of independence, none of our directors is independent.

ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

PricewaterhouseCoopers LLP ("PwC") is the Company's principal accounting firm. The following table sets forth the fees billed by PwC to the Company in 2008 and 2007 (in millions):

	PwC	
	2008	2007
Audit fees ^(a)	\$ 6	\$ 6
Audit-related fees ^(b)	6	1
Tax fees ^(c)	2	1
All other fees	—	—
Total fees	<u>\$ 14</u>	<u>\$ 8</u>

- (a) **Audit Fees.** This category includes fees and expenses billed by PwC for the audits of the Company's financial statements and for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q. This category includes audit fees and expenses for engagements performed at U.S. and international locations, including stand-alone audits of Hexion Specialty Chemicals Canada, Inc., for the fiscal years ended December 31, 2008 and 2007.
- (b) **Audit-Related Fees.** This category includes fees and expenses billed by PwC for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements. This category includes fees for due diligence related to the terminated Huntsman merger and other audit-related accounting and SEC reporting services.
- (c) **Tax Fees.** This category includes fees and expenses billed by PwC for domestic and international tax compliance and planning services and tax advice, including planning services related to the terminated Huntsman merger.

Pre-Approval Policy and Procedures

Under a policy adopted by the Audit Committee, all audit and non-audit services provided by our principal accounting firms must be pre-approved by the Audit Committee or a member designated by the Committee. All services pre-approved by the designated member are reported to the full Audit Committee at its next regularly scheduled meeting. The pre-approval of audit and non-audit services may be made at any time up to a year before the commencement of the specified service. Under the policy, the Company is prohibited from using its principal accounting firms for certain non-audit services, the list of which is based upon the list of prohibited activities in the SEC's rules and regulations. Pursuant to the pre-approval provisions set forth above, the Audit Committee approved all services related to the Audit Fees, Audit-Related Fees and Tax Fees described at (a) through (c) above.

PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (1) Consolidated Financial Statements – The financial statements and related notes of Hexion Specialty Chemicals, Inc., and the reports of independent registered public accounting firms are included at Item 8 of this report.
- (2) Financial Statement Schedules – Schedule II – Valuation and Qualifying Accounts and Reserves. Also included are the financial statements and related notes of Hexion Specialty Chemicals Canada, Inc., as its securities collateralize an issue being registered, as defined by Rule 3-16 of Regulation S-X under the Securities Act of 1933, and the reports of independent registered public accounting firms. All other schedules are omitted because they are not applicable or not required, or because that required information is shown in either the Consolidated Financial Statements or in the notes thereto.
- (3) Exhibits Required by SEC Regulation S-K – The following Exhibits are filed herewith or incorporated herein by reference:
 - 2.1† Transaction Agreement dated as of April 22, 2005 among Resolution Performance Holdings LLC, Resolution Performance Products Inc., Resolution Performance Products LLC, Resolution Specialty Materials Holdings LLC, Resolution Specialty Materials LLC, Lawter International Inc., BHI Acquisition Corp., BHI Merger Sub Inc., and Borden Chemical Inc. (incorporated by reference to Exhibit 2.1 to Amendment No. 3 of the Registrant’s Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
 - 2.2† Amended and Restated Master Sale Agreement (US) dated as of November 14, 2000 among Shell Oil Company, Resin Acquisition, LLC and Resolution Performance Products Inc. (incorporated by reference to Resolution Performance’s Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
 - 2.3† Amended and Restated SPNV Resins Sale Agreement dated as of November 14, 2000 between Shell Oil Company and Resolution Performance Products Inc. (incorporated by reference to Resolution Performance’s Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
 - 2.4 Assignment and Assumption Agreement dated November 13, 2000 between Resolution Performance Products Inc. and Resolution Performance Products LLC (incorporated by reference to Resolution Performance’s Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
 - 2.5 Assignment and Assumption Agreement dated November 14, 2000 between Resin Acquisition, LLC and Resolution Performance Holdings LLC (incorporated by reference to Resolution Performance’s Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
 - 2.6 Agreement and Plan of Merger dated July 12, 2007 among Hexion Specialty Chemicals, Inc., Nimbus Merger Sub Inc., and Huntsman Corporation (incorporated by reference to Exhibit 2.1 to Registrant’s Form 8-K dated July 17, 2007 (File No. 001-00071))
 - 3.1 Restated Certificate of Incorporation of Hexion Specialty Chemicals, Inc. dated as of July 18, 2006 (incorporated by reference to Exhibit 3.5 to Amendment No. 1 of the Registrant’s Registration Statement on Form S-4 filed on August 1, 2006 (File No. 333-135482))
 - 3.2 Amended and Restated Bylaws of Hexion Specialty Chemicals, Inc. dated July 18, 2006 (incorporated by reference to Exhibit 3.6 to Amendment No. 1 of the Registrant’s Registration Statement on Form S-4 filed on August 1, 2006 (File No. 333-135482))
 - 4.1 Form of Indenture between the registrant and The First National Bank of Chicago, as Trustee, dated as of January 15, 1983, as supplemented by the First Supplemental Indenture dated as of March 31, 1986, and the Second Supplemental Indenture, dated as of June 26, 1996, relating to the \$200,000,000 8³/₈% Sinking Fund Debentures due 2016, (incorporated herein by reference from Exhibits (4)(a) and (b) to Amendment No. 1 to Registration Statement on Form S-3, File No. 33-4381 and Exhibit (4)(iv) to the June 30, 1996, Form 10-Q.)

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- 4.2 Form of Indenture between the registrant and The Bank of New York, as Trustee, dated as of December 15, 1987, as supplemented by the First Supplemental Indenture dated as of December 15, 1987, and the Second Supplemental Indenture dated as of February 1, 1993, and the Third Supplemental Indenture dated as of June 26, 1996, (incorporated herein by reference from Exhibits (4)(a) through (d) to Borden Chemical's Registration Statement on Form S-3, File No. 33-45770 and Exhibit (4)(iii) to the June 30, 1996, Form 10-Q filed on August 14, 1996 (File No. 001-00071)), relating to the following Debentures and Notes:
- (a) The \$200,000,000 9¹/₅% Debentures due 2021.
- (b) The \$250,000,000 7⁷/₈% Debentures due 2023.
- Priority Senior Secured Floating Rate Notes due 2010 and (b) the \$325,000,000 9% Second-Priority Senior Secured Notes due 2014 (incorporated by reference to Exhibit 4(i) to Borden Chemical's Form 10-Q filed on November 15, 2004, File No. 001-00071)
- 4.3 Indenture dated as of November 3, 2006 among Hexion U.S. Finance Corp., Hexion Nova Scotia Finance, ULC, the Company, the guarantors named therein and Wilmington Trust Company, as trustee, related to the \$200,000,000 second-priority senior secured floating rate notes due 2014 and the \$625,000,000 9³/₄% second-priority senior secured notes due 2014. (incorporated by reference to exhibit 4.3 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2006)
- 4.4 First Supplemental Indenture, dated as of October 23, 2008, by and among Hexion U.S. Finance Corp., Hexion Nova Scotia Finance, ULC, Hexion Specialty Chemicals, Inc., the guarantors party thereto and Wilmington Trust Company, supplementing that certain Indenture dated as of November 3, 2006, pursuant to which the Second-Priority Senior Secured Floating Rate Notes Due 2014 and the 9³/₄% Second Priority Senior Secured Notes due 2014 were issued (incorporated by reference to Exhibit 4.1 to Registrant's Form 8-K dated October 24, 2008 (File No. 001-0071))
- 10.1 BHI Acquisition Corp. 2004 Deferred Compensation Plan (incorporated by reference to Exhibit 10(iv) to Borden Chemical's September 30, 2004 Form 10-Q filed on November 15, 2004 (File No. 001-00071))
- 10.2 BHI Acquisition Corp. 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10(v) to Borden Chemical's September 30, 2004 Form 10-Q filed on November 15, 2004 (File No. 001-00071))
- 10.3 Resolution Performance Products Inc. 2000 Stock Option Plan (incorporated by reference to Resolution Performance's Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
- 10.4 Resolution Performance Products Inc. 2000 Non - Employee Directors Stock Option Plan (incorporated by reference to Resolution Performance's Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
- 10.5 Amended and Restated Resolution Performance Products, Inc. Restricted Unit Plan (incorporated by reference to Exhibit 10.34 to Amendment No. 5 of the Registrant's Registration Statement on Form S-1 filed on September 19, 2005 (File No. 333-124287))
- 10.6 Form of Non-Qualified Stock Option Agreement between BHI Acquisition Corp. and certain optionees (incorporated by reference to Exhibit 10.12 to Borden Chemical's Registration Statement on Form S-4 filed on February 14, 2005 (File No. 333-1228626))
- 10.7 Resolution Specialty Materials Inc. 2004 Stock Option Plan (incorporated by reference to Exhibit 10.52 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
- 10.8 Form of Nonqualified Stock Option Agreement for Resolution Specialty Materials Inc. 2004 Stock Option Plan (incorporated by reference to Exhibit 10.53 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
- 10.9 Form of Nonqualified Stock Option Agreement for Resolution Performance Products Inc. 2000 Stock Option Plan (incorporated by reference to Exhibit 10.54 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
- 10.10 Form of Nonqualified Stock Option Agreement for Resolution Performance Products Inc. 2000 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.55 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))

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- 10.11 Hexion LLC 2007 Long-Term Incentive Plan dated April 30, 2007 (incorporated by reference to exhibit 10.1 to Registrant's Form 10-Q dated August 14, 2007 (File No. 001-00071))
- 10.12 Investor Rights Agreement dated as of August 12, 2004 among BHI Acquisition Corp., and The Holders that are parties thereto (incorporated by reference to Exhibit 10(vi) to Borden Chemical's September 30, 2004 Form 10-Q filed on November 15, 2004 (File No. 001-00071))
- 10.13 Registration Rights Agreement dated as of August 12, 2004 among BHI Acquisition Corp., BHI Investment, LC, and the Management Holders party thereto (incorporated by reference to Exhibit 10(vii) to Borden Chemical's September 30, 2004 Form 10-Q filed on November 15, 2004 (File No. 001-00071))
- 10.14 Amended and Restated Investor Rights Agreement dated as of May 31, 2005 between Hexion LLC, Hexion Specialty Chemicals, Inc. and the holders that are party thereto (incorporated by reference to Exhibit 10.63 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
- 10.15 Registration Rights Agreement dated as of May 31, 2005 between Hexion Specialty Chemicals, Inc. and Hexion LLC (incorporated by reference to Exhibit 10.64 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
- 10.16 Form Offer Letter (incorporated by reference to Exhibit 10 to Borden Chemical's March 31, 2004 10-Q filed on May 13, 2004 (File No. 001-00071))
- 10.17 Long-Term Value Creation Reward Program (incorporated by reference to Exhibit 10.76 to Amendment No. 5 of the Registrant's Registration Statement on Form S-1 filed on September 19, 2005 (File No. 333-124287))
- 10.18 Amendment to Long-Term Value Creation Reward Program (incorporated by reference to exhibit 10.2 to Registrant's Form 10-Q dated August 14, 2007 (File No. 001-00071))
- 10.19 Amended and Restated Executive Supplemental Pension Plan, dated as of September 7, 2005 (incorporated by reference to Exhibit (10) to Registrant's Form 8-K filed on September 12, 2005 (File No. 001-00071))
- 10.20 Advisory Directors Plan (incorporated by reference to Exhibit 10(viii) to Borden Chemical's 1989 Form 10-K Annual Report.)
- 10.21 Hexion Specialty Chemicals, Inc. 2009 Leadership Long-Term Cash Incentive Plan
- 10.22 Hexion Specialty Chemicals, Inc. 2006 Salaried Incentive Plan (incorporated by reference to Exhibit 10.72 to Amendment No. 1 of the Registrant's Registration Statement on Form S-4 filed on August 1, 2006 (File No. 333-135482))
- 10.23 Hexion Specialty Chemicals, Inc. 2007 Incentive Compensation Plan (incorporated by reference to Exhibit 10.20 of the Registrant's Form 10-K filed on March 22, 2007 (File No. 001-00071))
- 10.24 Hexion Specialty Chemicals, Inc. 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.22 of the Registrant's Form 10-K filed on March 13, 2008 (File No. 001-00071))
- 10.25 Hexion Specialty Chemicals, Inc. 2009 Incentive Compensation Plan
- 10.26 Amended and Restated Employment Agreement dated as of August 12, 2004 between the Company and Craig O. Morrison (incorporated by reference to Exhibit 10(i) to Borden Chemical's September 30, 2004 Form 10-Q filed on November 15, 2004 (File No. 001-00071))
- 10.27 Amended and Restated Employment Agreement dated as of August 12, 2004 between the Company and Joseph P. Bevilaqua (incorporated by reference to Exhibit 10(ii) to Borden Chemical's September 30, 2004 Form 10-Q filed on November 15, 2004 (File No. 001-00071))
- 10.28 International assignment agreement dated as of November 13, 2008 between the Company and Joseph P. Bevilaqua
- 10.29 Amended and Restated Employment Agreement dated as of August 12, 2004 between the Company and William H. Carter. (incorporated by reference to Exhibit 10(iii) to Borden Chemical's September 30, 2004 Form 10-Q filed on November 15, 2004 (File No. 001-00071))
- 10.30 Terms of employment dated January 21, 2005 between Sarah R. Coffin and the Company (incorporated by reference to Exhibit (10) to Borden Chemical's Current Report on Form 8-K dated February 14, 2005 (File No. 001-00071))
- 10.31 Severance Pay Agreement and Release of all Claims dated January 29, 2009 between Sarah R. Coffin and the Company

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- 10.32 Employment Agreement dated as of April 20, 2006 between the Company and Cornelis K. Verhaar (incorporated by reference to Exhibit 10.27 of the Registrant's Form 10-K filed on March 13, 2008 (File No. 001-00071))
- 10.33 Deed of Settlement dated August 11, 2008 between the Company and Cornelis K. Verhaar
- 10.34 Employment Agreement dated as of June 1, 2005 between Hexion Specialty Chemicals, Inc. and Marvin O. Schlanger (incorporated by reference to Exhibit 10.59 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
- 10.35 Amendment No. 1 dated as of January 25, 2006 to the Employment Agreement dated as of June 1, 2005 between the Registrant and Marvin O. Schlanger (incorporated herein by reference to Exhibit 10.75 to Amendment No. 7 to the Registrant's Registration Statement on Form S-1 filed on April 14, 2006 (File No. 333-124287))
- 10.36 Consulting Agreement dated as of June 1, 2005 between Hexion Specialty Chemicals, Inc. and Marvin O. Schlanger (incorporated by reference to Exhibit 10.60 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
- 10.37 Amendment No. 1 dated as of January 25, 2006 to the Consulting Agreement dated as of June 1, 2005 between the Registrant and Marvin O. Schlanger (incorporated by reference to Exhibit 10.76 to Amendment No. 7 to the Registrant's Registration Statement on Form S-1 filed on April 14, 2006 (File No. 333-124287))
- 10.38 Master Asset Conveyance and Facility Support Agreement, dated as of December 20, 2002, between Borden Chemical and Borden Chemicals and Plastics Operating Limited Partnership (incorporated by reference to Exhibit (10)(xxvi) to Borden Chemical's December 31, 2002 Form 10-K filed on March 28, 2003 (File No. 001-00071))
- 10.39 Environmental Servitude Agreement, dated as of December 20, 2002, between Borden Chemical and Borden Chemicals and Plastics Operating Limited Partnership (incorporated by reference to Exhibit (10)(xxvii) to Borden Chemical's December 31, 2002 Form 10-K filed on March 28, 2003 (File No. 001-00071))
- 10.40 Intellectual Property Transfer and License Agreement and Contribution Agreement dated as of November 14, 2000 between Shell Oil Company and Resolution Performance Products LLC (incorporated by reference to Resolution Performance's Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
- 10.41 Intellectual Property Transfer and License Agreement and Contribution Agreement dated as of November 14, 2000 between Shell Internationale Research Maatschappij B.V. and Shell Epoxy Resins Research B.V. (incorporated by reference to Resolution Performance's Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
- 10.42 First Amended and Restated Deer Park Site Services, Utilities, Materials and Facilities Agreement dated November 1, 2000 between Shell Chemical Company, for itself and as agent for Shell Oil Company, and Resolution Performance Products LLC (incorporated by reference to Resolution Performance's Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
- 10.43 First Amended and Restated Pernis Site Services, Utilities, Materials and Facilities Agreement dated November 1, 2000 between Resolution Europe B.V. (f/k/a Resolution Nederland B.V., f/k/a Shell Epoxy Resins Nederland B.V.) and Shell Nederland Raffinaderij B.V. (incorporated by reference to Resolution Performance's Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
- 10.44 First Amended and Restated Pernis Site Services, Utilities, Materials and Facilities Agreement dated November 1, 2000 between Resolution Europe B.V. (f/k/a Resolution Nederland B.V., f/k/a Shell Epoxy Resins Nederland B.V.) and Shell Nederland Chemie B.V. (incorporated by reference to Resolution Performance's Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
- 10.45† Second Amended and Restated Norco Site Services, Utilities, Materials and Facilities Agreement dated November 1, 2004 between Shell Chemical L.P. and Resolution Performance Products LLC. (incorporated by reference to Exhibit 10.45 to the Registrant's Form 10-K filed on March 22, 2007 (File No. 001-00071))
- 10.46 Deer Park Ground Lease and Grant of Easements dated as of November 1, 2000 between Shell Oil Company and Resolution Performance Products LLC (incorporated by reference to Resolution Performance's Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))

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- 10.47 Norco Ground Lease and Grant of Servitudes dated as of November 1, 2000 between Shell Oil Company and Resolution Performance Products LLC (incorporated by reference to Resolution Performance's Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
- 10.48 Amended and Restated Agreement of Sub—Lease (Pernis) dated as of November 1, 2000 between Resolution Europe B.V. (f/k/a Resolution Nederland B.V., f/k/a Shell Epoxy Resins Nederland B.V.) and Shell Nederland Raffinaderij B.V. (incorporated by reference to Resolution Performance's Registration Statement on Form S-4 filed on March 16, 2001 (File No. 333-57170))
- 10.49 Amended and Restated Consulting Agreement dated as of May 31, 2005 between Borden Chemical, Inc. and Apollo Management V, L.P. (incorporated by reference to Exhibit 10.66 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
- 10.50† Credit Agreement dated as of May 31, 2005 among Hexion LLC, Hexion Specialty Chemicals, Inc., Borden Chemical Canada, Inc., Resolution Europe B.V., Borden Chemical GB Limited, Borden Chemical UK Limited, Bakelite AG, the various lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Citicorp North America, Inc., as Syndication Agent, Credit Suisse, as Documentation Agent, and J.P. Morgan Securities Inc., Citigroup Global Markets Inc. and Credit Suisse, as Joint Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.68 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
- 10.51 Second Amended and Restated Intercreditor Agreement dated as of May 31, 2005 among JPMorgan Chase Bank, N.A., as Intercreditor Agent, Wilmington Trust Company, as New Trustee, Hexion LLC, Hexion Specialty Chemicals, Inc., and each subsidiary of Hexion Specialty Chemicals, Inc. party thereto (incorporated by reference to Exhibit 10.69 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
- 10.52 Second Amended and Restated Intercreditor Agreement dated as of May 31, 2005 among JPMorgan Chase Bank, N.A., as Collateral Agent, and acknowledged and agreed to by Hexion LLC, Hexion Specialty Chemicals, Inc., and each subsidiary of Hexion Specialty Chemicals, Inc. party thereto (incorporated by reference to Exhibit 10.70 to Amendment No. 3 of the Registrant's Registration Statement on Form S-1 filed on July 15, 2005 (File No. 333-124287))
- 10.53 Amendment and Restatement Agreement dated as of May 5, 2006 among Hexion LLC, Hexion Specialty Chemicals, Inc., Hexion Specialty Chemicals Canada, Inc., Hexion Specialty Chemicals B.V., Hexion Specialty Chemicals UK Limited, Borden Chemical UK Limited, the lenders party thereto and JP Morgan Chase Bank, N.A., as administrative agent under the Credit Agreement dated as of May 31, 2005 among Hexion LLC, Hexion Specialty Chemicals, Inc., Hexion Specialty Chemicals Canada, Inc., Hexion Specialty Chemicals B.V., Hexion Specialty Chemicals UK Limited, Borden Chemical UK Limited, the lenders party thereto from time to time and the agents, arrangers and bookrunners party thereto (incorporated herein by reference to Exhibit 10.70 to Amendment No. 8 to Hexion's Registration Statement on Form S-1 filed on May 15, 2006 (File No. 333-124287))
- 10.54 Amended and Restated Credit Agreement dated as of May 5, 2006 among Hexion LLC, Hexion Specialty Chemicals, Inc., Hexion Specialty Chemicals Canada, Inc., Hexion Specialty Chemicals B.V., Hexion Specialty Chemicals UK Limited, Borden Chemical UK Limited, the lenders party thereto and JP Morgan Chase Bank, N.A., as Administrative Agent, Credit Suisse, as Syndication Agent, Citicorp North America, Inc., as Documentation Agent, and Credit Suisse Securities (USA) LLC, J.P. Morgan Securities Inc. and Citigroup Global Markets Inc., as Joint Lead Arrangers and Joint Bookrunners (incorporated herein by reference to Exhibit 10.71 to Amendment No. 8 to Hexion's Registration Statement on Form S-1 filed on May 15, 2006 (File No. 333-124287))
- 10.55 Intercreditor Agreement dated as of November 3, 2006 among the Company, Hexion LLC, the subsidiary parties thereto, Wilmington Trust Company as trustee and JPMorgan Chase Bank, N.A. as intercreditor agent. (incorporated by reference to exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2006 (File No. 001-00071))
- 10.56 Registration Rights Agreement dated as of November 3, 2006 among Hexion U.S. Finance Corp., Hexion Nova Scotia Finance ULC, the Company and subsidiary parties thereto, and Credit Suisse Securities (USA) LLC and JPMorgan Securities, Inc. as initial purchasers. (incorporated by reference to exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2006 (File No. 001-00071))

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- 10.57 Collateral Agreement dated as of November 3, 2006 among the Company and subsidiary parties thereto, and Wilmington Trust Company, as Collateral Agent.
- 10.58 Second Amended and Restated Collateral Agreement dated as of November 3, 2006 among Hexion LLC, the Company and subsidiary parties thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent.
- 10.59 Second Amended and Restated Credit Agreement dated as of November 3, 2006 among Hexion LLC, Hexion Specialty Chemicals, Inc., Hexion Specialty Chemicals Canada, Inc., Hexion Specialty Chemicals B.V., Hexion Specialty Chemicals UK Limited, Borden Chemical UK Limited, the lenders party thereto and JP Morgan Chase Bank, N.A., as Administrative Agent, Credit Suisse, as Syndication Agent, and J.P. Morgan Securities Inc. and Credit Suisse Securities (USA) LLC, as Joint Lead Arrangers and Joint Bookrunners. (incorporated by reference to exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2006 (File No. 001-00071))
- 10.60 Incremental Facility Amendment and Amendment No. 1 to the Second Amended and Restated Credit Agreement dated as of June 15, 2007 among Hexion LLC, Hexion Specialty Chemicals, Inc., Hexion Specialty Chemicals Canada, Inc., Hexion Specialty Chemicals B.V., Hexion Specialty Chemicals UK Limited, Borden Chemical UK Limited, the lenders party thereto and JP Morgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to exhibit 10.1 to Registrant's Form 8-K dated June 20, 2007 (File No. 001-00071))
- 10.61 Second Incremental Facility Amendment to the Second Amended and Restated Credit Agreement dated as of August 7, 2007 among Hexion LLC, Hexion Specialty Chemicals, Inc., Hexion Specialty Chemicals Canada, Inc., Hexion Specialty Chemicals B.V., Hexion Specialty Chemicals UK Limited, Borden Chemical UK Limited, the lenders party thereto and JP Morgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to exhibit 10.1 to Registrant's Form 8-K dated August 8, 2007 (File No. 001-00071))
- 10.62 Settlement Agreement and Release, dated December 14, 2008, among Huntsman Corporation, Jon M. Huntsman, Peter R. Huntsman, Hexion Specialty Chemicals, Inc., Hexion LLC, Nimbus Merger Sub, Inc., Craig O. Morrison, Leon Black, Joshua J. Harris and Apollo Global Management, LLC and certain of its affiliates (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K dated December 15, 2008 (File No. 001-00071))
- 10.63 Commitment Letter dated as of March 3, 2009 among the Hexion Specialty Chemicals, Inc., Hexion LLC, Euro VI (BC) S.a.r.l., Euro V (BC) S.a.r.l., and AAA Co-Invest VI (EHS-BC) S.a.r.l. a (incorporated by reference to exhibit 10.1 to Registrant's Form 8-K dated March 3, 2009 (File No. 001-00071))
- 10.64 Credit Agreement dated as of March 3, 2009 among Hexion Specialty Chemicals, Inc., Borden Luxembourg S.a.r.l., Euro V (BC) S.a.r.l., Euro VI (BC) S.a.r.l., and AAA Co-Invest VI (EHS-BC) S.a.r.l. (incorporated by reference to exhibit 10.2 to Registrant's Form 8-K dated March 3, 2009 (File No. 001-00071))
- 10.65 Indemnification Agreement dated as of March 3, 2009 among Apollo Management, L.P. and subsidiary parties thereto, Hexion LLC, Hexion Specialty Chemicals, Inc., and Nimbus Merger Sub Inc. (incorporated by reference to exhibit 10.3 to Registrant's Form 8-K dated March 3, 2009 (File No. 001-00071))
- 21.1 List of Subsidiaries of the registrant
- 31.1 Rule 13a-14 Certifications
 - (a) Certificate of the Chief Executive Officer
 - (b) Certificate of the Chief Financial Officer
- 32.1 Section 1350 Certifications

† The schedules and exhibits to these agreements are omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally to the SEC, upon request, a copy of any omitted schedule or exhibit.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HEXION SPECIALTY CHEMICALS, INC.

By /s/ William H. Carter
William H. Carter
Executive Vice President and Chief Financial Officer

Date: March 11, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Signature</u>	<u>Date</u>
Craig O. Morrison	Director, President and Chief Executive Officer (Principal Executive Officer)	<u>/s/ Craig O. Morrison</u>	<u>3/11/2009</u>
William H. Carter	Director, Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)	<u>/s/ William H. Carter</u>	<u>3/11/2009</u>
Joshua J. Harris	Director	<u>/s/ Joshua J. Harris</u>	<u>3/11/2009</u>
Scott M. Kleinman	Director	<u>/s/ Scott M. Kleinman</u>	<u>3/11/2009</u>
Robert V. Seminara	Director	<u>/s/ Robert V. Seminara</u>	<u>3/11/2009</u>
Jordan C. Zaken	Director	<u>/s/ Jordan C. Zaken</u>	<u>3/11/2009</u>
Marvin O. Schlanger	Director	<u>/s/ Marvin O. Schlanger</u>	<u>3/11/2009</u>

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HEXION SPECIALTY CHEMICALS CANADA, INC.

(U.S. dollars in millions)	Year ended December 31,		
	2008	2007	2006
Net sales	\$ 1,817	\$ 1,739	\$ 1,646
Cost of sales	<u>1,610</u>	<u>1,516</u>	<u>1,403</u>
Gross profit	207	223	243
Selling, general and administrative expense	136	102	108
Terminated merger costs (See Note 2)	14	—	—
Integration costs (See Note 2)	4	4	20
Other operating expense (income), net	<u>11</u>	<u>1</u>	<u>(36)</u>
Operating income	<u>42</u>	<u>116</u>	<u>151</u>
Interest expense, net	15	10	3
Affiliated interest expense, net (See Note 10)	35	44	47
Other non-operating expense, net	<u>8</u>	<u>4</u>	<u>1</u>
(Loss) income before income taxes	(16)	58	100
Income tax expense (See Note 15)	<u>7</u>	<u>19</u>	<u>32</u>
(Loss) income from continuing operations	\$ (23)	\$ 39	\$ 68
Loss from discontinued operations (See Note 5)	<u>—</u>	<u>—</u>	<u>(14)</u>
Net (loss) income	<u>\$ (23)</u>	<u>\$ 39</u>	<u>\$ 54</u>
Comprehensive (loss) income	<u>\$ (16)</u>	<u>\$ 44</u>	<u>\$ 102</u>

See Notes to Consolidated Financial Statements

[Table of Contents](#)**CONSOLIDATED BALANCE SHEETS**
HEXION SPECIALTY CHEMICALS CANADA, INC.

<u>(U.S. dollars in millions)</u>	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Assets		
Current assets		
Cash and cash equivalents (See Note 2)	\$ 71	\$ 72
Short-term investments	7	—
Accounts receivable (net of allowance for doubtful accounts of \$12)	194	281
Accounts receivable from affiliates (See Note 6)	54	74
Loans receivable from affiliates (See Note 10)	14	—
Inventories:		
Finished and in-process goods	41	65
Raw materials and supplies	43	52
Other current assets	25	25
Total current assets	<u>449</u>	<u>569</u>
Long-term loans receivable from affiliates (See Note 10)	398	412
Other assets	26	24
Property and equipment		
Land	30	38
Buildings	69	85
Machinery and equipment	502	599
	<u>601</u>	<u>722</u>
Less accumulated depreciation	<u>(232)</u>	<u>(262)</u>
	369	460
Goodwill (See Note 7)	70	96
Other intangibles assets, net (See Note 7)	83	108
Total assets	<u>\$ 1,395</u>	<u>\$ 1,669</u>

See Notes to Consolidated Financial Statements

[Table of Contents](#)**CONSOLIDATED BALANCE SHEETS**
HEXION SPECIALTY CHEMICALS CANADA, INC.

<u>(U.S. dollars in millions)</u>	December 31, 2008	December 31, 2007
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts and drafts payable	\$ 101	\$ 174
Accounts payable to affiliates (See Note 6)	78	69
Debt payable within one year (See Note 9)	48	51
Income taxes payable	21	41
Other current liabilities	71	74
Total current liabilities	<u>319</u>	<u>409</u>
Long-term debt (See Note 9)	106	64
Affiliated long-term debt (See Note 10)	576	770
Deferred income taxes (See Note 15)	40	51
Long-term pension obligations (See Note 13)	107	114
Other long-term liabilities	21	27
Total liabilities	<u>1,169</u>	<u>1,435</u>
Commitments and contingencies (See Notes 9, 11 and 12)		
Shareholder's Equity		
Common stock – no par value; authorized shares unlimited, issued and outstanding 489,866 shares at December 31, 2008 and 2007	3	3
Paid-in capital	159	149
Accumulated other comprehensive loss	(31)	(38)
Retained earnings	95	120
Total shareholder's equity	<u>226</u>	<u>234</u>
Total liabilities and shareholder's equity	<u>\$ 1,395</u>	<u>\$ 1,669</u>

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS
HEXION SPECIALTY CHEMICALS CANADA, INC.

(U.S. dollars in millions)	Year ended December 31,		
	2008	2007	2006
Cash flows provided by operating activities			
Net (loss) income	\$ (23)	\$ 39	\$ 54
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	62	54	42
Allocations of corporate overhead, net (See Note 6)	10	17	10
Loss (gain) on sale of assets, net of tax	1	—	(26)
Loss from discontinued operations	—	—	14
Deferred tax (benefit) provision	(8)	(10)	1
Impairments and accelerated depreciation	16	12	1
Other non-cash adjustments	16	6	1
Net change in assets and liabilities:			
Accounts receivable	59	(38)	(74)
Inventories	14	46	(22)
Accounts and drafts payable	(36)	(24)	75
Income taxes payable	(11)	15	17
Other assets	8	(4)	(30)
Other liabilities	4	25	28
Net cash used in operating activities of discontinued operations	—	—	(3)
Net cash provided by operating activities	<u>112</u>	<u>138</u>	<u>88</u>
Cash flows used in investing Activities			
Capital expenditures	(34)	(30)	(28)
Capitalized interest	—	—	(1)
Acquisition of businesses, net of cash and debt acquired	—	(130)	(35)
Proceeds from the sale of businesses	—	—	39
Investment in affiliates	—	(43)	(190)
Proceeds from the sale of assets	—	1	—
Purchases of investments	(7)	—	—
Net cash used in investing activities	<u>(41)</u>	<u>(202)</u>	<u>(215)</u>
Cash flows provided by financing activities			
Net short-term debt borrowings	12	4	9
Borrowings of long-term debt	73	91	50
Repayments of long-term debt	(29)	(39)	(58)
Affiliated loan borrowings, net	(111)	33	49
Common stock dividends paid	(2)	—	(1)
Net cash provided by financing activities of discontinued operations	—	—	1
Net cash provided by financing activities	<u>(57)</u>	<u>89</u>	<u>50</u>
Effect of exchange rates on cash and cash equivalents	(15)	6	6
(Decrease) increase in cash and cash equivalents	(1)	31	(71)
Cash and cash equivalents at beginning of year	<u>72</u>	<u>41</u>	<u>112</u>
Cash and cash equivalents at end of year	<u>\$ 71</u>	<u>\$ 72</u>	<u>\$ 41</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
HEXION SPECIALTY CHEMICALS CANADA, INC.

<u>(U.S. dollars in millions)</u>	<u>Year ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Supplemental disclosures of cash flow information			
Cash paid for:			
Interest, net	\$ 14	\$ 55	\$ 48
Income taxes, net	9	15	9
Non-cash investing and financing activity:			
Capital contributions from parent (See Note 14)	—	2	2
Accounts receivable from affiliates reclassified to long-term loans receivable from affiliates	—	177	—
Accounts payable to affiliates reclassified to affiliated long-term debt	—	151	—

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (DEFICIT) AND COMPREHENSIVE INCOME (LOSS)
HEXION SPECIALTY CHEMICALS CANADA, INC.

<u>(U.S. dollars in millions)</u>	<u>Common Stock</u>	<u>Paid- in- Capital</u>	<u>Accumulated Other Comprehensive Loss (a)</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2005	\$ 3	\$ 118	\$ (100)	\$ 28	\$ 49
Net income				54	54
Translation adjustments			48		48
Comprehensive loss					102
Minority interest of parent in consolidated subsidiary		2			2
Impact of adoption of new accounting standard for pension and postretirement obligations, net of tax of \$6			9		9
Common stock dividends paid				(1)	(1)
Allocations of corporate overhead (See Note 6)		10			10
Other				(2)	(2)
Balance at December 31, 2006	3	130	(43)	79	169
Net income				39	39
Gain recognized in comprehensive income from pension and postretirement benefits, net of tax			4		4
Translation adjustments			1		1
Comprehensive income					44
Minority interest of parent in consolidated subsidiary		2			2
Impact of adoption of new accounting standard for uncertain tax positions (See Note 15)				2	2
Allocations of corporate overhead (See Note 6)		17			17
Balance at December 31, 2007	3	149	(38)	120	234
Net loss				(23)	(23)
Gain recognized in comprehensive income from pension and postretirement benefits, net of tax			3		3
Translation adjustments			4		4
Comprehensive loss					(16)
Common stock dividends paid				(2)	(2)
Allocations of corporate overhead (See Note 6)		10			10
Balance at December 31, 2008	\$ 3	\$ 159	\$ (31)	\$ 95	\$226

(a) Accumulated other comprehensive loss at December 31, 2008 represents \$44 of net foreign currency translation losses and a \$13 gain, net of tax, relating to net actuarial gains and prior service costs for the Company's defined benefit pension and postretirement benefit plans (See Note 13). Accumulated other comprehensive loss at December 31, 2007 represents \$48 of net foreign currency translation losses and a \$10 gain, net of tax, relating to net actuarial gains and prior service costs for the Company's defined benefit pension and postretirement benefit plans (See Note 13).

See Notes to Consolidated Financial Statements

Hexion Specialty Chemicals Canada, Inc.
Notes to Consolidated Financial Statements
(U.S. dollars in millions)

1. Background and Basis of Presentation

Hexion Specialty Chemicals Canada, Inc. (“Hexion Canada” or “the Company”) is engaged in the manufacture and marketing of urea, phenolic and epoxy-based resins, primarily used in forest and industrial products, molding compounds, and other specialty and industrial chemicals worldwide. At December 31, 2008, the Company’s operations included 35 manufacturing facilities in North and South America, Europe and Asia Pacific.

Hexion Canada is owned 100% by Hexion Specialty Chemicals, Inc. (“Hexion”). Hexion was formed on May 31, 2005 upon the combination of certain Apollo Management, L.P. (“Apollo”) controlled companies (the “Hexion Formation”).

Prior to the Hexion Formation, on April 29, 2005, Hexion Canada, through its wholly owned subsidiary, National Borden Chemical Germany GmbH (“NBCG”), completed its acquisition of Bakelite Aktiengesellschaft (“Bakelite” or the “Bakelite Acquisition”). The Bakelite Acquisition was financed primarily through an affiliate loan. See Note 10.

On August 12, 2004, concurrent with the acquisition (the “Acquisition”) of Borden Chemical by an affiliate of Apollo, the Company acquired most of Hexion’s foreign subsidiaries for an intercompany note payable of CDN\$343. See Note 10. Since the reorganization was between related parties, and Hexion elected not to apply push-down accounting relating to the Acquisition, Hexion Canada’s basis in the acquired subsidiaries is Hexion’s historical cost basis.

Hexion incurs various costs, including corporate and administrative expenses, on behalf of the Company; the allocation of these costs is reflected in these financial statements. See Note 6.

2. Summary of Significant Accounting Policies

Principles of Consolidation—The Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries, all of which are under the common control and management of Hexion, and for which no substantive participating rights are held by minority shareholders. Intercompany transactions and balances have been eliminated. The Company has recorded a minority interest for the equity interests in subsidiaries that are not 100% owned by the Company. However, due to common ownership, Hexion’s 34% interest in Hexion Specialty Chemicals SDN, BHD (“Hexion Malaysia”) and Hexion’s 12% interest in Hexion Quimica Argentina SA (“Hexion Argentina”) are included within the consolidated financial statements presented herein.

In December of 2007, NBCG, along with Hexion Specialty Chemicals B.V. (“Hexion BV”), RSM Europe B.V., and Hexion Specialty Chemicals Holdings Germany (“Holdings Germany”), all wholly owned subsidiaries of Hexion, formed a German partnership, New Nimbus KG (“Nimbus”). Holdings Germany contributed an intercompany loan receivable of \$3, and the remaining partners contributed a 5.2% interest in their respective German subsidiaries to Nimbus, in exchange for a partnership interest. As this was a transaction between related parties, the assets were recorded at historical book value. The relative ownership percentages for tax purposes will be based on the fair values of the assets contributed, which has not yet been finalized. However, as the most significant Germany subsidiary is owned by NBCG, the accounts of Nimbus have been included in the Consolidated Financial Statements, with the equity interests of the remaining partners included as an increase in Paid-in capital of the Company. The value of Nimbus’ investment in the entities contributed by Hexion B.V. and RSM Holdings B.V. have been accounted for under the cost method. The value of Nimbus’s investment in the entity contributed by NBCG has been eliminated in the Consolidated Financial Statements.

Foreign Currency Translations—Although the functional currency of Hexion Canada is the Canadian dollar, the accompanying financial statements are presented in the reporting currency of Hexion. Accordingly, assets and liabilities of the Company are translated into Hexion’s reporting currency, the U.S. dollar, at the exchange rates in effect at the balance sheet date. Income, expenses and cash flows are translated at average exchange rates prevailing during the year. The effect of translation is accounted for as an adjustment to Shareholder’s equity and is included in Accumulated other comprehensive loss. Transaction gains and losses are included as a component of net income. The Company recognized transaction losses of \$3, \$6 and \$6 for the years ended December 31, 2008, 2007 and 2006 respectively.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. The most significant estimates that are included in the financial statements are environmental remediation, legal liabilities, deferred tax assets and liabilities and related valuation

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allowances, income tax accruals, pension and postretirement assets and liabilities, valuation allowances for accounts receivable and inventories, general insurance liabilities, asset impairments, and fair values of assets acquired and liabilities assumed in business acquisitions. Actual results could differ from these estimates.

Cash and Cash Equivalents—The Company considers all highly liquid investments that are purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2008 and 2007, the Company had interest-bearing time deposits and other cash equivalent investments of \$11 and \$22, respectively. They are included on the Consolidated Balance Sheets as a component of Cash and cash equivalents.

Investments—Investments with original maturities greater than 90 days but less than one year are included on the Consolidated Balance Sheets as Short-term investments. At December 31, 2008, the Company had Brazilian real denominated U.S. dollar index investments of \$7. These investments, which are classified as held-to-maturity securities in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 115, “*Accounting for Certain Investments in Debt and Equity Securities*”, are recorded at cost, which approximates fair value.

Allowance for Doubtful Accounts—The allowance for doubtful accounts is estimated using factors such as customer credit ratings and past collection history. Receivables are charged against the allowance for doubtful accounts when it is probable that the receivable will not be recovered.

Inventories—Inventories are stated at lower of cost or market using the first-in, first-out method. Costs include direct material, direct labor and applicable manufacturing overheads. Abnormal manufacturing costs are recognized as period costs and fixed manufacturing overheads are allocated 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 the estimated future usage and sales. Inventories on the Consolidated Balance Sheets are presented net of an allowance for excess and obsolete inventory of \$2 at December 31, 2008 and 2007.

Deferred Expenses—Deferred financing costs are presented as a component of Other assets on the Consolidated Balance Sheets and are amortized over the life of the related debt or credit facility using the effective interest method. Upon extinguishment of any of the debt, the related debt issuance costs are written off. At December 31, 2008 and 2007, the Company’s unamortized deferred financing costs were \$1.

Property and Equipment—Land, buildings and machinery and equipment are stated at cost less accumulated depreciation. Depreciation is recorded on the straight-line basis over the estimated useful lives of properties (the average estimated useful lives for buildings is 20 years and for machinery and equipment 15 years). Assets under capital leases are amortized over the lesser of their useful lives 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. When property and equipment is retired or disposed of, the asset and related depreciation are removed from the accounts and any gain or loss is reflected in income. The Company capitalizes interest costs that are incurred during the construction of property and equipment. Depreciation expense was \$52, \$47 and \$37 for the years ended December 31, 2008, 2007 and 2006, respectively.

Capitalized Software—The Company capitalizes certain costs, such as software coding, installation and testing, that are incurred to purchase or create and implement internal use computer software in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Amortization is recorded on the straight-line basis over the estimated useful lives ranging from 1 to 10 years.

Goodwill and Intangibles—The excess of purchase price over net tangible and identifiable intangible assets of businesses acquired is carried as Goodwill on the Consolidated Balance Sheets. 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 cost (fair value at the time of acquisition) and reported as Other intangible assets, net on the Consolidated Balance Sheets. The Company does not amortize goodwill or indefinite-lived intangible assets. 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 30 years. Certain trademarks and patents are owned by Hexion and are used on a royalty-free basis by the Company. See Note 7.

Impairment—The Company reviews property and equipment and all amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Recoverability is based on estimated undiscounted cash flows. Measurement of the impairment loss, if any, is based on the difference between the carrying value and fair value. During the years ended December 31, 2008, 2007 and 2006, impairments of \$8, \$12 and \$1 were included in Other non-operating expense, net on the Consolidated Statements of Operations. See Note 7 for discussion of amortizable intangible asset impairments. In addition, during the year ended December 31, 2008, accelerated depreciation on closing facilities of \$8 was included in Other operating expense, net on the Consolidated Statements of Operations. In 2007, the impairment charges resulted from the Company’s decisions to close certain of its manufacturing facilities due to the prolonged slump in the North American housing and construction markets.

The Company tests goodwill for impairment annually, or when events or changes in circumstances indicate impairment may exist, by comparing the fair value of each reporting unit to its carrying value to determine if there is an indication that a potential impairment may

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exist. The Company uses a probability weighted market and income approach to estimate the values of its reporting units. The Company's market approach is a comparable analysis technique commonly used in the investment banking and private equity industries based on the EBITDA (earnings before interest, income taxes, depreciation and amortization) multiple technique. Under this technique, estimated values are the result of a market-based EBITDA multiple applied to an appropriate historical EBITDA amount, adjusted for the additional fair value that would be assigned by a market participant obtaining control over the reporting unit. The Company's income approach is a discounted cash flow model. When the carrying amount of the reporting unit's goodwill is greater than the implied fair value of the reporting unit's goodwill, an impairment loss is recognized for the difference. At December 31, 2008 and 2007, the fair value of the Company's reporting units exceeded the carrying amount of assets (including goodwill) and liabilities assigned to the units.

General Insurance—The Company is generally insured for losses and liabilities for workers' compensation, physical damage to property, business interruption and comprehensive general, product and vehicle liability under policies maintained by Hexion and is allocated a share of the related premiums. See Note 6.

Legal Claims and Costs—The Company accrues for legal claims and costs in the period in which a claim is made or an event becomes known, if the amounts are probable and reasonably estimable. Each claim is assigned a range of potential liability, with the most likely amount accrued. If there is no amount in the range of potential liability that is most likely, the low end of the range is accrued. The amount accrued includes all costs associated with the claim, including settlements, assessments, judgments, fines and incurred legal fees. See Note 12.

Environmental Matters—Accruals for environmental matters are recorded following the guidelines of Statement of Position 96-1, *Environmental Remediation Liabilities*, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Environmental accruals are reviewed on a quarterly basis and as events and developments warrant. See Note 12.

Asset Retirement Obligations—Asset retirement obligations are initially recorded at their estimated net present values in the period in which the obligation occurs, with a corresponding increase to the related long-lived asset. Over time, the liability is accreted to its settlement value and the capitalized cost is depreciated over the useful life of the related asset. When the liability is settled, a gain or loss is recognized for any difference between the settlement amount and the liability that was recorded.

Revenue Recognition—Revenue for product sales, net of estimated allowances and returns, is recognized as risk and title to the product transfer to the customer, which either occurs at the time shipment is made or upon delivery. In situations where product is delivered by pipeline, risk and title transfers when the product moves across an agreed-upon transfer point, which is typically the customers' property line. Product sales delivered by pipeline are measured based on daily flow meter readings. The Company's standard terms of delivery are included in its contracts of sale and on its invoices.

Shipping and Handling—Freight costs that are billed to customers are included in Net sales. Shipping costs are incurred to move the Company's products from production and storage facilities to the customer. Handling costs are incurred from the point the product is removed from inventory until it is provided to the shipper and generally include costs to store, move and prepare the products for shipment. Shipping and handling costs are recorded in Cost of sales in the Consolidated Statements of Operations.

Research and Development Costs—Funds are committed to research and development activities for technical improvement of products and processes that are expected to contribute to future earnings. All costs associated with research and development are charged to expense as incurred. Research and development and technical service expense of \$13, \$16 and \$16 for the years ended December 31, 2008, 2007 and 2006, respectively, are included in Selling, general and administrative expense in the Consolidated Statements of Operations.

Terminated Merger Costs—The Company incurred terminated merger costs totaling \$14 for the year ended December 31, 2008. These costs primarily represent legal, consulting, accounting and tax costs related to the terminated Huntsman Corporation merger agreement and litigation. The Company is also negotiating discounts and extended payment terms with providers of services in connection with the terminated merger but has not recognized a reduction in liabilities at December 31, 2008.

Integration Costs—The Company incurred Integration costs totaling \$4, \$4 and \$20 for the years ended December 31, 2008, 2007 and 2006. These costs represent costs to implement a single, company-wide, management information and accounting system as well as redundancy and plant rationalization costs and incremental administrative costs from integration programs that resulted from the Hexion Formation and recent acquisitions.

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Income Taxes—The Company files individual tax returns in the respective countries in which it operates. Income tax expense is based on reported results of operations before income taxes using the prevailing rates for each tax jurisdiction. Deferred income taxes represent the tax effect of temporary differences between amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. Income tax expense is based on reported results of operations accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires deferred tax assets and liabilities to be recognized for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of the assets and liabilities. Deferred tax balances are adjusted to reflect tax rates, based on current tax laws that will be in effect in the years in which temporary differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. For purposes of these financial statements, the international subsidiaries are treated as foreign subsidiaries of a domestic parent, Hexion Canada, for all periods presented. Reconciliations of tax rates are calculated at the statutory Canadian tax rates.

Unrecognized tax benefits are generated when there are differences between tax positions taken in a tax return and amounts recognized in the consolidated financial statements. Tax benefits are recognized in the consolidated financial statements when it is more likely than not that a tax position will be sustained upon examination. Tax benefits are measured as the largest amount of benefit that is greater than 50% likely to be realized upon settlement. The Company classifies interest and penalties as a component of tax expense.

Derivative Financial Instruments—The Company periodically enters into forward exchange contracts or interest rate swaps to reduce the Company's cash flow exposure to changes in foreign exchange rates or interest rates. The Company does not hold or issue derivative financial instruments for trading purposes. These instruments are not accounted for using hedge accounting, but are measured at fair value and recorded on the balance sheet as an asset or liability, depending upon the Company's underlying rights or obligations. Changes in fair value are recognized in earnings. See Note 8.

Stock-Based Compensation—Stock-based compensation cost is measured at the grant date based on the fair value of the award which is amortized as expense over the requisite service period. As the Company is a nonpublic entity, the Company has applied this method of accounting to new awards and to awards that have been modified, repurchased or cancelled since January 1, 2005.

The Company does not maintain any stock option plans. However, certain of the Company's employees have been granted Hexion equity awards, for which the Company is allocated a share of the related compensation expense (See Note 6).

Concentrations of Credit Risk—Financial instruments that potentially subject the Company to concentrations of credit risk are primarily temporary investments and accounts receivable. The Company places its temporary investments with high quality institutions and, by policy, limits the amount of credit exposure to any one institution. Concentrations of credit risk for accounts receivable are limited due to the large number of customers in the Company's customer base and their dispersion across many different industries and geographies. The Company generally does not require collateral or other security to support customer receivables.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements*. This statement establishes a standard definition of fair value, establishes a framework under generally accepted accounting principles to measure fair value and expands disclosure requirements for fair value measurements. On January 1, 2008, the Company adopted the provisions of SFAS No. 157 for assets and liabilities measured or disclosed at fair value on a recurring basis. The Company has not yet applied the provisions of SFAS No. 157 to its nonfinancial assets and liabilities measured on a non-recurring basis, in accordance with FSP 157-2, *Effective Date of FASB Statement No. 157*. SFAS No. 157 will be adopted for nonfinancial assets and liabilities measured on a non-recurring basis on January 1, 2009 and is not expected to have a material impact on the Company's consolidated financial statements. The Company's major classes of nonfinancial assets and liabilities measured on a non-recurring basis include reporting units, long-lived assets and intangible assets measured at fair value for impairment assessment as well as assets and liabilities initially measured at fair value in a business combination.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, a revision to Statement No. 141. This statement establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets (including goodwill) acquired, the liabilities assumed, and any non-controlling interest in the acquiree. This statement will require, among other things, more assets acquired and liabilities assumed to be measured at fair value at the acquisition date, liabilities related to contingent consideration to be remeasured at fair value at each subsequent reporting period, and an acquirer in pre-acquisition periods to expense all acquisition-related costs. In addition, the statement establishes guidance as to what information should be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) applies prospectively and will be effective for the Company on January 1, 2009. The Company is currently evaluating how this statement could impact future business combinations.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*. SFAS 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 applies retroactively and will be effective for the Company on January 1, 2009. Upon adoption, the Company does not expect this statement to have any impact on its consolidated financial statements.

In March, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 requires enhanced disclosures about derivative instruments and hedging activities to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 will be effective for the Company on January 1, 2009.

3. Productivity Program

At December 31, 2008, the Company has targeted \$25 of productivity savings to properly align its cost structure in response to the challenging economic environment. Most of the actions to obtain these savings will have been initiated or completed in the next 18 months and will result in a reduction in the Company's worldwide headcount. The Company expects to incur \$9 in costs to achieve these savings, consisting of \$6 for workforce reductions and \$3 for other one-off projects. These costs will be funded through working capital.

During the year ended December 31, 2008, the Company recognized restructuring charges of \$5 in Other operating expense, net on the Consolidated Statements of Operations related to the workforce reduction portion of this program. These costs primarily relate to employee termination costs and are accounted for in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits*. At December 31, 2008, the Company had accrued \$5 in Other current liabilities in the Consolidated Balance Sheets.

4. Acquisitions and Divestitures

The Company accounts for acquisitions using the purchase method of accounting. As required under this method, results of operations of the acquired entities have been included from the date of acquisition, and any excess of purchase price over the sum of amounts assigned to identified assets and liabilities has been recorded as goodwill.

2007 Acquisitions

Orica A&R Acquisition

On February 1, 2007, certain subsidiaries of the Company acquired the adhesives and resins ("A&R") business of Orica Limited (the "Orica A&R Acquisition") for a net purchase price of Australian dollars ("AUD") 77, or \$60, subject to certain adjustments. The Company incurred direct acquisition related costs of \$3, which was included as part of the purchase price. Net working capital and other adjustments were net settled with no additional purchase price impact. The A&R business manufactures formaldehyde and formaldehyde-based binding resins used primarily in the forest products industry, and has three manufacturing facilities in Australia and New Zealand. This acquisition strengthens the Company's presence in the Asia-Pacific region and will enable the Company to expand its service of the forest products marketplace. This acquisition is included in the Formaldehyde and Forest Products Resins segment.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	Fair Value at February 1, 2007
Current assets	\$ 19
Property and equipment	45
Goodwill	7
Other intangible assets	7
Total assets acquired	78
Current liabilities	10
Other long-term liabilities	5
Total liabilities assumed	15
Fair value of net assets acquired	\$ 63

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Acquired intangible assets of \$7 were assigned to customer relationships and have a weighted average useful life of approximately 10 years. Goodwill is not expected to be deductible for tax purposes.

The following unaudited pro forma financial information presents the consolidated results of operations as if the Orica A&R Acquisition had occurred at the beginning of the periods presented. Pro forma adjustments include only the effects of events directly attributable to the acquisition. The pro forma adjustments reflected in the table below include amortization of intangibles, depreciation adjustments from the write-up of property and equipment to estimated fair market value, and interest expense on a new debt facility used to fund the Orica A&R Acquisition (See Note 9) and related income tax effects.

	Year ended December 31,	
	2007	2006
Net sales	\$ 1,746	\$ 1,732
Net income	39	53

The pro forma financial information above does not necessarily reflect the operating results that would have occurred had the acquisition been consummated at the beginning of the periods presented, nor is such information indicative of future operating results.

Arkema Acquisition

On November 1, 2007, the Company completed the purchase of the German forest products resins and formaldehyde business of Arkema GmbH (the “Arkema Acquisition”). This business manufactures formaldehyde and formaldehyde-based resins. The business employs approximately 100 people and had 2006 revenues of approximately €101, or \$127. The purchase price was €44, or \$64, subject to certain adjustments. The pro forma effects of this acquisition were not material.

2006 Acquisitions

On January 31, 2006, Hexion and the Company completed the purchase of the decorative coatings and adhesives business unit of The Rhodia Group (the “Coatings Acquisition”). The business had 2005 sales of approximately \$200 and has eight manufacturing facilities in Europe, Asia Pacific and Latin America.

On June 1, 2006, the Hexion and the Company acquired the ink and adhesive resins business of Akzo Nobel (the “Inks Acquisition”). The business had 2005 sales of approximately \$215 and has ten manufacturing facilities in Europe, Asia Pacific, North America and South America.

The Company’s aggregate purchase price, net of cash acquired, for the acquisitions in 2006 was \$35.

The pro forma effects of these acquisitions were not material to the Company’s financial statements.

2006 Divestitures

On March 31, 2006, the Company sold Alba Adesivos Industria e Comercio Ltda. (“Alba Adesivos”), a consumer adhesives company based in Boituva, Brazil (the “Brazilian Consumer Divestiture”). Alba Adesivos is a producer of branded consumer and professional grade adhesives. The company had 2005 sales of \$38 and approximately 140 employees. Due to the Company’s significant continuing involvement in the operations of Alba Adesivos as a result of a tolling agreement, the sale does not qualify for presentation as a discontinued operation. The Company recognized a gain of \$32 (\$26 on an after tax basis) related to this divestiture that is included in Other operating (income) expense, net for the year ended December 31, 2006.

5. Discontinued Operations

On August 1, 2006, the Company sold its Taro Plast S.p.A. business ("Taro Plast"). Taro Plast was acquired in the Bakelite Acquisition. Accordingly, Taro Plast has been reported as a discontinued operation for the year ended December 31, 2006. Net sales and loss from discontinued operations in the Consolidated Statements of Operations for the years ended December 31 related to the Taro Plast sale follow:

	<u>2006</u>
Net sales	\$ 28
Loss from discontinued operations	(14)

Loss from discontinued operations for the year ended December 31, 2006 includes an impairment charge of \$13 for the amount by which the carrying amount of the net assets of Taro Plast exceeded the selling price. As the Company is party to a participation exemption, there was no tax benefit on the capital loss for the year ended December 31, 2006.

6. Related Party Transactions

The Company sells finished goods and certain raw materials to Hexion and certain of its subsidiaries. Total sales were \$54, \$103 and \$87 in 2008, 2007 and 2006, respectively. In addition, the Company purchases raw materials and finished goods from Hexion and certain of its subsidiaries, which were \$177, \$176 and \$119 in 2008, 2007 and 2006, respectively.

Hexion incurs various administrative and operating costs on behalf of Hexion Canada that are reimbursed by the Company. These costs include engineering and technical support, purchasing, quality assurance, sales and customer service, information systems, research and development and certain administrative services. These service costs have been allocated to the Company generally based on sales or sales volumes and when determinable, based on the actual usage of resources. These costs are included within Selling, general and administrative expense and Cost of goods sold in the Consolidated Statements of Operations and were \$26, \$10 and \$12 in 2008, 2007 and 2006, respectively. The 2008 charges include \$9 for additional corporate departmental overhead costs Hexion allocated during the year.

Hexion provides global services relating to procurement, productivity enhancement, and health, safety and environmental issues to the Company. Beginning in 2008, Hexion implemented a revenue-based royalty charge for these services. Hexion Canada's expense relating to these services totaled \$30 for the year ended December 31, 2008. Prior to 2001, the Company incurred royalties for the use in operations of certain trademarks and patents owned by Hexion. At December 31, 2008 and 2007, the Company had amounts due to Hexion under these arrangements of \$5 and \$9, respectively.

The Company earns royalty income from a subsidiary of Hexion in exchange for the affiliate's use of certain of the Company's trademarks, patents, and other intangible assets. The Company recorded royalty income of \$17 and \$18 for the years ended December 31, 2008 and 2007, respectively, under these agreements.

In addition, Hexion maintains certain insurance policies that benefit Hexion Canada. Amounts pertaining to these policies, and allocated to the Company based upon sales, were \$5, \$6 and \$5 in 2008, 2007 and 2006, respectively, and are classified in Selling, general and administrative expense in the Consolidated Statements of Operations.

For the years ended December 31, 2007 and 2006, the Company was charged \$1 and \$5, respectively, for costs incurred by Hexion on behalf of the Company associated with the implementation of a single, company-wide, management information and accounting system and a new consolidations and financial reporting system. These costs are classified in Integration costs in the Consolidated Statements of Operations.

At December 31, 2008 and 2007, the Company had affiliated receivables of \$54 and \$74, respectively, and affiliated payables of \$78 and \$69, respectively, related to these transactions.

In addition to direct charges, Hexion provides certain administrative services that are not reimbursed by Hexion Canada. These costs include corporate controlled expenses such as executive management, legal, health and safety, accounting, tax and credit, and have been allocated herein to the Company on the basis of Net sales. The charge also includes allocated stock-based compensation expense of \$1 for each of the years ended December 31, 2008, 2007 and 2006, and is included in Finance in the table below. Management believes that the amounts allocated in such a manner are reasonable and consistent and are necessary in order to properly depict the financial results of the Company on a stand-alone basis. However, the amounts are not necessarily indicative of the costs that would have been incurred if the Company had operated independently. This expense is included in Selling, general and administrative expense with the offsetting credit recorded in Shareholder's equity. There is no income tax provided on these amounts because they are not deductible.

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The following table summarizes these allocations for the years ended December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Executive group	\$ 2	\$ 4	\$ 2
General counsel	—	2	1
Environmental, health, and safety services	2	1	1
Finance	6	10	6
Total	<u>\$ 10</u>	<u>\$17</u>	<u>\$10</u>

Hexion Canada guarantees Hexion's \$34 Parish of Ascension Industrial Revenue Bonds, for which Hexion pays the Company a guarantor fee annually.

See Note 10 for a description of the Company's affiliated financing and investing activities.

7. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31, 2008 and 2007 are as follows:

	<u>Total</u>
Goodwill balance at December 31, 2006	82
Acquisitions	12
Purchase accounting adjustments	(7)
Foreign currency translation	9
Goodwill balance at December 31, 2007	<u>\$ 96</u>
Purchase accounting adjustments	(16)
Foreign currency translation	(10)
Goodwill balance at December 31, 2008	<u>\$ 70</u>

Purchase accounting adjustments in 2008 are primarily a result of changes in estimates about the tax treatment of transaction costs in the Bakelite Transaction that were ultimately allowed by the taxing authority.

The Company's intangible assets with identifiable useful lives consist of the following as of December 31:

	<u>2008</u>			<u>2007</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Intangible assets:						
Patents and technology	\$ 20	\$ 8	\$ 12	\$ 29	\$ 5	\$ 24
Customer lists and contracts	77	14	63	64	1	63
Other	12	4	8	22	2	20
	<u>\$ 109</u>	<u>\$ 26</u>	<u>\$ 83</u>	<u>\$ 115</u>	<u>\$ 8</u>	<u>\$107</u>

The Company had \$1 of tradenames at December 31, 2007 with indefinite lives. In 2008, the Company determined these tradenames had a finite useful life and commenced amortization. The impact of foreign currency translation on intangible assets is included in accumulated amortization.

During the year ended December 31, 2008, the Company recorded an \$8 charge for the impairment of tradenames from which cash flows are no longer generated. This amount is included in Other operating expense, net on the Consolidated Statements of Operations.

Total intangible amortization expense for the years ended December 31, 2008, 2007 and 2006 was \$10, \$7 and \$5, respectively.

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Estimated annual intangible amortization expense for 2009 through 2013 is as follows:

2009	\$9
2010	7
2011	7
2012	7
2013	7

8. Financial Instruments and Fair Value Disclosures

On January 1, 2008, the Company adopted the provisions of SFAS No. 157 for assets and liabilities measured or disclosed at fair value on a recurring basis, including financial instruments. This statement establishes a standard definition of fair value, establishes a framework under generally accepted accounting principles to measure fair value and expands disclosure requirements for fair value measurements. Fair values are determined from quoted, observable market prices where available or based on other similar financial instruments. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, debt, affiliated loans receivable and payable, affiliated royalties and other liabilities are considered reasonable estimates of their fair values at December 31, 2008 and 2007 due to the short-term maturity of these financial instruments.

SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 1 primarily consists of financial instruments traded on exchange or futures markets.
- Level 2: Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those derivative instruments transacted primarily in over the counter markets.
- Level 3: Unobservable inputs, for example, inputs derived through extrapolation or interpolation that cannot be corroborated by observable market data.

Following is a summary of assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Derivative liabilities	\$ —	\$ (1)	\$ —	\$ (1)

The following table summarizes the Company's derivative financial instruments as of December 31:

	2008				2007			
	Average Days to Maturity	Average Contract Rate	Notional Amount	Fair Value Asset (Liability)	Average Days to Maturity	Average Contract Rate	Notional Amount	Fair Value Asset (Liability)
Interest Rate Swap								
Australia Multi-Currency Term	1,094	—	24	(1)	1,460	—	28	1

Foreign Exchange and Interest Rate Swap

The Company periodically enters into forward and option contracts to buy and sell foreign currencies to reduce foreign exchange exposure and protect the U.S. dollar value of such transactions to the extent of the amount under contract.

The Company periodically uses interest rate swaps to alter interest rate exposures between fixed and floating rates on certain long-term debt. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated using an agreed-upon notional principal amount.

The Company calculates the fair value of its derivative liabilities using quoted market prices whenever available. When quoted market prices are not available, the Company uses standard pricing models with market-based inputs, adjusted for nonperformance

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risk. When its financial instruments are in a liability position, the Company evaluates its credit risk as a component of fair value. When its financial instruments are in an asset position, the Company is exposed to credit loss in the event of nonperformance by other parties to these contracts and evaluates their credit risk as a component of fair value.

In February 2007, the Company financed the Orica A&R Acquisition with proceeds of approximately \$70 from a new five-year Australian Multi-Currency Term / Working Capital Facility. To effectively fix the interest rate on approximately \$30 of this facility, the Company entered into interest rate swap agreements with two counterparties for an initial notional amount of AUD\$35, which amortizes quarterly based on the expected loan payments. The swap agreements terminate December 30, 2011. The Company pays a fixed interest rate of 6.6% and receives a floating rate based on the terms of the underlying debt. The Company has not applied hedge accounting to this derivative instrument.

The Company had derivative losses of \$1 classified as Other current liabilities at December 31, 2008 and derivative gains of \$1 classified as Other current assets at December 31, 2007. The Company recognized (losses) gains on derivatives in Other non-operating expense, net in the Consolidated Statements of Operations of \$(2) and \$1 for the years ended December 31, 2008 and 2007, respectively.

9. Debt and Lease Obligations

Debt outstanding at December 31 follows:

	2008		2007	
	Long Term	Due Within One Year	Long Term	Due Within One Year
Hexion revolving facility due 2011 at 4% and 7.4% at December 31, 2008 & 2007, respectively	\$ 50	\$ —	\$ —	\$ —
Australia Multi-Currency Term / Working Capital Facility due 2012 at 8.9% and 8.82% at December 31, 2008 and 2007, respectively	43	7	64	5
Itau, Santander, Safra, Brasil, ABN Amro, Unibanco and Votorantim Banks, Brazil, revolving credit facilities, variable interest, 8.1% and 9% at December 31, 2008 and 2007, respectively	—	27	—	22
Nordea Bank, Finland PLC, term loan, due 2013, variable interest at 3% and 5.3% at December 31, 2008 and 2007, respectively	10	3	—	13
Australia, revolving facility, variable interest of 7.6% at December 31, 2007, collateralized by assets of the business	—	—	—	5
Itau, Brasil, Industrial and ABN Amro Banks, Argentina, revolving loans, variable interest, at 21% and 15.5% at December 31, 2008 and 2007, respectively	—	4	—	4
Korea Exchange Bank, due 2009, variable interest, at 5% and 7.2% at December 31, 2008 and 2007, respectively, payable quarterly, certain property pledged as collateral	—	6	—	1
Other	3	1	—	1
Total debt	\$ 106	\$ 48	\$ 64	\$ 51

Senior Secured Credit Facilities of Hexion

Hexion Canada and certain of Hexion's European subsidiaries, which includes its UK subsidiary, are eligible to participate in the amended Senior Secured Credit Facilities. The European subsidiaries are able to borrow an aggregate maximum of \$125, while the Canadian operating subsidiary may borrow a maximum of \$50. As of December 31, 2008 and 2007, amounts of \$50 and \$0, respectively, were outstanding under the Hexion Credit Facilities.

The terms of the amended Senior Secured Credit Facilities include a seven-year \$2,300 term loan facility, seven-year \$50 synthetic letter of credit facility ("LOC"), and access to a five-year \$225 revolving credit facility.

The interest rates for term loans to Hexion under the amended Senior Secured Credit Facilities are based on, at Hexion's option, (a) adjusted LIBOR plus 2.25% or (b) the higher of (i) JPMorgan Chase Bank, N.A.'s (JPMCB) prime rate or (ii) the Federal Funds Rate plus 0.50%, in each case plus 0.75%.

The amended Senior Secured Credit Facilities have commitment fees (other than with respect to the LOC) equal to 0.50% per year of the unused line plus a fronting fee of 0.25% of the aggregate face amount of outstanding letters of credit. The LOC has a commitment fee of 0.10% per year.

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The amended Senior Secured Credit Facilities of Hexion's U.S. subsidiaries are collateralized by substantially all the assets of Hexion, including the Company, subject to certain exceptions. Cross collateral guarantees exist whereby Hexion Canada is a guarantor of the European borrowings under the amended Senior Secured Credit Facilities; while Hexion's European subsidiaries guarantee against any default by Hexion Canada. The amended Senior Secured Credit Facilities contain, among other provisions, restrictive covenants regarding indebtedness, payments and distributions, mergers and acquisitions, asset sales, affiliate transactions, capital expenditures and the maintenance of a certain financial ratio. Payment of borrowings under the amended Senior Secured Credit Facilities may be accelerated if there is an event of default. Events of default include the failure to pay principal and interest when due, a material breach of representation or warranty, covenant defaults, events of bankruptcy and a change of control.

Hexion has amended its credit facilities in June 2007, November 2006 and May 2006.

International Credit Facilities

In addition to the amended Senior Secured Credit Facilities, the Company had various international credit facilities. At December 31, 2008, under these international credit facilities the Company had \$31 available to fund working capital needs and capital expenditures. While these facilities are primarily unsecured, portions of the lines are collateralized by equipment at December 31, 2008.

In the first quarter of 2007, the Company financed the Orica A&R Acquisition with approximately \$70 of proceeds from a new five-year Australian Multi-Currency Term / Working Capital Facility. Approximately \$30 of this facility is effectively fixed at a rate of 6.6% through the use of interest rate swap agreements. The remaining balance has a variable interest rate equal to the 90 day Australian or New Zealand Bank Bill Rates plus an applicable margin.

Aggregate maturities of total non-affiliated debt and minimum annual rentals under operating leases at December 31, 2008, for the Company are as follows:

<u>Year</u>	<u>Debt</u>	<u>Minimum Rentals Under Operating Leases</u>
2009	\$ 48	\$ 4
2010	9	4
2011	88	2
2012	2	2
2013	6	1
2014 and beyond	1	—
	<u>\$154</u>	<u>\$ 13</u>

The Company's operating leases consist primarily of vehicle, equipment and land and buildings. Rental expense amounted to \$5, \$4 and \$4 for the years ended December 31 2008, 2007 and 2006, respectively.

10. Affiliated Financing

As discussed in Note 1, to finance the acquisition of certain international subsidiaries from Hexion, the Company assumed a fixed rate note of CDN\$343. In conjunction with the issuance of this note, Hexion entered into a common share forward subscription agreement with Hexion Canada requiring Hexion to subscribe to shares of Hexion Canada stock at CDN\$845 per share at the principal repayment date for the loan. To finance the Bakelite Acquisition in 2005, Hexion Canada also borrowed CDN\$308 from Hexion Nova Scotia Finance, ULC ("Nova Scotia"). Approximately CDN\$119 (or \$95) was effectively repaid during 2005, via a capital contribution from Hexion to the Company.

The loans have been combined and have an outstanding balance of CDN\$532, or \$435 at December 31, 2008 and CDN\$532, or \$538 at December 31, 2007. The note has a fixed interest rate based on Nova Scotia's cost of capital plus 100 basis points, which was 10.8% per annum at December 31, 2008 and 2007, and becomes due July 15, 2014. Interest expense related to this note totaled \$54 for 2008 and 2007. In 2006, interest expense related to the fixed rate note of CDN\$343 was \$31 and interest expense related to the CDN\$308 loan was \$19.

The Company has additional loans due to affiliates of \$145 and \$232 at December 31, 2008 and 2007, respectively, with a weighted average interest rate of approximately 6.6% and 6.9% at December 31, 2008 and 2007, respectively. These affiliated borrowings were made for cash management purposes. Interest expense related to these loans was approximately \$8, \$5 and \$1 for the years ended December 31, 2008, 2007 and 2006, respectively.

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The Company had loans receivable from various affiliates of \$412 at December 31, 2008 and 2007 with a weighted average interest rate of approximately 6.6% and 6.9% at December 31, 2008 and 2007, respectively. These affiliated loans were made for cash management purposes. Interest income related to these loans was approximately \$27, \$15 and \$4 for the years ended December 31, 2008, 2007 and 2006, respectively.

11. Guarantees, Indemnities and Warranties

Standard Guarantees / Indemnifications

In the ordinary course of business, the Company enters into a number of agreements that contain standard guarantees and indemnities where the Company may indemnify another party for, among other things, breaches of representations and warranties. These guarantees or indemnifications are granted under various agreements, including those governing (i) purchases and sales of assets or businesses, (ii) leases of real property, (iii) licenses of intellectual property, (iv) long-term supply agreements, (v) employee benefits services agreements and (vi) agreements with public authorities on subsidies received for designated research and development projects. These guarantees or indemnifications issued are for the benefit of the (i) buyers in sale agreements and sellers in purchase agreements, (ii) landlords or lessors in lease contracts, (iii) licensors or licensees in license agreements, (iv) vendors or customers in long-term supply agreements, (v) service providers in employee benefits services agreements and (vi) governments or agencies subsidizing research or development. In addition, the Company guarantees some of the payables of its subsidiaries to purchase raw materials in the ordinary course of business.

These parties may also be indemnified against any third party claim resulting from the transaction that is contemplated in the underlying agreement. Additionally, in connection with the sale of assets and the divestiture of businesses, the Company may agree to indemnify the buyer with respect to liabilities related to the pre-closing operations of the assets or businesses sold. Indemnities for pre-closing operations generally include tax liabilities, environmental liabilities and employee benefit liabilities that are not assumed by the buyer in the transaction.

Indemnities related to the pre-closing operations of sold assets normally do not represent additional liabilities to the Company, but simply serve to protect the buyer from potential liability associated with the Company's existing obligations at the time of sale. As with any liability, the Company has accrued for those pre-closing obligations that it considers probable and reasonably estimable. The amounts recorded at December 31, 2008 and 2007 are not significant.

While some of these guarantees extend only for the duration of the underlying agreement, many survive the expiration of the term of the agreement or extend into perpetuity (unless they are subject to a legal statute of limitations). There are no specific limitations on the maximum potential amount of future payments to be made under these guarantees because the triggering events are not predictable.

Warranties

The Company does not make express warranties on its products, other than that they comply with the Company's specifications; therefore, the Company does not record a warranty liability. Adjustments for product quality claims are not material and are charged against net sales.

12. Commitments and Contingencies

Environmental Matters

The Company's operations involve the use, handling, processing, storage, transportation and disposal of hazardous materials. The Company is subject to extensive environmental regulation and is therefore exposed to the risk of claims for environmental remediation or restoration. In addition, violations of environmental laws or permits may result in restrictions being imposed on operating activities, substantial fines, penalties, damages or other costs, any of which could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

The Company has recorded liabilities of \$4 and \$6 at December 31, 2008 and 2007, respectively, for ten locations for all probable environmental remediation, indemnification and restoration liabilities. These amounts include estimates of unasserted claims the Company believes are probable of loss and reasonably estimable. Based on currently available information and analysis, the Company believes that it is reasonably possible that costs associated with such sites may fall within a range of \$3 to \$8 in the aggregate, at December 31, 2008. This estimate of the range of reasonably possible costs is less certain than the estimates upon which the liabilities are based. To establish the upper end of this range, assumptions less favorable to the Company among the range of reasonably possible outcomes were used. As with any estimate, if the underlying facts or circumstances change, the final outcome could differ materially from these estimates.

At six of these locations, the Company is conducting environmental remediation and restoration under business realignment programs due to closure of the sites. Total reserves related to these sites included in Business realignment reserves were \$3 at December 31, 2008 and 2007. Much of this remediation is being performed by the Company on a voluntary basis; therefore, the Company has greater control over the costs to be incurred and the timing of cash flows. The Company anticipates the amounts under these reserves will be paid within the next five years.

Non-Environmental Legal Matters

The Company is involved in various product liability, commercial and employment litigation, personal injury, property damage and other legal proceedings that are considered to be in the ordinary course of business. The Company has reserves of \$3 and \$4 at December 31, 2008 and 2007, respectively, for all non-environmental legal defense costs incurred and settlement costs that it believes are probable and estimable. The following legal claim is not in the ordinary course of business:

Brazil Tax Claim—In 1992, the State of Sao Paulo Administrative Tax Bureau issued an assessment against the Company's Brazilian subsidiary claiming that excise taxes were owed on certain intercompany loans made for centralized cash management purposes. These loans were characterized by the Tax Bureau as intercompany sales. Since that time, management and the Tax Bureau have held discussions and the subsidiary filed an administrative appeal seeking cancellation of the assessment. The Administrative Court upheld the assessment in December 2001. In 2002, the subsidiary filed a second appeal with the highest-level Administrative Court, again seeking cancellation of the assessment. In February 2007, the highest-level Administrative Court upheld the assessment. The Company requested a review of this decision. On April 23, 2008, the Brazilian Administrative Tax Tribunal issued its final decision upholding the assessment against the subsidiary. The Company filed an Annulment action in the Brazilian Judicial Courts in May 2008 along with a request for an injunction to suspend the tax collection. The injunction was denied but the Annulment action is being pursued. The Company obtained court approval to pledge certain properties and assets in Brazil during the pendency of the Annulment action in lieu of paying the assessment. The Company continues to believe it has a strong defense against the assessment and does not believe a loss contingency is probable. At December 31, 2008, the amount of the assessment, including tax, penalties, monetary correction and interest, is 62 Brazilian reais, or approximately \$27.

13. Pension and Non-Pension Postretirement Benefit Plans

The Company sponsors defined benefit pension plans covering most Canadian, German and Malaysian employees. Depending on the plan, benefits are based on eligible compensation and/or years of credited service. Retirement benefits in other foreign locations are primarily defined contribution plans. The Company also provides non-pension postretirement benefit plans to its Canadian employees. This plan provides the participants with supplemental benefits to the respective provincial healthcare plan in Canada.

The Company adopted SFAS 158, *Employers' Accounting for Defined Benefit and Other Postretirement Plans – an Amendment of FASB Statements No. 87, 88, 106 and 132(R)*, as of December 31, 2006. The initial impact of the standard was recognized as a component of Accumulated other comprehensive income in Shareholder's deficit, net of their related tax effect.

The following table presents the change in benefit obligation, change in plan assets and components of funded status for the Company's defined benefit pension and non-pension postretirement benefit plans for the years ended December 31:

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Change in Benefit Obligation				
Benefit obligation at beginning of year	\$ 125	\$ 114	\$ 5	\$ 5
Service cost	2	2	—	—
Interest cost	7	5	—	—
Actuarial gains	(6)	(5)	(1)	(2)
Foreign currency exchange rate changes	(8)	12	(1)	2
Benefits paid	(5)	(4)	—	—
Acquisitions / divestitures	—	1	—	—
Benefit obligation at end of year	115	125	3	5
Change in Plan Assets				
Fair value of plan assets at beginning of year	8	7	—	—
Actual return on plan assets	(1)	—	—	—
Employer contribution	5	4	—	—
Foreign currency exchange rate changes	(1)	1	—	—
Benefits paid	(5)	(4)	—	—
Fair value of plan assets at end of year	6	8	—	—
Funded status of the plan at end of year	\$(109)	\$(117)	\$ (3)	\$ (5)

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	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Amounts recognized in the Consolidated Balance Sheets at December 31 consist of:				
Other current liabilities	\$ (3)	\$ (3)	\$—	\$—
Long-term pension obligations	(106)	(114)	—	—
Other long-term liabilities	—	—	(3)	(5)
Accumulated other comprehensive (income) loss	(21)	(17)	—	1
Net amounts recognized	<u>\$(130)</u>	<u>\$(134)</u>	<u>\$ (3)</u>	<u>\$ (4)</u>
Amounts recognized in Accumulated other comprehensive loss at December 31 consist of:				
Net actuarial (gain) loss	\$ (21)	\$ (17)	\$—	\$ 1
Net amounts recognized	<u>\$ (21)</u>	<u>\$ (17)</u>	<u>\$—</u>	<u>\$ 1</u>
Pension plans with underfunded or non-funded accumulated benefit obligations at December 31:				
Aggregate projected benefit obligation	\$ 115	\$ 125		
Aggregate accumulated benefit obligation	107	113		
Aggregate fair value of plan assets	6	8		

The Arkema Acquisition during the year ended December 31, 2007 included two unfunded defined benefit plans with a total projected benefit obligation at the date of acquisition of \$1. Actuarial gains during the year ended December 31, 2008 of \$7 resulted from changes in actuarial assumptions and favorable experience. The foreign currency impact reflected in these rollforward tables are for changes in the euro and Canadian dollar versus the U.S. dollar.

Plan assets of \$6 and \$8 at December 31, 2008 and 2007, respectively, relate to the Company's funded pension plan that has an accumulated benefit obligation of \$6 and \$10 at December 31, 2008 and 2007, respectively.

Following are the components of net pension and postretirement expense recognized by the Company for the years ended December 31:

	Pension Benefits			Postretirement benefits		
	2008	2007	2006	2008	2007	2006
Service cost	\$ 2	\$ 2	\$ 2	\$—	\$—	\$—
Interest cost on projected benefit obligation	7	5	5	—	—	—
Expected return on assets	(1)	(1)	—	—	—	—
Net expense	<u>\$ 8</u>	<u>\$ 6</u>	<u>\$ 7</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>

The following amounts were recognized in other comprehensive income during the year ended December 31, 2008:

	Pension Benefits	Postretirement Benefits	Total
Net actuarial gains arising during the year	\$ (4)	\$ (1)	\$ (5)
Deferred income taxes	1	1	2
Gain recognized in other comprehensive income, net of tax	<u>\$ (3)</u>	<u>\$ —</u>	<u>\$ (3)</u>

The amounts in Accumulated other comprehensive loss that are expected to be recognized as components of net periodic benefit cost during the next fiscal year is \$1.

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Determination of actuarial assumptions

The Company's actuarial assumptions are determined separately for each plan, taking into account the demographics of the population, the target asset allocations for funded plans, regional economic trends, statutory requirements and other factors that could impact the benefit obligation and plan assets.

The discount rates selected reflect the rate at which pension obligations could be effectively settled. For 2008, the Company selected the discount rates based on cash flow models using the yields of high-grade corporate bonds or the local equivalent with maturities consistent with the Company's anticipated cash flow projections.

The expected rates of future compensation level increases are based on salary and wage trends in the chemical and other similar industries, as well as the Company's specific compensation targets by country. Input is obtained from the Company's internal Human Resources group and from outside actuaries. These rates include components for wage rate inflation and merit increases.

The expected long-term rate of return on Canadian plan assets is determined based on the plans' current and projected asset mix. To determine the expected overall long-term rate of return on assets, the Company takes into account the rates on long-term debt investments held within the portfolio, as well as expected trends in the equity markets. Peer data and historical returns are reviewed and the Company consults with its actuaries, as well as investment professionals, to confirm that the Company's assumptions are reasonable.

The weighted average rates used to determine the benefit obligations were as follows at December 31:

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Discount rate	5.8%	5.5%	7.5%	5.5%
Rate of increase in future compensation levels	3.0%	3.0%	—	—
The weighted average assumed health care cost trend rates are as follows at December 31:				
Health care cost trend rate assumed for next year			7.9%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.9%	4.7%
Year that the rate reaches the ultimate trend rate			2017	2017

The weighted average rates used to determine net periodic pension and postretirement expense were as follows for the years ended December 31:

	Pension Benefits			Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
Discount rate	5.5%	4.6%	4.3%	5.5%	5.3%	5.0%
Rate of increase in future compensation levels	3.0%	2.5%	2.5%	—	—	—
Expected long-term rate of return on plan assets	7.0%	7.0%	7.0%	—	—	—

A one-percentage-point change in the assumed health care cost trend rates would change the projected benefit obligation for non-pension postretirement benefits service cost and interest cost would be less than \$1.

Pension Investment Policies and Strategies

The Company's investment strategy for the assets of its Canadian defined benefit pension plans is to maximize the long-term return on plan assets using a mix of equities and fixed income investments with a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and expected timing of future cash flow requirements. The investment portfolio contains a diversified blend of equity and fixed-income investments. Equity investments are also diversified across Canadian and foreign stocks, as well as growth, value and small and large capitalization investments. Investment risk and performance are measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements and periodic asset and liability studies.

The Company periodically reviews its target allocation of Canadian plan assets among various asset classes. The targeted allocations are based on anticipated asset performance, discussions with investment professionals, and on the projected timing of future benefit payments.

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	Actual		Target
	2008	2007	2009
Weighted average allocations of Canadian pension plan assets at December 31:			
Equity securities	58%	59%	60%
Debt securities	38%	36%	35%
Cash, short-term investments and other	4%	5%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Projections of Plan Contributions and Benefit Payments

The Company expects to make contributions totaling \$5 to its defined benefit pension plans in 2009.

Estimated future plan benefit payments as of December 31, 2008 are as follows:

	Pension Benefits	Postretirement Benefits
2009	\$ 4	\$ —
2010	4	—
2011	4	—
2012	4	—
2013	4	—
2014 to 2018	22	1

Defined Contribution and Other Plans

The Company sponsors a number of defined contribution plans for its employees in various countries. Depending upon the country and plan, eligible salaried and hourly employees may contribute up to 7% of their pay as basic contributions to the plans. The Company provides matching contributions of up to 100% of the basic contributions. Total charges to operations for matching contributions under these plans were \$4, \$4 and \$3 for the years ended December 31, 2008, 2007 and 2006.

The Company's German subsidiaries offer a government subsidized early retirement program ("Altersteilzeit" or "AZT Plans") to eligible employees, which are accounted for under the guidance of Emerging Issues Task Force Issue No. 05-5. The Company has liabilities for these arrangements totaling \$3 and \$2 for the years ended December 31, 2008 and 2007, respectively. The expense for these plans was \$2 for the year ended December 31, 2008 and less than \$1 for the years ended December 31, 2007 and 2006.

14. Shareholder's Equity

Shareholder's equity reflects the common equity of Hexion Canada with all of the common equity of its subsidiaries eliminated, except for the equity of Hexion Argentina, representing Hexion's 12% interest, Hexion Malaysia, representing Hexion's 34% interest, and Nimbus, totaling \$5 as of December 31, 2008 and 2007.

Hexion Canada has 489,866 shares of no-par common stock outstanding during all periods presented with an unlimited number of common, Preference and Class B Preference shares authorized.

[Table of Contents](#)**15. Income Taxes**

Comparative analysis of Hexion Canada's income tax expense (benefit) follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current			
Federal and provincial	\$ (5)	\$ (4)	\$ 7
Foreign	<u>20</u>	<u>33</u>	<u>24</u>
Total	15	29	31
Deferred			
Federal and provincial	—	(2)	—
Foreign	<u>(8)</u>	<u>(8)</u>	<u>1</u>
Total	<u>(8)</u>	<u>(10)</u>	<u>1</u>
Income tax expense	<u>\$ 7</u>	<u>\$ 19</u>	<u>\$ 32</u>

A reconciliation of the Company's combined differences between income taxes computed at Canadian Federal statutory tax rate of 19.5% at December 31, 2008 and 22.12% at December 31, 2007 and 2006 and provisions for income taxes follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Income taxes computed at federal statutory tax rate	\$ (3)	\$ 13	\$ 22
Foreign rate differentials	(3)	9	4
Expenses not deductible for tax	11	4	3
Increase (decrease) in the taxes due to changes in valuation allowance	3	(1)	(2)
Unrepatriated earnings of foreign subsidiaries	2	—	1
Adjustment of prior estimates and other	—	—	5
Changes in tax laws and rates	—	(4)	—
Provincial taxes and other	<u>(3)</u>	<u>(2)</u>	<u>(1)</u>
Income tax expense	<u>\$ 7</u>	<u>\$ 19</u>	<u>\$ 32</u>

Consolidated tax expense reflects lower tax rates in foreign jurisdictions compared to the domestic rate of 19.50% offset by expenses not deductible for tax purposes related to increases in uncertain tax positions.

The domestic and foreign components of the Company's income (loss) before income taxes are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Domestic	(50)	(36)	\$ (6)
Foreign	<u>34</u>	<u>94</u>	<u>106</u>
	<u>\$ (16)</u>	<u>\$ 58</u>	<u>\$ 100</u>

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The tax effects of the Company's significant temporary differences, and net operating loss and credit carryforwards, which comprise the deferred tax assets and liabilities at December 31, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Assets		
Accrued and other expenses	\$ 5	\$ 9
Net operating loss and credit carryforwards	18	21
Pension liabilities	13	13
Gross deferred tax assets	36	43
Valuation allowance	(15)	(23)
Net deferred tax asset	<u>21</u>	<u>20</u>
Liabilities		
Property, equipment and intangibles	(24)	(33)
Unrepatriated earnings of foreign subsidiaries	(19)	(17)
Certain intangibles	(17)	(16)
Other long term liabilities	—	(3)
Gross deferred tax liabilities	<u>(60)</u>	<u>(69)</u>
Net deferred tax liability	<u>\$ (39)</u>	<u>\$ (49)</u>

The Company's deferred tax assets primarily include foreign net operating loss carryforwards. As of December 31, 2008, the net operating loss carryforwards available are \$61, related primarily to the UK. These net operating loss carryforwards have an unlimited carryover and do not expire. A valuation allowance of \$15 has been provided against the foreign attributes.

The Company conducts business globally and, as a result, certain of its subsidiaries file income tax returns in various foreign jurisdictions. In the normal course of business, the Company is subject to examinations by taxing authorities throughout the world, including major jurisdictions such as Australia, Brazil, New Zealand, Germany, Italy, Korea and the UK.

The Company continuously reviews issues that are raised from ongoing examinations and open tax years to evaluate the adequacy of its liabilities. As the various taxing authorities continue with their audit/examination programs, the Company will adjust its reserves accordingly to reflect these settlements.

Unrecognized Tax Benefits

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"). Upon adoption of FIN 48, the Company reversed a tax contingency recorded in prior periods which increased Retained Earnings \$2 for the cumulative effect of adoption. The liability for unrecognized tax benefits and related interest and penalties is included in Other long-term liabilities in the Consolidated Balance Sheets because payments are not anticipated to be made within one year of the balance sheet date. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$—	\$—
Additions based on tax positions related to the current year	9	—
Additions for tax positions of prior years	—	—
Reductions for tax positions of prior years	—	—
Settlements	—	—
Balance at end of year	<u>\$ 9</u>	<u>\$—</u>

During the year ended December 31, 2008, the company increased its amount of unrecognized tax benefits by \$9 for various intercompany transactions. The Company did not recognize any interest or penalties for the year ended December 31, 2008.

\$9 of unrecognized tax benefits, if recognized, would affect the effective tax rate. The Company anticipates recognizing a range of \$0 to \$9 of the total amount of unrecognized tax benefits within the next 12 months as a result of receiving additional information from foreign jurisdictions related to transfer pricing.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of
Hexion Specialty Chemicals Canada, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholder's equity (deficit) and comprehensive income (loss) and of cash flows present fairly, in all material respects, the financial position of Hexion Specialty Chemicals Canada, Inc. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 13 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit and other postretirement plans as of December 31, 2006. As discussed in Note 15 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions as of January 1, 2007.

PricewaterhouseCoopers LLP
Columbus, Ohio
March 11, 2009



**Hexion Specialty Chemicals, Inc. (the "Company")
2009 Leadership Long-Term Cash Incentive Plan**

The objective of the Hexion Specialty Chemicals, Inc. 2009 Leadership Long-Term Cash Incentive Plan (the "Plan") is to provide a long-term performance based incentive program to certain key leadership during an extraordinary financial period. Hexion Specialty Chemicals, Inc. is defined as the "Company" for purposes of the Plan.

Eligibility

Participants are selected based on the scope of their responsibility and contribution in building value for the total enterprise. Participants are nominated by the CEO and his direct reports and approved by the Company's Compensation Committee (the "Committee"). Only employees of the Company are eligible to participate in the Plan.

Program Financial Performance Measures

There are two financial performance measures for the Plan:

1. Cost Reduction – The global Cost Reduction target for the Company for the measurement period identified below (the "Cost Reduction Target") will be established by the Board of Directors. [The Cost Reduction Target is a targeted net cost savings amount expressed in USD.]
2. EBITDA – The global EBITDA Threshold Target will be established by the Board of Directors. ["EBITDA" means the Company's earnings before interest expense, taxes, depreciation and amortization for the relevant period as reported on the Company's financial statements.]

The Committee may, in its sole discretion, adjust performance measures, performance goals, relative weights of the measures, and other provisions of the Plan to the extent (if any) it determines that the adjustment is necessary or advisable to preserve the intended incentives and benefits to reflect (1) any material change in corporate capitalization, any material corporate transaction (such as a reorganization, combination, separation, merger, acquisition, or any combination of the foregoing), or any complete or partial liquidation of the Company, (2) any change in accounting policies or practices, or (3) the effects of any special charges to the Company's earnings, or (4) any other similar special circumstances.

Program Measurement Periods

- The measurement period for the achievement of the Cost Reduction Target is July 1, 2008 through December 31, 2010

- The measurement period for the achievement of the EBITDA Threshold Target begins January 1, 2009 and runs until such time (if any) as the EBITDA Threshold Target is achieved, subject to earlier termination of the Plan as provided herein. EBITDA achievement is measured and reported for each calendar year.

Individual Target Award

Each Plan participant will have a target award set at the beginning of his or her participation in the Plan based upon the participant's scope of responsibility and ability to contribute to building value within the enterprise. The Target Award for each participant under the Plan will be expressed as a multiplier of the participant's annual base salary at the rate in effect at the time the participant commences participation in the Plan.

Determination of the Incentive Award Amount

At the end of the Cost Reduction measurement period identified above, the percentage of the Cost Reduction Target achieved will be calculated (the "Cost Reduction Percentage"); provided, however, that in no event shall the Cost Reduction Percentage exceed 100%. The Cost Reduction Percentage will then be multiplied by the participant's Target Award to determine the participant's incentive award amount (the "Incentive Award"). Notwithstanding the foregoing, if the Cost Reduction Percentage is less than 75%, the Incentive Award for each participant will be zero, and no participant will be entitled to any payment under the Plan.

Vesting

Once the participant's Incentive Award amount is determined, the participant's right to any payment of the Incentive Award is subject to both time-based and performance-based vesting requirements as set forth in the participant's individual award letter. In order to be eligible to receive any payment of the Incentive Award, the participant is required to agree to the terms of the Plan and promptly sign and return to the Plan administrator an acknowledgement (in the form prescribed by the Plan administrator).

Plan participants must be actively employed with the Company or one of its affiliates on the date that vesting occurs to be eligible to receive payment of the vested Incentive Award. There is no partial or prorated vesting credit under the Plan. Participants whose employment terminates for any reason prior to the date the participant's Incentive Award vests pursuant to the provisions hereof will not be entitled to any award payment under the Plan.

If a Change in Control Event (as this term is defined in the Hexion Specialty Chemicals, Inc. 2007 Incentive Compensation Plan) occurs while a Plan participant is employed with the Company or one of its affiliates and while the participant's Incentive Award opportunity is still outstanding and has not otherwise vested or terminated, the time-based (but not performance-based) vesting requirements applicable to this opportunity will be deemed satisfied upon the Change in Control Event. For purposes of clarity, if the Change in Control Event occurs before the EBITDA Threshold Target is achieved, the participant's Incentive Award will not vest unless and until that target has been achieved.

Payment of the Award

All payments made under the Plan must be approved by the Committee. Provided the vesting requirements as stated above are satisfied and the Committee has approved payment of a participant's Incentive Award, the Company will pay the participant the vested portion of the Incentive Award as soon as reasonably practicable after the vesting date and in all events by March 15 of the year following the year in which the vesting requirements are satisfied. All payments made under the Plan will be subject to any and all applicable income, employment and other tax withholding requirements.

If a participant voluntarily terminates employment with the Company (or one of its affiliates) or is involuntarily terminated without Cause (or has his or her employment terminate due to death or disability), any then-unvested award granted to the participant under the Plan will be forfeited, and the participant will have no rights with respect thereto. The then-vested and unpaid portion of the participant's Incentive Award, if any, will be paid at the same time awards are paid generally under the Plan to the participants.

If a participant is terminated for Cause then all of the participant's rights to participate in the Plan or receive any payment hereunder shall be immediately terminated. Cause is defined as a participant's (a) commission of a crime of moral turpitude or a felony that involves financial misconduct or moral turpitude or has resulted, or reasonably could be expected to result, in any adverse publicity regarding the participant or the Company or any of its affiliates or economic injury to the Company or any of its affiliates, (b) dishonesty or willful commission or omission of any action that has resulted, or reasonably could be expected to result, in any adverse publicity regarding the participant or the Company or any of its affiliates or has caused, or reasonably could be expected to cause, demonstrable and serious economic injury to the Company or any of its affiliates or (c) material breach of the terms of the Plan or any other agreement entered into between the participant and the Company or any of its affiliates after notice and a reasonable opportunity to cure (if such breach can be cured). For purposes hereof, no act or omission shall be considered willful unless committed in bad faith or without a reasonable belief that the act or omission was in the best interests of the Company or any of its affiliates.

Other Required Program Information

The Company values its reputation for integrity and honesty. Achieving business results at the expense of violation of the law, regulations, or business ethics or allowing individuals under one's supervision to behave in this manner is never in the best interest of the Company. Accordingly, if ethical or honesty standards of behavior are violated or if any such behavior of personnel under a participant's supervision is knowingly condoned, any award earned by the participant under the Plan is subject to forfeiture.

The Plan is strictly a voluntary undertaking on the part of the Company and is subject to modification and termination by the Committee at any time, with or without notification to participants.

The Company is the Plan administrator. As administrator, the Company has the responsibility to determine the Target Award for each participant, determine performance measure results, and determine what awards will be payable under the Plan in accordance with the terms of the Plan. All determinations made by the Company in respect of the Plan will be conclusive and binding on all participants, and shall be given the maximum deference permitted by law.

All payments are subject to applicable restrictions contained in the Company's and its subsidiaries' debt and equity financing agreements. If any such restrictions prohibit or otherwise delay payments due to participants in the Plan, then the Company shall have the option to make such payments within thirty (30) days of the date that it is first permitted to make such payments, provided that in all events such payment shall be made within the time period prescribed under "Payment of the Award" above.

Nothing contained in the Plan or any other document related to the Plan constitutes an employment or service commitment by the Company (or its affiliates); affects the employment status of the participant who is subject to termination without cause; confers upon the participant any right to remain employed by or in the service of the Company (or its affiliates); interferes in any way with the right of the Company (or its affiliates) to terminate the participant's employment; or to change the participant's compensation or other terms of employment at any time.

Participants and their beneficiaries or heirs shall have no legal or equitable rights, claims or interest in any specific property or assets of the Company. The Company's payment obligations under the Plan shall constitute merely an unfunded and unsecured promise of the Company to pay compensation in the future to those participants to whom the Company has an obligation under the Plan in accordance with its terms. The rights of the participants and any beneficiaries or heirs shall be no greater than those of the Company's unsecured general creditors.

Hexion Specialty Chemicals, Inc.
2009 INCENTIVE COMPENSATION PLAN

Purpose of the Plan

The purpose of the Plan is to reward associates for profitably growing the business and controlling cost. The Plan is designed to link rewards with critical financial metrics for the purposes of promoting actions which are the most beneficial to the company's short-term and long-term value creation.

Plan Year

1 January 2009 – 31 December 2009

Eligibility

Participation is based on each individual associate's scope of responsibility and contribution within the organization, as well as the market median targets for the country where they are employed.

Associates must be employed in an incentive eligible position for at least three consecutive full months during the Plan year and must be actively employed by Hexion Specialty Chemicals, Inc. or a subsidiary company on 1 January 2010.

Eligible compensation for incentive calculation is based on the participant's base rate of pay as of 1 January 2009. The participant's incentive calculation will be prorated if a change in salary or incentive target occurs during the plan year.

Plan Performance Measures

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization and excluding restructuring (as approved by the Board), gains/losses from the sale of businesses and integration expenses (same as 'Segment' EBITDA)

The achievement of EBITDA growth is the critical measure on which the investment community and future shareholders will evaluate Hexion's performance in 2009. As a result, the participants should be focused and incentivized to manage the business to achieve growth in EBITDA.

50% of the participant's incentive target will be based on the achievement of the EBITDA targets.

EBITDA will be measured for Global Hexion and also at each Division and specified Business Unit.

EHS: Measures the Occupational Incidents Injury Rate (OIIR)

10% of the participant's incentive target will be based on the achievement of the EHS Goals.

The applicable EHS goals must be achieved at 100% or better in order to be eligible for an incentive award. EHS will be measured only at Global Hexion, Divisional and Business Unit levels.

Payment of the EHS measure is contingent upon the EBITDA results of the participant's primary area of responsibility (Global Hexion, Divisional or Business Unit) meeting the minimum financial payout threshold.

Cash Flow: Represents the amount of cash generated by business operations.

40% of the participant's incentive target will be based on the achievement of Cash Flow targets.

Cash Flow will be separately calculated from EBITDA for payout. Even if EBITDA target is not achieved, it is still possible to meet or exceed Cash Flow targets for partial payout.

Cash Flow will be measured for Global Hexion and also at the Divisional level at the plan year end.

Target Incentive

Each eligible participant will have a target incentive opportunity expressed as a percent of their base salary. Targets are determined by the associate's pay Band, country of employment and by the scope and contributions within the organization.

If the maximum EBITDA and Cash Flow performance targets are attained and the EHS performance is at 100%, this Plan can generate a maximum of 175% of the Target Incentive Award.

Plan Structure

The structure of each participant's incentive is determined by the individual's role in the organization and whether they report at a business unit level, a divisional level or at the corporate level.

	<u>Global Hexion EBITDA</u>	<u>Division EBITDA</u>	<u>Business Unit EBITDA</u>	<u>EHS Goals</u>	<u>Cash Flow (Funds Independently)</u>
Hexion Corporate Level	50% (Funds EHS Goals)			10% Global Measure	40% Global Measure
Division Level	10%	40% (Funds EHS Goals)		10% Division Measure	40% Division Measure
Business Unit Level		10%	40% (Funds EHS Goals)	10% Division Measure	40% Division Measure

Calculation of Incentive Payments

The EBITDA and Cash Flow measures will have the following relationship towards incentive award payout at Global Hexion level:

<u>2009 Plan</u>	<u>Minimum</u>	<u>Lower Midpoint</u>	<u>Target</u>	<u>Upper Midpoint</u>	<u>Maximum</u>
Financial performance as % of Target	94.7%	97.4%	100%	105.3%	110.5%
Incentive Payout %	50%	75%	100%	138%	175%

For actual performance between the points above, a straight line calculation will be made, rounded to the nearest 1/10th percent. There is no additional payment made for performance above the maximum. The final financial award will be determined when the 2009 audited financial performance results are available.

Basis for Award Payouts

Financial Results: Bonus payments will be based on audited and approved financial results. No bonus payment will be made until formal results have been approved by Hexion's corporate officers.

Payment against the achievement of the financial measures will be as follows:

- a. Payment of any financial element is contingent on its own merit.
- b. If there is more than one financial measure, payment against each of the measures will be independent of each other.
For example, if measure 1: "Business Unit" is met it will pay out regardless of whether measure 2: "Division" is met.
- c. Payment on achievement of EHS measure is contingent upon meeting the EBITDA financial measure for the participant's direct reporting relationship.

Limitations: All incentive payments must be self-funded from profits generated at the corporate, divisional, or business unit level. The Compensation Committee of the Board of Directors may elect to modify the annual EBITDA targets based on acquisitions or divestitures that may occur during the calendar year. Hexion Specialty Chemicals has the right to amend or terminate this plan at any time.

Employment: Participants must be actively employed by Hexion Specialty Chemicals, Inc. or a subsidiary company on 1 January, 2010 and must have been in an incentive eligible position for at least three full consecutive months during the financial year.

Performance Related Issues: Awards to participants who are subject to a disciplinary review of performance, or are on a performance improvement plan, need to be reviewed with the HR Divisional/Functional Leader to determine if the associate is eligible for a partial award.

Incentive Payments: Payments are subject to applicable taxes and garnishment/wage orders, and if the associate participates in the Hexion Specialty Chemical US retirement plans, all incentive payments are subject to deferral and to plan provisions.

Pro-ration: A participant's incentive payment will be prorated for any of the following conditions:

- a. Base Salary and Incentive Group: Awards are normally calculated on the participant's base salary as of 1 January of the Plan year.
- b. New Hires: Awards to participants who commenced employment during the Plan year will be pro-rated on the basis of full month's service during the Plan year. Employees who commence employment on or before the 15th of any month will be considered to have a full month's service for that month but must be employed on or before October 1, 2009 to be eligible to receive any payout
- c. Re-hires: Awards to participants who terminated during the Plan year and are subsequently rehired during the Plan year will be eligible to receive incentive provided they have worked at least three full consecutive months in the Plan year in an incentive eligible role. Any incentive payments will be prorated based on: 1 – their rate of pay during the full months they

were employed prior to termination, and 2 – their rate of pay at the end of the Plan year for each full month of active employment after their date of rehire. If the participant was not in an incentive eligible role at termination, no credit will be given for incentive payout for that period.

- d. **Salary/Incentive Target Changes:** Awards to participants whose base rate of pay and/or incentive group changes after January 1st of the Plan year will be pro-rated on the basis of full month's service at each job level during the year. (Job changes on or before the 15th of any month will be considered as in respect of the full month. Changes that take effect after the 15th of the month will be counted as effective the 1st of the next month for incentive calculation purposes.)
- e. **Transfers:** Awards to participants transferring between Divisions/Business Units/Sites during the Plan year will be pro-rated on the basis of full month's service in each Division/Business Unit/Site during the year. Business performance against each applicable measure will be based on the full year performance. The award will be funded based on the direct reporting relationship of the associate. (Transfers on or before the 15th of any month will be considered as in respect of the full month. Transfers that take effect after the 15th of the month will be counted as effective the 1st of the next month for incentive calculation purposes.)
- f. **Leaves of Absence/Disability:** Approved leaves of absence for 12 weeks or less in the Plan year will not be excluded from the incentive payment, i.e. the associate will be eligible to receive the full incentive payment. If an associate is absent or on a leave that exceeds 12 cumulative weeks, then any time not worked beyond the 12 weeks will be excluded for the Plan year and the associate will receive a prorated incentive.

Timing of Payments: Typically, financial results are announced in March following the end of the Plan year and any earned incentive payments are made in April. In no event shall payments be made prior to the final audited year end financials results of Hexion Specialty Chemicals, Inc. being formally announced and the subsequent Incentive Compensation Plan payout approval by the Compensation Committee of the Board of Directors. No leader within the organization is to make prospective statements regarding the payment of Incentive Compensation until the Compensation Committee has given approval.

The Hexion Incentive Compensation Plan remains at the total discretion of the Company. Hexion retains the right to amend or adapt the design and rules of the plan. Local legislation will prevail where necessary.



Hexion Specialty Chemicals, Inc.
180 East Broad Street
Columbus, OH 43215
hexion.com

November 13, 2008

Joseph Bevilaqua
3859 Fairlington Drive
Columbus, OH 43220
USA

Dear Jody,

Further to recent discussions, I am pleased to confirm, on behalf of Hexion Specialty Chemicals, Inc. the terms of your assignment as follows:

Appointment

You will be appointed to the position of EVP and President of Epoxy and Phenolic Resins Division reporting to me. Your office location will be Hexion Specialty Chemicals; Seattelweg, Netherlands.

Commencement

The assignment will commence on November 1, 2008 subject to prior receipt of:

- any required work permit,
- visas for you and your spouse and any other authorizations which may be necessary, and
- satisfactory medical reports for yourself and your spouse – this will be your responsibility to obtain and will be reimbursed by the company for the expense.

The company will assist in helping you obtain the appropriate visas. In the event that there is a delay to these formalities it may be necessary to re-arrange the proposed commencement date.

Duration

The assignment is expected to be for a period of 36 months from the date of actual commencement. This period may be varied subject to mutual agreement between yourself and the Company. The assignment and future opportunities will be reviewed 12 to 18 months prior to your return to the U.S.

Compensation

Effective October 1, 2008, your notional base salary will be \$500,000 per annum. Your notional salary will be next reviewed on April 1, 2010. Each April your assignment salary will be recalculated to reflect any merited increase based on your Home Country merit guidelines.

Your salary will be paid to your US bank account. The Company will pay your actual U.S. and host country taxes attributable to your Hexion income annually. In exchange for these payments, hypothetical taxes will be withheld from your pay to represent the Federal, State and local (if applicable) taxes you would have had to pay had you remained at your U.S. home location.

Your final year-end tax obligation will be calculated in accordance with appropriate Tax Equalization methodologies in your Home and Host Country.

You must obtain tax advice from Deloitte with respect to Home Country and Host Country tax obligations, at the beginning and end of your assignment. During your assignment through the year of your repatriation, the Company will pay for Home Country tax preparation assistance, Host Country tax preparation assistance, and any appropriate tax reconciliation.

You will continue to participate in the annual Hexion Incentive Compensation Program which provides an individual target of 70%. Your individual incentive goals will be measured against predetermined objectives as you undertake your assignment. You should discuss and agree to these objectives with your manager. Any payment due to you will be calculated on your Home Country Notional Salary.

Holiday and Travel Arrangements

Your annual holiday (vacation) entitlement will be 20 days. In addition you will be entitled to public holidays as observed by your Host Company.

The Company will reimburse you up to \$25,000 annually to cover personal travel for you and your family members.

Illness, Injury and Medical Coverage

For the duration of your assignment you and your spouse will be enrolled in the Aetna Global Medical and Dental Plan unless you choose to remain in the U.S. health benefits program. Any medical or dental costs not covered under these schemes will be to your own account.

In the event of a serious illness of a member of your immediate family the Company will provide you with compassionate leave, including return airfare to the home location, in accordance with the Company business travel policy.

In the unfortunate event of a death of a member of your immediate family your the Company will provide you and your spouse with compassionate leave including return airfare to the home location, in accordance with the Company business travel policy.

Relocation and Repatriation

The Company will provide airfare for you and your spouse, from the United States to your Host Country on taking up the assignment and back to the United States on its completion. The class of travel will be in compliance with the corporate Hexion Travel Policy.

The cost of shipping your personal effects from the United States and their return to the United States will also be covered up to 350kg by air and 30 cubic meters by surface/sea.

You will receive a relocation (disturbance) allowance at both the beginning and the end of your assignment equivalent to 10% of your notional base salary, [Currently estimated at \$50,000 USD net.] The first beginning relocation allowance is to be paid the later of 30 days of assignment commencement or Hexion receiving your signed assignment agreement. This allowance is being paid to cover incidental expenses that you are likely to incur in leaving and later returning to your home, e.g., special maintenance needs, mail diversion, movement of personal effects into and out of storage, storage, vet's bills, tips, sale of vehicle, additional insurance or leasing expense etc.]

Upon repatriation to your Home Country, the Company will provide up to 60 days temporary housing for you and your spouse. In addition, the Company will provide a \$2500/USD one time net amount to cover expenses for you and your spouse during this time.

Housing

Your total housing allowance will be up to \$5000 USD/Mo, this considers the cost of furnished housing and utilities. You are responsible for the provision of soft furnishings including linen, kitchenware, crockery, glassware and minor electrical equipment.

The Company will also provide temporary housing of up to 45 days upon your arrival in your Host Country.

Cost of Goods

You will be provided with a monthly cost of goods allowance of \$4800 USD.

Transportation

You will be provided with a company vehicle under the terms of the Hexion European Automobile Policy.

The Company will compensate for the loss of one automobile resulting from the forced sale in your Home Country. If the actual sale price is less than the published valuation market price, the Company will reimburse the difference between sale price and the market price for the make, model, and year of the car, and other considerations (including mileage, wear and tear, etc.). Maximum reimbursement is \$1500. No further expenses relating to maintaining, insuring, purchasing, or selling one or more cars will be covered.

Language and Cultural Lessons

Your Host Company will pay for 6 months of specialized cultural and language training for you and your spouse upon your arrival.

Specific Terms and Conditions

You will continue to be eligible for the Hexion retirement program in the United States. Your contributions for these plans will be based on your notional base salary, and deductions will be made accordingly from your salary paid in your Home Country.

Completion of Assignment

Upon successful completion of this assignment, the Company will make a good-faith effort to move you on to a position which will enable you to continue to develop your career and where Hexion can benefit from the skills and experience you acquire while on assignment.

The Company will seek to offer you a suitable alternative position in the US upon successful completion of the assignment. However, the Company cannot provide any guarantee that a suitable comparable position will be available upon completion of your assignment. If no position is available to you in the US, the Company will be responsible for relocating you back to the US.

On return following successful completion of the assignment, you will continue under the normal Country terms and conditions of employment and the additional benefits associated with your International assignment will cease to apply.

Early Termination of Assignment

Your assignment may be terminated early if:

- you give not less than 3 months' written notice to the Company, or
- the Company gives written notice to you to take effect at any time stated in the notice if in the absolute discretion of the Company, for any reason. It is impracticable or undesirable for the assignment to continue. The Company will make every effort to give you as much notice as possible but at least a minimum of 3 months.

On early termination of the assignment by the Company:

- repatriation arrangements will apply as if the assignment had been completed, and
- you will be reimbursed for unavoidable expense incurred as a result of termination for a maximum period of 3 months from repatriation.

In the event you have given notice in order to terminate your employment, you will be responsible for all arrangements and costs associated with your repatriation. You must be actively employed to receive any of the assignment allowances that are described in this agreement.

Obligations of the Assignment

You must devote the whole of your working time and attention to the assignment and in consequence you are not permitted to engage in any other business activity in your Host Country or any other occupation undertaken for profit or gain.

You are expected to comply with local conditions of employment and administrative procedures including safety regulations, local working hours, works rules, and business expense claims.

As a representative of Hexion you are expected to comply with the local laws, customs and regulations in your Host Country.

Modifications to Existing Terms and Conditions

Throughout the assignment you will remain an employee of your Home Country but once you leave your current job to take up this assignment, your terms and conditions of employment are supplemented by the terms of this letter and attachments.

Law

US law is the proper law of this Agreement.

Please confirm your acceptance of this assignment offer by signing and returning the duplicate copy of this letter.

On behalf of Hexion may I take this opportunity of congratulating you on this appointment and wishing you and your family every success.

Yours sincerely,

/s/ Craig O. Morrison

Craig O. Morrison
President and Chief Executive Officer
Hexion Specialty Chemicals, Inc.

I am pleased to accept the assignment under the terms referred to above and the attached addendums.

/s/ Joseph P. Bevilaqua

Joseph Bevilaqua

11/17/08
Date

cc Judy Sonnett
US file

SEVERANCE PAY AGREEMENT AND RELEASE OF ALL CLAIMS

This Transition & Severance Pay Agreement and Release of All Claims ("Agreement") is entered into between Sarah R. Coffin ("Associate" or "You") and Hexion Specialty Chemicals, Inc. ("Company").

Until February 15, 2009 ("Termination Date"), you will be an active employee of the Company and remain on the Company's payroll. Accordingly, you agree to perform all job-related duties and functions that may be assigned to you from time-to-time by the Company;

1. Considerations:

Severance Payments

The Company agrees to pay you \$400,000 as severance. This amount is equal to fifty-two weeks (52) weeks of your current base salary. Severance payments will be made to you in bi-weekly installments, subject to all applicable legal deductions and withholdings. Deductions for cash advances and other monies due the Company will be made from these payments.

The severance period for which these severance payments will be made will begin February 16, 2009 and end on February 15, 2010 ("Severance Period").

Transition Payment

In consideration for the final settlement of the agreement, the company will pay you an additional lump sum of \$126,000 by February 20, 2009. The employee will not be entitled to any other payments and all other entitlements shall be considered forfeited.

Health Benefit Continuation

The Company shall pay you on or as soon as practicable after February 16, 2009, a cash lump sum intended to cover the approximate cost of the Company's portion of the premiums necessary to continue your medical care coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), for a period of twenty-six (26) weeks following February 16, 2009, at the same or reasonably equivalent coverage for you (and, if applicable, your eligible dependents) as in effect immediately prior to the Termination Date. You may elect to continue health care coverage pursuant to COBRA (up to the maximum period of COBRA coverage); provided that you shall be required to pay any and all premiums associated therewith directly to the third party COBRA Administrator.

The Company will gross-up this payment to allow for Federal Income Tax withholding (generally withheld at a rate of 25%). However, due to the complexity of the various state and local taxing jurisdictions, the amount of this lump sum payment may not cover all required tax withholdings. This payment will be based on the COBRA rates in effect at the time of your separation. You will be responsible for any subsequent increases in COBRA rates.

If you elect to extend your healthcare coverage through COBRA:

- Your coverage will be retroactive to your termination date
- You will be sent monthly bills for your COBRA premiums from the third party COBRA Administrator.
- The Severance Period is considered to be part of the 18 months COBRA eligibility.

Vacation

You will receive payment for all accrued, but unused vacation through your termination date. After this date, you will not accrue or earn any additional paid vacation.

Outplacement Support

The Company has arranged, at its own expense, a program of 12 months Executive outplacement support for you. Additional information on these services will be provided to you in a separate attachment.

All Other Company Sponsored Benefit Plans

Unless specified in this Agreement, you will cease participation in and/or accruing benefits under Company sponsored benefit plans as of your termination date.

2. **Eligibility for Considerations:** You understand that, to be eligible for any of the considerations under this Agreement, you must be actively employed and working through the date on which the Company releases you from work. You may not terminate before then or be unavailable for active work due to leave status (disability, workers' compensation, or personal) on your termination date. Should you be on such leave at your termination date, you will be covered by the terms and conditions of that particular status for its duration.
3. **Release of All Claims:** In exchange for the monies and benefits given to you under this Agreement, you give up the right to bring any claims whatsoever against the Company that relate to your job, termination from your job or the severance and other benefits paid to you under this Agreement and Pay. The claims that you are giving up include, but are not limited to, claims under the Age Discrimination in Employment Act, as amended ("ADEA"), Title VII of the Civil Rights Act of 1964, as amended ("Title VII"), the Civil Rights Act of 1966, as amended, the Civil Rights Act of 1991, the Americans with Disabilities Act ("ADA"), the Equal Pay Act, as amended, the Family and Medical Leave Act, the National Labor Relations Act, as amended, the Fair Labor Standards Act, as amended, the Worker Adjustment and Retraining Notification ("WARN") Act, the Employee Retirement Income Security Act ("ERISA"), as amended, any and all State Workers Compensation claims of which the Company was not notified and that were not filed prior to your Termination Date, and all other federal, state or local laws regarding rights or claims relating to employment and common law, including but not limited to, any claim for breach of an oral, implied or written employment contract; negligent or intentional misrepresentations; wrongful discharge; defamation; negligent or intentional infliction of emotional distress; and/or violation of public policy. By signing this Release and Pay Agreement, you have waived your right to file any claim with the U.S. Equal Employment Opportunity Commission or any State Commission, Board or Department that handles similar claims on behalf of the U.S. EEOC. By signing this Release and Pay Agreement, you have waived your right to file for Unemployment Compensation during the time period this Agreement is in place. By signing

this Release and Pay Agreement, you have waived your right to file for Workers Compensation Benefits for alleged incidents or injuries for which you failed to provide notice to the Company and that allegedly occurred prior to your Termination Date.

4. Confidentiality of this Agreement: You understand and agree that this is a Confidential Agreement between you and the Company and the terms and conditions herein are not to be revealed by you other than to your attorney, tax authorities and/or financial advisors and or your spouse (who may not communicate the terms and conditions of the Agreement to any third parties), all except as required by subpoena or other process of law.
5. Confidentiality/Trade Secrets/Non-Compete: You signed a "Confidentiality/Trade Secret and Non-Compete Agreement with the Company. You agree that this "Confidentiality/Trade Secret and Non-Compete Agreement" is a binding Agreement between you and the Company and that you will abide by its terms except that the company and you agree to jointly review, on a case by case basis, job opportunities or directorships in the chemical industry. The company agrees to seek whenever practical to accommodate you in your search for job opportunities or directorships in the chemical industry.
6. Voluntary Execution: The Company is informing you, in writing, that you should consult an attorney before signing this Agreement. In addition, it is agreed and understood that the severance arrangements made between you and the Company are unique and apply only to your special circumstance and in no way can be construed or interpreted as precedent setting to others.
7. Acknowledgment: You received a copy of this Agreement on January 5, 2009 representing the terms of severance from the Company. No deadline of less than 21 days has been imposed upon you to sign this Agreement. If you are signing this Agreement less than 21 days from your Termination Date you understand that you do not have to do so. Changes to this Agreement do not restart the running of the 21 day period.
8. Cancellation Period: You may revoke this Agreement at any time within seven (7) days after signing it by providing written notice of cancellation by hand delivery or registered mail addressed to: Judy Sonnett, EVP, Human Resources at Hexion Specialty Chemicals, Inc. 180 East Broad St. Columbus, OH 43215. For the revocation to be effective, the company must receive written notice no later than the close of business on the seventh day after you sign this Agreement. If you cancel, the Company owes you nothing under this Agreement. This Agreement will not become effective and enforceable until the seven (7) day cancellation period ends.
9. Company Property: You agree to return your Company-provided property that may be in your possession or control on your Termination Date. You also agree to immediately return all original and duplicate documents, files, computer files and records, policies and procedures and all other tangible things in your possession that were created, collected or received by you while employed by the Company.
10. Violation of Agreement: If you violate the terms of this Agreement, including, but not limited to, by filing a claim against the Company, or by soliciting, hiring, or assisting any other person in hiring current employees of Hexion, and this Agreement is upheld against you, the Company will seek repayment of any Severance provided to you in addition to legal fees, costs and expenses.

11. Severability: If any part of this Agreement is found to be unenforceable, the other paragraphs will remain fully valid and enforceable.
12. Controlling Law/Jurisdiction: This Agreement will be interpreted, enforced and governed by and under the laws of Ohio, except to the extent preempted by federal law.
13. Future Cooperation: You will cooperate fully and sign any and all additional documents that may be necessary to carry out the terms and intent of this Agreement.
14. Conduct: You agree to conduct yourself in a manner that does not disparage the Company or is damaging to or otherwise contrary to the Company's best interests.
15. Claims: You have not filed any claims, and no one has filed any claims on your behalf against the Company. You will not file any claims, and no one will file any claims on your behalf against the Company, with respect to the claims that you have given up in this Agreement.
16. Entire Agreement: This Agreement is the entire agreement between you and the Company with respect to the subject matter of this Agreement. There are no other written or oral agreements, understandings or arrangements except the ones contained in this Agreement. The terms of this Agreement may not be changed in any way except in writing, signed by you and the Company.

FULL UNDERSTANDING: By signing this Agreement, you acknowledge that you have carefully read this Agreement; that you have had a reasonable time to consider the language and effect of this Agreement; that the Company has informed you, in writing, consult with an attorney before signing this Agreement; that you know, understand and agree with the contents of this Agreement; and that you are signing this document voluntarily because you are satisfied with its terms and conditions.

SIGNED:

/s/ Sarah R. Coffin

Sarah R. Coffin

Dated: January 21, 2009

/s/ Judith A. Sonnett

Judith A. Sonnett

Dated: January 21, 2009

CANCELLATION NOTICE

To cancel this Agreement:

- Sign below.
- The Company must receive this Cancellation Notice within seven (7) days of the date you signed the Agreement.

I hereby cancel this Agreement.

Date

Sarah R. Coffin



Hexion Specialty Chemicals B.V.
P.O. Box 685
3195 ZH Rotterdam
The Netherlands
www.hexion.com

Deed of Settlement

THE UNDERSIGNED:

1. **HEXION SPECIALTY CHEMICALS B.V.**, a company incorporated under the laws of the Netherlands, in this matter duly represented by Ans Knape / Vice President HR, hereinafter to be referred to as "the Company";
and
2. **MR CORNELIS VERHAAR**, residing at the Oranjenassaulaan 67 (1075 AL) Amsterdam, the Netherlands, hereinafter to be referred to as "the Employee";

WHEREAS:

- (a) The Employee entered into an employment agreement with Hexion Specialty Chemicals B.V. per May 15, 2006. Currently, the Employee holds the position of Executive Vice President and President ECRD.
- (b) The Company and the Employee have discussed the terms of a Deed of Settlement on the terms and conditions of termination of the Employee's employment agreement.
- (c) The parties wish to lay down their agreement in this present Deed of Settlement (the "Deed").

DECLARE AND HAVE AGREED AS FOLLOWS:

1. The employment agreement will terminate as per September 1, 2008 (the "Termination Date").
2. Up to and including the Termination Date the Employee will remain entitled to full payment of his salary and employment benefits.
3. As per the Termination Date the Company shall provide the Employee with a mandatory final settlement (in Dutch: 'eindafrekening'), which shall in any event include the pro rata holiday allowance and compensation for unused vacation days.

As a part of the final settlement, the Company shall pay the Employee a pro rata bonus of € 162,500.—gross, to be paid before September 10, 2008 as a lump sum. The Employee shall not be entitled to any other bonus payments, other bonus entitlements shall be considered forfeited.

4. As consideration for the termination of the employment agreement the Company shall pay the Employee a severance payment for loss of current and future income amounting to € 348,140.— gross (“the Severance”). Payment of the Severance shall be made in 12 equal monthly installments starting per the end of September 2008. The Severance is a gross amount. The income tax, national insurance contributions (in Dutch: ‘premies volksverzekeringen’) and the premiums related to the Dutch health care act (in Dutch: ‘ZVW’) shall be deducted from the gross Severance.
5. Per the Termination Date the Employee resigns from his position as Director under the articles of association of the Company as well as from his position as Director with any of the affiliated companies.
6. The Employee shall remain available for all pending and future litigation, especially but not limited to the litigation with regard to the Huntsman transaction. The Employee will make a reasonable effort to assist the Company or affiliated companies.
7. For a period of one year following the Termination Date, the Employee shall not be allowed without the Company’s prior consent to that effect in writing, to be active in any way whatsoever, either directly or indirectly, for his own account or that of others, in or to work for, or to be involved in or to have an interest in any enterprise carrying out activities which are similar to or competitive with those of the Company or legal entities forming a part of the group to which the Company belongs. If the Employee acts in violation of this clause, the entitlement to a Severance under this Deed will immediately cease to exist.
8. The parties to this agreement will refrain from making any statements that may be detrimental to (the reputation of) the other party.
9. Both the internal communication, as well as the external communication, with respect to the termination of the Employee’s employment agreement must be done in consultation between the parties.

10. The parties undertake to keep the terms and conditions of this Deed strictly confidential and shall not disclose any part thereof to any third party without the other party's prior written consent, unless required by law.
11. After fulfillment of the terms and conditions set forth in this Deed, any rights based upon or arising from or connected with the employment agreement, the termination thereof, are hereby irrevocably waived and neither party will hold the other liable on any grounds whatsoever and/or will institute any claims against the other party with respect to the employment agreement or the termination thereof. The Company indemnifies and holds the Employee harmless against any claims or liabilities based upon or arising from or connected with the Employee's corporate position(s).
12. Any amendments to this Deed can only be made in writing, which amendments must be signed, executed and dated by the parties.
13. Parties hereby explicitly waive any rights to dissolve this Deed e.g. on the basis of a vitiated consent (in Dutch: 'wilsgebreken').
14. This Deed is governed by Dutch law and is qualified as a settlement agreement (in Dutch: 'vaststellingsovereenkomst') within the meaning of article 7:900 of the Dutch Civil Code. Any dispute arising from or related to this agreement shall be exclusively adjudicated by the Dutch competent court.

Thus agreed and signed in twofold in Pernis on 11 August, 2008.

/s/ Ans Knape

Hexion Specialty Chemicals B.V.
Mrs A Knape
Vice President HR

/s/ Cornelis Verhaar

Mr C Verhaar

COLLATERAL AGREEMENT

dated and effective as of

November 3, 2006,

among

HEXION SPECIALTY CHEMICALS, INC.,

each Subsidiary of Parent identified herein,

and

Wilmington Trust Company,
as Collateral Agent

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Schedules

Schedule I Commercial Tort Claims
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Exhibits

Exhibit I Form of Supplement to the Collateral Agreement

COLLATERAL AGREEMENT dated and effective as of November 3, 2006 (this "Agreement"), among **HEXION SPECIALTY CHEMICALS, INC.**, a New Jersey corporation ("Parent"), each Subsidiary of Parent that is or becomes a party hereto (each, a "Subsidiary Party") and **WILMINGTON TRUST COMPANY**, as Collateral Agent (in such capacity, together its successors and assigns, the "Collateral Agent") for the Secured Parties (as defined below).

Reference is made to (a) the Indenture dated as of November 3, 2006 (as amended, restated, supplemented, waived or otherwise modified from time to time, the "Indenture"), among Parent, Hexion Nova Scotia Finance, ULC, a Nova Scotia unlimited liability company, Hexion U.S. Finance Corp., a Delaware corporation, each Subsidiary of Parent identified therein, and Wilmington Trust Company, as Trustee, and (b) the Intercreditor Agreement dated as of November 3, 2006 (as amended, restated, supplemented or otherwise modified from time to time, the "Intercreditor Agreement"), among Parent, each Subsidiary of Parent identified therein, the Trustee and the Intercreditor Agent.

ARTICLE I.

Definitions

SECTION 1.01. Indenture and Intercreditor Agreement.

(a) Capitalized terms used in this Agreement and not otherwise defined herein have the respective meanings assigned thereto in the Indenture or the Intercreditor Agreement. All terms defined in the New York UCC (as defined herein) and not defined in this Agreement have the meanings specified therein. The term "instrument" shall have the meaning specified in Article 9 of the New York UCC.

(b) The rules of construction specified in Section 1.04 of the Indenture also apply to this Agreement.

SECTION 1.02. Other Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"Account Debtor" means any person who is or who may become obligated to any Pledgor under, with respect to or on account of an Account.

"Additional Second Lien Obligations" has the meaning assigned to such term in Section 7.09(d).

"Article 9 Collateral" has the meaning assigned to such term in Section 4.01.

"Collateral" means Article 9 Collateral and Pledged Collateral.

"Collateral Agent" has the meaning assigned to such term in the preliminary statement and for the purpose of Section 7.19, the term Collateral Agent shall mean Wilmington Trust Company in its own capacity and its successors and assigns pursuant to Section 7.05.

“Control Agreement” means a securities account control agreement or a commodity account control agreement, as applicable, enabling the Collateral Agent to obtain “control” (within the meaning of the New York UCC) of any such accounts, in form and substance reasonably satisfactory to the Collateral Agent.

“Copyright License” means any written agreement, now or hereafter in effect, granting any right to any Pledgor under any Copyright now or hereafter owned by any third party, and all rights of any Pledgor under any such agreement (including, any such rights that such Pledgor has the right to license).

“Copyrights” means all of the following now owned or hereafter acquired by any Pledgor (or, as required in the context of the definition of “Copyright License,” any third party licensor): (a) all copyright rights in any work subject to the copyright laws of the United States or any other country, whether as author, assignee, transferee or otherwise; and (b) all registrations and applications for registration of any such Copyright in the United States or any other country, including registrations, supplemental registrations and pending applications for registration in the United States Copyright Office, including those listed on Schedule III.

“Existing Debentures” shall mean the 8.375% Debentures of Parent due 2016, the 9.200% Debentures of Parent due 2021 and the 7.875% Debentures of Parent due 2023.

“Existing Industrial Revenue Bonds” shall mean the Parish of Ascension, Louisiana, Industrial Revenue Bonds guaranteed by Parent outstanding on the date hereof.

“Existing Notes” shall mean (a) the Debentures and (b) the Industrial Revenue Bonds, in each case outstanding on the date hereof.

“Existing Notes Documents” shall mean the indentures under which the Existing Notes are issued and all other instruments, agreements and other documents evidencing or governing the Existing Notes or providing for any security, guarantee or other right in respect thereof.

“Federal Securities Laws” has the meaning assigned to such term in Section 5.04.

“General Intangibles” means all “General Intangibles” as defined in the New York UCC, including all choses in action and causes of action and all other intangible personal property of any Pledgor of every kind and nature (other than Accounts) now owned or hereafter acquired by any Pledgor, including corporate or other business records, indemnification claims, contract rights (including rights under leases, whether entered into as lessor or lessee, Swap Agreements and other agreements), Intellectual Property, goodwill, registrations, franchises, tax refund claims and any letter of credit, guarantee, claim, security interest or other security held by or granted to any Pledgor to secure payment by an Account Debtor of any of the Accounts.

“Governmental Authority” shall mean any federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory or legislative body.

“Incur” has the meaning assigned to such term in the Indenture.

“Indenture” has the meaning assigned to such term in the preliminary statement of this Agreement.

“Indenture Documents” means (a) the Indenture, the Notes, this Agreement and the other Security Documents and (b) any other related documents or instruments executed and delivered pursuant to the Indenture or any Security Document, in each case, as such agreements may be amended, restated, supplemented or otherwise modified from time to time.

“Indenture Restricted Subsidiary” shall mean a “Restricted Subsidiary” under and as defined in either (a) the Indenture of Parent dated as of January 15, 1983, governing the Debentures due 2016, or (b) the Indenture of Parent dated as of December 15, 1987, governing the Debentures due 2021 and 2023, in each case, as amended, modified or supplemented from time to time.

“Intellectual Property” means all intellectual and similar property of every kind and nature now owned or hereafter acquired by any Pledgor, including inventions, designs, Patents, Copyrights, Trademarks, Patent Licenses, Copyright Licenses, Trademark Licenses, trade secrets, domain names, confidential or proprietary technical and business information, know-how, show-how or other data or information and all related documentation.

“Intercreditor Agreement” has the meaning assigned to such term in the preliminary statement of this Agreement.

“Notes Obligations” means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable by each of the Issuers to the Holders of the Notes under the documentation entered into in connection with the Notes as they may exist from time to time, other than the Parallel Debt Notes Obligations; provided, however, that Obligations with respect to the Notes shall not include fees or indemnifications in favor of the Trustee and other third parties other than the Holders of the Notes.

“New York UCC” means the Uniform Commercial Code as from time to time in effect in the State of New York.

“Obligations” has the meaning assigned to such term in the Indenture as such term applies with respect to the Notes.

“Parallel Debt Notes Obligations” has the meaning assigned to such term in Section 7.19.

“Pari Passu Indebtedness” has the meaning assigned to such term in the Indenture.

“Patent License” means any written agreement, now or hereafter in effect, granting to any Pledgor any right to make, use or sell any invention covered by a Patent, now or hereafter owned by any third party (including, any such rights that such Pledgor has the right to license).

“Patents” means all of the following now owned or hereafter acquired by any Pledgor (or, as required in the context of the definition of “Patent License,” any third party licensor): (a) all letters patent of the United States or the equivalent thereof in any other

country, and all applications for letters patent of the United States or the equivalent thereof in any other country, including those listed on Schedule III, and (b) all reissues, continuations, divisions, continuations-in-part or extensions thereof, and the inventions disclosed or claimed therein, including the right to make, use and/or sell the inventions disclosed or claimed therein.

“Pledged Collateral” has the meaning assigned to such term in Section 3.01.

“Pledged Debt Securities” has the meaning assigned to such term in Section 3.01.

“Pledged Securities” means any promissory notes, stock certificates or other certificated securities now or hereafter included in the Pledged Collateral, including all certificates, instruments or other documents representing or evidencing any Pledged Collateral.

“Pledged Stock” has the meaning assigned to such term in Section 3.01.

“Pledged ULC Shares” means Pledged Stock which are shares of a ULC.

“Pledgor” shall mean Parent and each Subsidiary Party.

“Requirement of Law” means, with respect to any person, the common law and all federal, state, local and foreign laws, rules and regulations, orders, judgments, decrees and other legal requirements or determinations of any Governmental Authority or arbitrator, applicable to or binding upon such person or any of its property or to which such person or any of its property is subject.

“Secured Parties” means (a) the Collateral Agent, (b) each Holder, (c) the beneficiaries of each indemnification obligation undertaken by Parent, any Issuer or any Subsidiary Party under any Indenture Document, (d) the Trustee, (e) the holders of any Additional Second Lien Obligations (or the trustee or agent thereof) that have entered into a joinder, supplement or amendment to this Agreement as contemplated by Section 7.09(d) and (f) the successors and permitted assigns of each of the foregoing.

“Security Interest” has the meaning assigned to such term in Section 4.01.

“Subsidiary Party” has the meaning assigned to such term in the preliminary statement of this Agreement.

“Trademark License” means any written agreement, now or hereafter in effect, granting to any Pledgor any right to use any Trademark now or hereafter owned by any third party (including, any such rights that such Pledgor has the right to license).

“Trademarks” means all of the following now owned or hereafter acquired by any Pledgor (or, as required in the context of the definition of “Trademark License,” any third party licensor): (a) all trademarks, service marks, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, other source or business identifiers, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations thereof (if any), and all registration and recording applications filed in connection therewith, including registrations and registration applications in the United States Patent

and Trademark Office or any similar offices in any State of the United States or any other country or any political subdivision thereof, and all renewals thereof, including those listed on Schedule III and (b) all goodwill associated therewith or symbolized thereby.

“ULC” means an unlimited company existing under the laws of the Province of Nova Scotia, Canada.

ARTICLE II.

[Intentionally Omitted]

ARTICLE III.

Pledge of Securities

SECTION 3.01. Pledge. As security for the payment or performance, as the case may be, in full of the Obligations, each Pledgor hereby (except in the case of Pledged ULC Shares) assigns and (in all cases) pledges to the Collateral Agent, its successors and permitted assigns, for the ratable benefit of the Secured Parties, and hereby grants to the Collateral Agent, its successors and permitted assigns, for the ratable benefit of the Secured Parties, a security interest in all of such Pledgor’s right, title and interest in, to and under (a) the Equity Interests directly owned by it (which such Equity Interests constituting Pledged Stock shall be listed on Schedule II) and any other Equity Interests obtained in the future by such Pledgor and any certificates representing all such Equity Interests; provided that the Pledged Stock shall not include (i) more than 65% of the issued and outstanding voting Equity Interests of any Foreign Subsidiary, which pledge, except in the case of a pledge of Pledged ULC Shares, shall be duly noted on the share register, if any, of such Foreign Subsidiary, (ii) any Equity Interests not required to be pledged as security for Senior Lender Claims, (iii) any Equity Interests of a Subsidiary to the extent that, as of the date hereof, and for so long as, such a pledge of such Equity Interests would violate a contractual obligation binding on or relating to such Equity Interests, or (iv) any Equity Interests of any Indenture Restricted Subsidiary owned by the Parent or any Indenture Restricted Subsidiary (the Equity Interests pledged pursuant to this clause (a), the “Pledged Stock”) provided, further, that, other than with respect to the Hexion Canada Entities, (x) shares of capital stock and other Equity Interests will constitute Pledged Stock only to the extent that such capital stock and other Equity Interests can secure the Notes without Rule 3-10 or Rule 3-16 of Regulation S-X under the Securities Act (“Rule 3-10” and “Rule 3-16,” respectively) (or any other law, rule or regulation) requiring separate financial statements of such Subsidiary to be filed with the SEC (or any other governmental agency); (y) in the event that either Rule 3-10 or Rule 3-16 requires or is amended, modified or interpreted by the SEC to require (or is replaced with another rule or regulation, or any other law, rule or regulation is adopted, which would require) the filing with the SEC (or any other governmental agency) of separate financial statements of any Subsidiary due to the fact that such Subsidiary’s capital stock or other Equity Interests constitute Pledged Stock, then such capital stock or other Equity Interests shall automatically be deemed not to be Pledged Stock, but only to the extent necessary to not be subject to such requirement; and (z) in the event that either Rule 3-10 or Rule 3-16 is amended, modified or interpreted by the SEC to permit (or is replaced with another rule or regulation, or any other law, rule or regulation is adopted, which would permit) such capital stock or

other Equity Interests to constitute Pledged Stock without the filing with the SEC (or any other governmental agency) of separate financial statements of such Subsidiary, then such capital stock and other Equity Interests shall automatically be deemed to be Pledged Stock but only to the extent necessary to not be subject to any such financial statement requirement; (b)(i) the debt securities currently issued to any Pledgor (which such debt securities constituting Pledged Debt Securities shall be listed on Schedule II), (ii) any debt securities in the future issued to such Pledgor and (iii) the promissory notes and any other instruments, if any, evidencing such debt securities; provided that the Pledged Debt Securities shall not include debt securities (A) issued by any Indenture Restricted Subsidiary to Parent or any Indenture Restricted Subsidiary or (B) issued by any Foreign Subsidiary to Parent or a Domestic Subsidiary, in the case of this clause (B), for so long as the pledge of such Indebtedness would be deemed an incurrence of Indebtedness under any of the Existing Notes Documents or Indenture Documents or (C) that are not required to be pledged as security for Senior Lender Claims (the debt securities pledged pursuant to this clause (b), the "Pledged Debt Securities"); (c) subject to Section 3.06, all payments of principal or interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of, in exchange for or upon the conversion of, and all other proceeds received in respect of, the securities referred to in clauses (a) and (b) above; (d) subject to Section 3.06, all rights and privileges of such Pledgor with respect to the securities and other property referred to in clauses (a), (b) and (c) above; and (e) all proceeds of any of the foregoing (the items referred to in clauses (a) through (e) above being collectively referred to as the "Pledged Collateral").

TO HAVE AND TO HOLD the Pledged Collateral, together with all right, title, interest, powers, privileges and preferences pertaining or incidental thereto, unto the Collateral Agent, its successors and permitted assigns, for the ratable benefit of the Secured Parties, forever; subject, however, to the terms, covenants and conditions hereinafter set forth.

SECTION 3.02. Delivery of the Pledged Collateral.

(a) Each Pledgor agrees promptly to deliver or cause to be delivered to the Collateral Agent (until the Discharge of Senior Lender Claims, the Intercreditor Agent), for the ratable benefit of the Secured Parties, any and all Pledged Securities to the extent such Pledged Securities, in the case of promissory notes or other instruments evidencing Indebtedness, are required to be delivered pursuant to paragraph (b) of this Section 3.02.

(b) Each Pledgor will cause any Pledged Debt Security or other Indebtedness for borrowed money (i) having an aggregate principal amount in excess of \$15,000,000 or (ii) payable by Parent or any Subsidiary (other than, in the case of this clause (ii), any such Indebtedness referred to in clause (A), (B) or (C) of the proviso to Section 3.01(b) and intercompany Indebtedness incurred in the ordinary course of business in connection with the cash management operations and intercompany sales of Parent and each Subsidiary) owed to such Pledgor by any person to be evidenced by a duly executed promissory note that is pledged and delivered to the Collateral Agent (until the Discharge of Senior Lender Claims, the Intercreditor Agent), for the ratable benefit of the Secured Parties, pursuant to the terms hereof. Following the Discharge of Senior Lender Claims, to the extent any such promissory note is a demand note, each Pledgor party thereto agrees, if requested by the Collateral Agent, to immediately demand payment thereunder upon an Event of Default specified under Section 6.01(a), (b), (f), (g) or (h) of the Indenture.

(c) Upon delivery to the Collateral Agent (until the Discharge of Senior Lender Claims, the Intercreditor Agent), (i) any Pledged Securities required to be delivered pursuant to the foregoing paragraphs (a) and (b) of this Section 3.02 shall be accompanied by stock powers or note powers, as applicable, duly executed in blank or other instruments of transfer reasonably satisfactory to, following the Discharge of Senior Lender Claims, the Collateral Agent, and by such other instruments and documents as, following the Discharge of Senior Lender Claims, the Collateral Agent, may reasonably request and (ii) all other property composing part of the Pledged Collateral delivered pursuant to the terms of this Agreement shall be accompanied to the extent necessary to perfect the security interest in or allow realization on the Pledged Collateral by proper instruments of assignment duly executed by the applicable Pledgor and such other instruments or documents (including issuer acknowledgments in respect of uncertificated securities) as, following the Discharge of Senior Lender Claims, the Collateral Agent, may reasonably request. Each delivery of Pledged Securities shall be accompanied by a schedule describing the securities, which schedule shall be attached hereto as Schedule II and made a part hereof; provided that failure to attach any such schedule hereto shall not affect the validity of such pledge of such Pledged Securities. Each schedule so delivered shall supplement any prior schedules so delivered.

SECTION 3.03. Representations, Warranties and Covenants. The Pledgors, jointly and severally, represent, warrant and covenant to and with the Collateral Agent, for the ratable benefit of the Secured Parties, that:

(a) Schedule II correctly sets forth the percentage of the issued and outstanding shares of each class of the Equity Interests of the issuer thereof represented by such Pledged Stock and includes all Equity Interests, debt securities and promissory notes or instruments evidencing Indebtedness required to be delivered pursuant to Section 3.02(b);

(b) the Pledged Stock to the best of each Pledgor's knowledge, have been duly and validly authorized and issued by the issuers thereof and are fully paid and nonassessable, subject to the assessability of the Pledged ULC Shares under the Companies Act Nova Scotia;

(c) except for the security interests granted hereunder (and those securing any Senior Lender Claims), each Pledgor (i) is and, subject to any transfers made in compliance with the Indenture, will continue to be the direct owner, beneficially and of record, of the Pledged Securities indicated on Schedule II as owned by such Pledgor, (ii) holds the same free and clear of all Liens, other than Permitted Liens, (iii) will make no assignment, pledge, hypothecation or transfer of, or create or permit to exist any security interest in or other Lien on, the Pledged Collateral, other than pursuant to a transaction permitted by the Indenture and other than Permitted Liens and (iv) subject to the rights of such Pledgor under the Indenture Documents to dispose of Pledged Collateral, will use commercially reasonable efforts to defend its title or interest thereto or therein against any and all Liens (other than Permitted Liens), however arising, of all persons;

(d) other than as set forth in the Indenture, and except for restrictions and limitations imposed by the Indenture Documents, the Senior Lender Documents or securities laws generally, the Pledged Collateral is and will continue to be freely transferable and assignable, and none of the Pledged Collateral is or will be subject to any option, right of first refusal, shareholders agreement, charter, by-law, memorandum of association or articles of association provisions or contractual restriction of any nature, other than restrictions on transfer in the articles of association of a ULC, that might prohibit, impair, delay or otherwise affect the pledge of such Pledged Collateral hereunder, the sale or disposition thereof pursuant hereto or the exercise by the Collateral Agent of rights and remedies hereunder;

(e) each Pledgor has the power and authority to pledge the Pledged Collateral pledged by it hereunder in the manner hereby done or contemplated;

(f) other than as set forth in the Indenture or in the Senior Lender Documents, no consent or approval of any Governmental Authority, any securities exchange or any other person was or is necessary to the validity of the pledge effected hereby (other than such as have been obtained and are in full force and effect);

(g) by virtue of the execution and delivery by the Pledgors of this Agreement, the Intercreditor Agreement and the Foreign Pledge Agreements, when any Pledged Securities (excluding any foreign stock not covered by a Foreign Pledge Agreement) are delivered to the Collateral Agent (until the Discharge of Senior Lender Claims, the Intercreditor Agent), for the ratable benefit of the Secured Parties, in accordance with this Agreement, the Collateral Agent will obtain, for the ratable benefit of the Secured Parties, a legal, valid and perfected lien upon and security interest in such Pledged Securities, subject only to Permitted Liens or Liens arising by operation of law, as security for the payment and performance of the Obligations; and

(h) the pledge effected hereby is effective to vest in the Collateral Agent, for the ratable benefit of the Secured Parties, the rights of the Collateral Agent in the Pledged Collateral as set forth herein.

SECTION 3.04. Certification.

(a) Each interest in any limited liability company or limited partnership controlled by any Pledgor, pledged hereunder and represented by a certificate, shall be a “security” within the meaning of Article 8 of the New York UCC and shall be governed by Article 8 of the New York UCC, and each such interest shall at all times hereafter be represented by a certificate.

(b) Each interest in any limited liability company or limited partnership controlled by a Pledgor, pledged hereunder and not represented by a certificate shall not be a “security” within the meaning of Article 8 of the New York UCC and shall not be governed by Article 8 of the New York UCC, and the Pledgors shall at no time elect to treat any such interest as a “security” within the meaning of Article 8 of the New York UCC or issue any certificate representing such interest, unless the applicable Pledgor provides prior written notification to the Collateral Agent of such election and immediately delivers any such certificate to the Collateral Agent (until the Discharge of Senior Lender Claims, the Intercreditor Agent) pursuant to the terms hereof.

SECTION 3.05. Registration in Nominee Name; Denominations. Following the Discharge of Senior Lender Claims, the Collateral Agent, on behalf of the Secured Parties, shall have the right (in its sole and absolute discretion) to hold the Pledged Securities in the name of the applicable Pledgor, endorsed or assigned in blank or, except in the case of the Pledged ULC Shares, in favor of the Collateral Agent or, except in the case of Pledged ULC Shares, if an Event of Default shall have occurred and be continuing, in its own name as pledgee or the name of its nominee (as pledgee or as sub-agent). Upon the occurrence of an Event of Default, each Pledgor will promptly give to the Collateral Agent copies of any notices or other communications received by it with respect to Pledged Securities registered in the name of such Pledgor. If an Event of Default shall have occurred and be continuing, following the Discharge of Senior Lender Claims, the Collateral Agent shall have the right to exchange the certificates representing Pledged Securities held by it for certificates of smaller or larger denominations for any purpose consistent with this Agreement. Each Pledgor shall use its commercially reasonable efforts to cause any Subsidiary of Parent that is not a party to this Agreement to comply with a request by the Collateral Agent, pursuant to this Section 3.05, to exchange certificates representing Pledged Securities of such Subsidiary of Parent for certificates of smaller or larger denominations.

SECTION 3.06. Voting Rights; Dividends and Interest, etc.

(a) Unless and until an Event of Default shall have occurred and be continuing and the Collateral Agent shall have given notice to the relevant Pledgors of the Collateral Agent's intention to exercise its rights hereunder:

(i) Each Pledgor shall be entitled to exercise any and all voting and/or other consensual rights and powers inuring to an owner of Pledged Collateral or any part thereof for any purpose consistent with the terms of this Agreement, the Indenture and the other Indenture Documents; provided, that such rights and powers shall not be exercised in any manner that could materially and adversely affect the rights and remedies of any of the Collateral Agent or the other Secured Parties under this Agreement, the Indenture or any other Indenture Document or the ability of the Secured Parties to exercise the same.

(ii) The Collateral Agent shall promptly execute and deliver to each Pledgor, or cause to be executed and delivered to such Pledgor, all such proxies, powers of attorney and other instruments as such Pledgor may reasonably request for the purpose of enabling such Pledgor to exercise the voting and/or consensual rights and powers it is entitled to exercise pursuant to subparagraph (i) above.

(iii) Each Pledgor shall be entitled to receive and retain any and all dividends, interest, principal and other distributions paid on or distributed in respect of the Pledged Collateral to the extent and only to the extent that such dividends, interest, principal and other distributions are permitted by, and otherwise paid or distributed in accordance with, the terms and conditions

of the Indenture, the other Indenture Documents and applicable laws; provided that any noncash dividends, interest, principal or other distributions that would constitute Pledged Securities, whether resulting from a subdivision, combination or reclassification of the outstanding Equity Interests of the issuer of any Pledged Securities or received in exchange for Pledged Securities or any part thereof, or in redemption thereof, or as a result of any merger, consolidation, acquisition or other exchange of assets to which such issuer may be a party or otherwise, shall be and become part of the Pledged Collateral, and, if received by any Pledgor, shall not be commingled by such Pledgor with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Collateral Agent, for the ratable benefit of the Secured Parties, and, following the Discharge of Senior Lender Claims, shall be forthwith delivered to the Collateral Agent, for the ratable benefit of the Secured Parties, in the same form as so received (endorsed in a manner reasonably satisfactory to the Collateral Agent).

(b) Except in the case of Pledged ULC Shares (in which case the Pledgors shall maintain all membership rights described herein until they cease to be registered as members of the applicable ULC), upon the occurrence and during the continuance of an Event of Default and after the Discharge of Senior Lender Claims and after notice by the Collateral Agent to the relevant Pledgors of the Collateral Agent's intention to exercise its rights hereunder, all rights of any Pledgor to dividends, interest, principal or other distributions that such Pledgor is authorized to receive pursuant to paragraph (a)(iii) of this Section 3.06 shall cease, and all such rights shall thereupon become vested, for the ratable benefit of the Secured Parties, in the Collateral Agent which shall have the sole and exclusive right and authority to receive and retain such dividends, interest, principal or other distributions. All dividends, interest, principal or other distributions received by any Pledgor contrary to the provisions of this Section 3.06 shall not be commingled by such Pledgor with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Collateral Agent (or the Intercreditor Agent, as applicable), for the ratable benefit of the Secured Parties, and, following the Discharge of Senior Lender Claims, shall be forthwith delivered to the Collateral Agent, for the ratable benefit of the Secured Parties, in the same form as so received (endorsed in a manner reasonably satisfactory to the Collateral Agent (or the Intercreditor Agent, as applicable)). Any and all money and other property paid over to or received by the Collateral Agent pursuant to the provisions of this paragraph (b) shall be retained by the Collateral Agent in an account to be established by the Collateral Agent upon receipt of such money or other property and shall be applied in accordance with the provisions of Section 5.02. After all Events of Default have been cured or waived and Parent has delivered to the Collateral Agent a certificate to that effect, the Collateral Agent shall promptly repay to each Pledgor (without interest) all dividends, interest, principal or other distributions that such Pledgor would otherwise be permitted to retain pursuant to the terms of paragraph (a)(iii) of this Section 3.06 and that remain in such account.

(c) Except in the case of Pledged ULC Shares (in which case the Pledgors shall maintain all membership rights described herein until they cease to be registered as members of the applicable ULC), upon the occurrence and during the continuance of an Event of Default and after the Discharge of Senior Lender Claims and after notice by the Collateral Agent to the relevant Pledgors of the Collateral Agent's intention to exercise its rights hereunder, all rights of any Pledgor to exercise the voting and/or consensual rights and powers it is entitled to exercise pursuant to paragraph (a)(i) of this Section 3.06, and the obligations of the Collateral Agent

under paragraph (a)(ii) of this Section 3.06, shall cease, and all such rights shall thereupon become vested in the Collateral Agent, for the ratable benefit of the Secured Parties, which shall have the sole and exclusive right and authority to exercise such voting and consensual rights and powers.

(d) Any notice given by the Collateral Agent to the Pledgors suspending their rights under paragraph (a) of this Section 3.06 (i) may be given by telephone if promptly confirmed in writing, (ii) may be given to one or more of the Pledgors at the same or different times and (iii) may suspend the rights of the Pledgors under paragraph (a)(i) or paragraph (a)(iii) in part without suspending all such rights (as specified by the Collateral Agent in its sole and absolute discretion) and without waiving or otherwise affecting the Collateral Agent's rights to give additional notices from time to time suspending other rights so long as an Event of Default has occurred and is continuing.

ARTICLE IV.

Security Interests in Personal Property

SECTION 4.01. Security Interest.

(a) As security for the payment or performance, as the case may be, in full of the Obligations, each Pledgor hereby assigns and pledges to the Collateral Agent, its successors and assigns, for the ratable benefit of the Secured Parties, and hereby grants to the Collateral Agent, its successors and assigns, for the ratable benefit of the Secured Parties, a security interest (the "Security Interest") in all right, title and interest in or to any and all of the following assets and properties now owned or at any time hereafter acquired by such Pledgor or in which such Pledgor now has or at any time in the future may acquire any right, title or interest (collectively, the "Article 9 Collateral"):

- (i) all Accounts;
- (ii) all Chattel Paper;
- (iii) all cash and Deposit Accounts;
- (iv) all Documents;
- (v) all Equipment;
- (vi) all General Intangibles;
- (vii) all Instruments;
- (viii) all Intellectual Property;
- (ix) all Inventory;

- (x) all Investment Property;
- (xi) all Letter of Credit Rights;
- (xii) all Commercial Tort Claims as described in Schedule I hereto;
- (xiii) all books and records pertaining to the Article 9 Collateral; and
- (xiv) to the extent not otherwise included, all proceeds, Supporting Obligations and products of any and all of the foregoing and all collateral security and guarantees given by any person with respect to any of the foregoing.

Notwithstanding anything to the contrary in this Agreement, this Agreement shall not constitute a grant of a security interest in (and the Article 9 Collateral shall not include) (a) any vehicle covered by a certificate of title or ownership, (b) any assets not required to be pledged as security for Senior Lender Claims, (c) any Letter of Credit Rights to the extent any Pledgor is required by applicable law to apply the proceeds of a drawing of such Letter of Credit for a specified purpose, (d) any Equity Interests or debt securities excluded from the pledge made pursuant to Section 3.01 hereof, (e) any Pledgor's right, title or interest in any license, contract or agreement to which such Pledgor is a party or any of its right, title or interest thereunder to the extent, but only to the extent, that such a grant would, under the terms of such license, contract or agreement, result in a breach of the terms of, or constitute a default under, any license, contract or agreement to which such Pledgor is a party (other than to the extent that any such term would be rendered ineffective pursuant to Section 9-406, 9-408 or 9-409 of the New York UCC or any other applicable law (including Title 11 of the United States Code) or principles of equity); provided, that immediately upon the ineffectiveness, lapse or termination of any such provision, the Collateral shall include, and such Pledgor shall be deemed to have granted a security interest in, all such rights and interests as if such provision had never been in effect or (f) any Equipment or other asset owned by any Pledgor that is subject to a purchase money lien or a Capitalized Lease Obligation, in each case, as permitted under the Indenture Documents and the Senior Lender Documents, if the contract or other agreement in which such Lien is granted (or the documentation providing for such Capitalized Lease Obligation) prohibits or requires the consent of any person other than the Pledgors as a condition to the creation of any other security interest on such Equipment and, in each such case, such prohibition or requirement is permitted under the Indenture Documents and the Senior Lender Documents.

(b) Each Pledgor hereby irrevocably authorizes the Collateral Agent at any time and from time to time to file in any relevant jurisdiction any initial financing statements (including fixture filings) with respect to the Article 9 Collateral or any part thereof and amendments thereto that contain the information required by Article 9 of the Uniform Commercial Code of each applicable jurisdiction for the filing of any financing statement or amendment, including (i) whether such Pledgor is an organization, the type of organization and any organizational identification number issued to such Pledgor, (ii) in the case of a financing statement filed as a fixture filing, a sufficient description of the real property to which such Article 9 Collateral relates and (iii) a description of collateral that describes such property in any other manner as the Collateral Agent may reasonably determine is necessary or advisable to ensure the perfection of the security interest in the Article 9 Collateral granted under this Agreement, including describing such property as "all assets" or "all property". Each Pledgor agrees to provide such information to the Collateral Agent promptly upon request.

The Collateral Agent is further authorized to file with the United States Patent and Trademark Office or United States Copyright Office (or any successor office or any similar office in any other country) such documents as may be necessary or advisable for the purpose of perfecting, confirming, continuing, enforcing or protecting the Security Interest granted by each Pledgor, without the signature of any Pledgor, and naming any Pledgor or the Pledgors as debtors and the Collateral Agent as secured party.

(c) The Security Interest is granted as security only and shall not subject the Collateral Agent or any other Secured Party to, or in any way alter or modify, any obligation or liability of any Pledgor with respect to or arising out of the Article 9 Collateral.

SECTION 4.02. Representations and Warranties. The Pledgors jointly and severally represent and warrant to the Collateral Agent and the Secured Parties that:

(a) Each Pledgor has good and valid rights in and title to the Article 9 Collateral with respect to which it has purported to grant a Security Interest hereunder and has full power and authority to grant to the Collateral Agent the Security Interest in such Article 9 Collateral pursuant hereto and to execute, deliver and perform its obligations in accordance with the terms of this Agreement, without the consent or approval of any other person other than any consent or approval that has been obtained and is in full force and effect or has otherwise been disclosed herein or in the Indenture or in any offering circular related thereto.

(b) Uniform Commercial Code financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations containing a description of the Article 9 Collateral have been prepared for filing in each governmental, municipal or other office specified by Parent, and constitute all the filings, recordings and registrations (other than filings required to be made in the United States Patent and Trademark Office and the United States Copyright Office in order to perfect the Security Interest in Article 9 Collateral consisting of United States Patents, United States registered Trademarks and United States registered Copyrights) that are necessary to publish notice of and protect the validity of and to establish a legal, valid and perfected security interest in favor of the Collateral Agent (for the ratable benefit of the Secured Parties) in respect of all Article 9 Collateral in which the Security Interest may be perfected by filing, recording or registration in the United States (or any political subdivision thereof) and its territories and possessions, and no further or subsequent filing, recording, rerecording, registration or reregistration is necessary in any such jurisdiction, except as provided under applicable law with respect to the filing of continuation statements or amendments. Each Pledgor represents and warrants that a fully executed agreement in the form hereof (or a short form hereof which form shall be reasonably acceptable to the Collateral Agent) containing a description of all Article 9 Collateral consisting of Intellectual Property with respect to Patents (and Patents for which registration applications are pending), registered Trademarks (and Trademarks for which registration applications are pending) and registered Copyrights (and Copyrights for which registration applications are pending) has been delivered to the Collateral Agent for recording with, in the case of United States Patents, Trademarks, Copyrights and applications, the United States Patent and Trademark Office and the United States Copyright Office

pursuant to 35 U.S.C. § 261, 15 U.S.C. § 1060 or 17 U.S.C. § 205 and the regulations thereunder, as applicable, or, in the case of non-United States Patents, Trademarks, Copyrights and applications, the appropriate non-U.S. office, and otherwise as may be reasonably requested by the Collateral Agent, to protect the validity of and to establish a legal, valid and perfected security interest in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, in respect of all Article 9 Collateral consisting of such Intellectual Property in which a security interest may be perfected by recording with the United States Patent and Trademark Office and the United States Copyright Office, and no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary (other than such actions as are necessary to perfect the Security Interest with respect to any Article 9 Collateral consisting of Patents, Trademarks and Copyrights (or registration or application for registration thereof) acquired or developed after the Issue Date).

(c) The Security Interest constitutes (i) a legal and valid security interest in all the Article 9 Collateral securing the payment and performance of the Obligations, (ii) subject to the filings described in Section 4.02(b), a perfected security interest in all Article 9 Collateral in which a security interest may be perfected by filing, recording or registering a financing statement or analogous document in the United States (or any political subdivision thereof) and its territories and possessions pursuant to the Uniform Commercial Code or other applicable law in such jurisdictions and (iii) subject to Section 4.02(b) a security interest that shall be perfected in all Article 9 Collateral in which a security interest may be perfected upon the receipt and recording of this Agreement (or a short form hereof) with the United States Patent and Trademark Office and the United States Copyright Office, as applicable. The Security Interest is and shall be prior to any other Lien on any of the Article 9 Collateral other than Permitted Liens or Liens arising by operation of law.

(d) The Article 9 Collateral is owned by the Pledgors free and clear of any Lien, other than Permitted Liens or Liens arising by operation of law. None of the Pledgors has filed or consented to the filing of (i) any financing statement or analogous document under the Uniform Commercial Code or any other applicable laws covering any Article 9 Collateral, (ii) any assignment in which any Pledgor assigns any Article 9 Collateral or any security agreement or similar instrument covering any Article 9 Collateral with the United States Patent and Trademark Office or the United States Copyright Office or (iii) any assignment in which any Pledgor assigns any Article 9 Collateral or any security agreement or similar instrument covering any Article 9 Collateral with any foreign governmental, municipal or other office, which financing statement or analogous document, assignment, security agreement or similar instrument is still in effect, except, in each case, for Permitted Liens.

(e) None of the Pledgors holds any Commercial Tort Claim individually in excess of \$5,000,000 as of the Issue Date.

(f) As of the Issue Date, all Accounts owned by the Pledgors have been originated by the Pledgors and all Inventory owned by the Pledgors has been acquired by the Pledgors in the ordinary course of business.

SECTION 4.03. Covenants.

(a) Each Pledgor agrees promptly to notify the Collateral Agent in writing of any change (i) in its corporate name, (ii) in its identity or type of organization or corporate structure, (iii) in its Federal Taxpayer Identification Number or organizational identification number or (iv) in its jurisdiction of organization. Each Pledgor agrees promptly to provide the Collateral Agent with certified organizational documents reflecting any of the changes described in the immediately preceding sentence. Each Pledgor agrees not to effect or permit any change referred to in the first sentence of this paragraph (a) unless all filings have been made under the Uniform Commercial Code or otherwise that are required in order for the Collateral Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Article 9 Collateral, for the ratable benefit of the Secured Parties. Each Pledgor agrees promptly to notify the Collateral Agent if any material portion of the Article 9 Collateral owned or held by such Pledgor is damaged or destroyed.

(b) Subject to the rights of such Pledgor under the Indenture Documents to dispose of Collateral, each Pledgor shall, at its own expense, use commercially reasonable efforts to defend title to the Article 9 Collateral against all persons and to defend the Security Interest of the Collateral Agent, for the ratable benefit of the Secured Parties, in the Article 9 Collateral and the priority thereof against any Lien that is not a Permitted Lien.

(c) Each Pledgor agrees, at its own expense, to execute, acknowledge, deliver and cause to be duly filed all such further instruments and documents and take all such actions as the Collateral Agent may from time to time reasonably request to better assure, preserve, protect and perfect the Security Interest and the rights and remedies created hereby, including the payment of any fees and taxes required in connection with the execution and delivery of this Agreement and the granting of the Security Interest and the filing of any financing statements (including fixture filings) or other documents in connection herewith or therewith. If any amount payable under or in connection with any of the Article 9 Collateral that is in excess of \$15,000,000 shall be or become evidenced by any promissory note or other instrument, such note or instrument shall be promptly pledged and delivered to the Collateral Agent (until the Discharge of Senior Lender Claims, the Intercreditor Agent), for the ratable benefit of the Secured Parties, duly endorsed in a manner reasonably satisfactory, following the Discharge of Senior Lender Claims, to the Collateral Agent.

Without limiting the generality of the foregoing, each Pledgor hereby authorizes the Collateral Agent, with prompt notice thereof to the Pledgors, to supplement this Agreement by supplementing Schedule III or adding additional schedules hereto to specifically identify any asset or item that may constitute Copyrights, Licenses, Patents or Trademarks; provided that any Pledgor shall have the right, exercisable within 90 days after it has been notified by the Collateral Agent of the specific identification of such Collateral, to advise the Collateral Agent in writing of any inaccuracy of the representations and warranties made by such Pledgor hereunder with respect to such Collateral. Each Pledgor agrees that it will use its commercially reasonable efforts to take such action as shall be necessary in order that all representations and warranties hereunder shall be true and correct with respect to such Collateral within 90 days after the date it has been notified by the Collateral Agent of the specific identification of such Collateral.

(d) Following the Discharge of Senior Lender Claims, after the occurrence of an Event of Default and during the continuance thereof, the Collateral Agent shall have the right to verify under reasonable procedures the validity, amount, quality,

quantity, value, condition and status of, or any other matter relating to, the Article 9 Collateral, including, in the case of Accounts or Article 9 Collateral in the possession of any third person, by contacting Account Debtors or the third person possessing such Article 9 Collateral for the purpose of making such a verification. The Collateral Agent shall have the right to share any information it gains from such inspection or verification with any Secured Party.

(e) Following the Discharge of Senior Lender Claims, at its option, the Collateral Agent may discharge any past due taxes, assessments, charges, fees, Liens, security interests or other encumbrances at any time levied or placed on the Article 9 Collateral and that is not a Permitted Lien, and may pay for the maintenance and preservation of the Article 9 Collateral to the extent any Pledgor fails to do so as required by the Indenture or this Agreement, and each Pledgor jointly and severally agrees to reimburse the Collateral Agent on demand for any reasonable payment made or any reasonable expense incurred by the Collateral Agent pursuant to the foregoing authorization; provided, however, that nothing in this Section 4.03(e) shall be interpreted as excusing any Pledgor from the performance of, or imposing any obligation on the Collateral Agent or any Secured Party to cure or perform, any covenants or other promises of any Pledgor with respect to taxes, assessments, charges, fees, Liens, security interests or other encumbrances and maintenance as set forth herein or in the other Indenture Documents.

(f) Each Pledgor (rather than the Collateral Agent or any Secured Party) shall remain liable for the observance and performance of all the conditions and obligations to be observed and performed by it under each contract, agreement or instrument relating to the Article 9 Collateral and each Pledgor jointly and severally agrees to indemnify and hold harmless the Collateral Agent and the Secured Parties from and against any and all liability for such performance.

(g) None of the Pledgors shall make or permit to be made an assignment, pledge or hypothecation of the Article 9 Collateral or shall grant any other Lien in respect of the Article 9 Collateral, except as expressly permitted by the Indenture. None of the Pledgors shall make or permit to be made any transfer of the Article 9 Collateral and each Pledgor shall remain at all times in possession of the Article 9 Collateral owned by it, except as permitted by the Indenture or the Intercreditor Agreement. Notwithstanding the foregoing, if the Collateral Agent shall have notified the Pledgors that an Event of Default under clause (a), (b), (g) or (h) of Section 6.01 of the Indenture shall have occurred and be continuing, and during the continuance thereof, the Pledgors shall not sell, convey, lease, assign, transfer or otherwise dispose of any Article 9 Collateral (which notice may be given by telephone if promptly confirmed in writing).

(h) Following the Discharge of Senior Lender Claims, none of the Pledgors will, without the Collateral Agent's prior written consent (which consent shall not be unreasonably withheld), grant any extension of the time of payment of any Accounts included in the Article 9 Collateral, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any person liable for the payment thereof or allow any credit or discount whatsoever thereon, other than extensions, credits, discounts, compromises or settlements granted or made in the ordinary course of business and consistent with prudent business practices.

(i) Each Pledgor irrevocably makes, constitutes and appoints the Collateral Agent (and all officers, employees or agents designated by the Collateral Agent) as such Pledgor's true and lawful agent (and attorney-in-fact) for the purpose, during the continuance of an Event of Default and after the Discharge of Senior Lender Claims, of making, settling and adjusting claims in respect of Article 9 Collateral under policies of insurance, endorsing the name of such Pledgor on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and for making all determinations and decisions with respect thereto. In the event that any Pledgor at any time or times shall fail to obtain or maintain any of the policies of insurance required hereby or to pay any premium in whole or part relating thereto, the Collateral Agent may, without waiving or releasing any obligation or liability of the Pledgors hereunder or any Event of Default, in its sole discretion, obtain and maintain such policies of insurance and pay such premium and take any other actions with respect thereto as the Collateral Agent reasonably deems advisable. All sums disbursed by the Collateral Agent in connection with this Section 4.03(i), including reasonable attorneys' fees, court costs, expenses and other charges relating thereto, shall be payable, upon demand, by the Pledgors to the Collateral Agent and shall be additional Obligations secured hereby.

SECTION 4.04. Other Actions. In order to further ensure the attachment, perfection and priority of, and the ability of the Collateral Agent to enforce, for the ratable benefit of the Secured Parties, the Collateral Agent's security interest in the Article 9 Collateral, each Pledgor agrees, in each case at such Pledgor's own expense, to take the following actions with, respect to the following Article 9 Collateral:

(a) Instruments and Tangible Chattel Paper. If any Pledgor shall at any time own or acquire any Instruments or Tangible Chattel Paper evidencing an amount in excess of \$10,000,000, such Pledgor shall forthwith endorse, assign and deliver the same to the Collateral Agent (or, if prior to the Discharge of Senior Lender Claims, to the Intercreditor Agent), accompanied by such instruments of transfer or assignment duly executed in blank as the Collateral Agent (following the Discharge of Senior Lender Claims) may from time to time reasonably request.

(b) Investment Property. Except to the extent otherwise provided in Article III, if any Pledgor shall at any time hold or acquire any Certificated Security, such Pledgor shall forthwith endorse, assign and deliver the same to the Collateral Agent (or until the Discharge of Senior Lender Claims, to the Intercreditor Agent), accompanied by such instruments of transfer or assignment duly executed in blank as the Collateral Agent (following the Discharge of Senior Lender Claims) may from time to time reasonably specify. If any security of a domestic issuer now or hereafter acquired by any Pledgor is uncertificated and is issued to such Pledgor or its nominee directly by the issuer thereof, upon the Collateral Agent's reasonable request or upon and during the continuance of an Event of Default, such Pledgor shall promptly notify the Collateral Agent of such uncertificated securities and pursuant to an agreement in form and substance reasonably satisfactory to the Collateral Agent, and following the Discharge of Senior Lender Claims, (i) cause the issuer to agree to comply with instructions from the Collateral Agent as to such security, without further consent of any Pledgor or such nominee, or (ii) cause the issuer to register the Collateral Agent as the registered owner of such security. If any security or other Investment Property, whether certificated or uncertificated, representing an Equity Interest in a third party and having a fair market value in excess of \$10,000,000 now or hereafter acquired by any Pledgor is held by such Pledgor or its nominee

through a securities intermediary or commodity intermediary, such Pledgor shall promptly notify the Collateral Agent thereof and, at, following the Discharge of Senior Lender Claims, the Collateral Agent's request and option, pursuant to a Control Agreement in form and substance reasonably satisfactory to the Collateral Agent, either (A) cause such securities intermediary or commodity intermediary, as applicable, to agree, in the case of a securities intermediary, to comply with entitlement orders or other instructions from the Collateral Agent to such securities intermediary as to such securities or other Investment Property or, in the case of a commodity intermediary, to apply any value distributed on account of any commodity contract as directed by the Collateral Agent to such commodity intermediary, in each case without further consent of any Pledgor or such nominee, or (B) in the case of Financial Assets or other Investment Property held through a securities intermediary, arrange for the Collateral Agent to become the entitlement holder with respect to such Financial Assets or Investment Property, for the ratable benefit of the Secured Parties, with such Pledgor being permitted, only with the consent of the Collateral Agent (until the Discharge of Senior Lender Claims, the Intercreditor Agent), to exercise rights to withdraw or otherwise deal with such Financial Assets or Investment Property. The Collateral Agent agrees with each of the Pledgors that the Collateral Agent shall not give any such entitlement orders or instructions or directions to any such issuer, securities intermediary or commodity intermediary, and shall not withhold its consent to the exercise of any withdrawal or dealing rights by any Pledgor, unless an Event of Default has occurred and is continuing or, after giving effect to any such withdrawal or dealing rights, would occur. The provisions of this paragraph (b) shall not apply to any Financial Assets credited to a securities account for which the Collateral Agent is the securities intermediary.

(c) Commercial Tort Claims. If any Pledgor shall at any time hold or acquire a Commercial Tort Claim in an amount reasonably estimated to exceed \$5,000,000, such Pledgor shall promptly notify the Collateral Agent thereof in a writing signed by such Pledgor, including a summary description of such claim, and grant to the Collateral Agent in writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to the Collateral Agent.

SECTION 4.05. Covenants Regarding Patent, Trademark and Copyright Collateral. Except as permitted by the Indenture:

(a) Each Pledgor agrees that it will not knowingly do any act or omit to do any act (and will exercise commercially reasonable efforts to prevent its licensees from doing any act or omitting to do any act) whereby any Patent material to the normal conduct of such Pledgor's business may become prematurely invalidated or dedicated to the public, and agrees that it shall take commercially reasonable steps with respect to any material products covered by any such Patent as necessary and sufficient to establish and preserve its rights under applicable patent laws.

(b) Each Pledgor will, and will use its commercially reasonable efforts to cause its licensees or its sublicensees to, for each Trademark material to the normal conduct of such Pledgor's business, (i) maintain such Trademark in full force free from any adjudication of abandonment or invalidity for non-use, (ii) maintain the quality of products and services offered under such Trademark, (iii) display such Trademark with notice of federal or foreign registration or claim of trademark or service mark as required under applicable law and (iv) not knowingly use or knowingly permit its licensees' use of such Trademark in violation of any third-party rights.

(c) Each Pledgor will, and will use its commercially reasonable efforts to cause its licensees or its sublicensees to, for each work covered by a material Copyright necessary to the normal conduct of such Pledgor's business that it publishes, displays and distributes, use copyright notice as required under applicable copyright laws.

(d) Each Pledgor shall notify the Collateral Agent promptly if it knows that any Patent, Trademark or Copyright material to the normal conduct of such Pledgor's business may imminently become abandoned, lost or dedicated to the public, or of any materially adverse determination or development, excluding office actions and similar determinations or developments in the United States Patent and Trademark Office, United States Copyright Office, any court or any similar office of any country, regarding such Pledgor's ownership of any such material Patent, Trademark or Copyright or its right to register or to maintain the same.

(e) Each Pledgor, either itself or through any agent, employee, licensee or designee, shall (i) inform the Collateral Agent on a quarterly basis of each application by itself, or through any agent, employee, licensee or designee, for any Patent with the United States Patent and Trademark Office and each registration of any Trademark or Copyright with the United States Patent and Trademark Office, the United States Copyright Office or any comparable office or agency in any other country filed during the preceding three-month period, and (ii) upon the reasonable request of the Collateral Agent, execute and deliver any and all agreements, instruments, documents and papers as the Collateral Agent may reasonably request to evidence the Collateral Agent's security interest in such Patent, Trademark or Copyright.

(f) Each Pledgor shall exercise its reasonable business judgment consistent with the practice in any proceeding before the United States Patent and Trademark Office, the United States Copyright Office or any comparable office or agency in any other country with respect to maintaining and pursuing each material application relating to any Patent, Trademark and/or Copyright (and obtaining the relevant grant or registration) material to the normal conduct of such Pledgor's business and to maintain (i) each issued Patent and (ii) the registrations of each Trademark and each Copyright that is material to the normal conduct of such Pledgor's business, including, when applicable and necessary in such Pledgor's reasonable business judgment, timely filings of applications for renewal, affidavits of use, affidavits of incontestability and payment of maintenance fees, and, if any Pledgor believes necessary in its reasonable business judgment, to initiate opposition, interference and cancellation proceedings against third parties.

(g) In the event that any Pledgor knows or has reason to know that any Article 9 Collateral consisting of a Patent, Trademark or Copyright material to the normal conduct of its business has been or is about to be materially infringed, misappropriated or diluted by a third party, such Pledgor shall promptly notify the Collateral Agent and shall, if such Pledgor deems it necessary in its reasonable business judgment, promptly sue and recover any and all damages, and take such other actions as are reasonably appropriate under the circumstances.

(h) Upon and during the continuance of an Event of Default following the Discharge of Senior Lender Claims, each Pledgor shall use commercially reasonable efforts to obtain all requisite consents or approvals from the licensor under each Copyright License, Patent License or Trademark License to effect the assignment of all such Pledgor's right, title and interest thereunder to (in the Collateral Agent's sole discretion) the designee of the Collateral Agent or the Collateral Agent in accordance with, and to the extent consistent with, the terms of the Intercreditor Agreement.

ARTICLE V.

Remedies

SECTION 5.01. Remedies Upon Default. In accordance with, and to the extent consistent with, the terms of the Intercreditor Agreement, the Collateral Agent may take any action specified in this Section 5.01. Upon the occurrence and during the continuance of an Event of Default, each Pledgor agrees to deliver each item of Collateral to the Collateral Agent on demand, and it is agreed that the Collateral Agent shall have the right to take any of or all the following actions at the same or different times: (a) with respect to any Article 9 Collateral consisting of Intellectual Property, on demand, to cause the Security Interest to become an assignment, transfer and conveyance of any of or all such Article 9 Collateral by the applicable Pledgors to the Collateral Agent or to license or sublicense, whether general, special or otherwise, and whether on an exclusive or a nonexclusive basis, any such Article 9 Collateral throughout the world on such terms and conditions and in such manner as the Collateral Agent shall determine (other than in violation of any then-existing licensing arrangements to the extent that waivers thereunder cannot be obtained) and (b) with or without legal process and with or without prior notice or demand for performance, to take possession of the Article 9 Collateral and without liability for trespass to the applicable Pledgor to enter any premises where the Article 9 Collateral may be located for the purpose of taking possession of or removing the Article 9 Collateral and, generally, to exercise any and all rights afforded to a secured party under the applicable Uniform Commercial Code or other applicable law. Without limiting the generality of the foregoing, each Pledgor agrees that the Collateral Agent shall have the right, subject to the requirements of applicable law and in accordance with, and to the extent consistent with, the terms of the Intercreditor Agreement, to sell or otherwise dispose of all or any part of the Collateral at a public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as the Collateral Agent shall deem appropriate. The Collateral Agent shall be authorized in connection with any sale of a security (if it deems it advisable to do so) pursuant to the foregoing to restrict the prospective bidders or purchasers to persons who represent and agree that they are purchasing such security for their own account, for investment, and not with a view to the distribution or sale thereof. Upon consummation of any such sale of Collateral pursuant to this Section 5.01 the Collateral Agent shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each such purchaser at any such sale shall hold the property sold absolutely, free from any claim or right on the part of any Pledgor, and each Pledgor hereby waives and releases (to the extent permitted by law) all rights of redemption, stay, valuation and appraisal that such Pledgor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted.

The Collateral Agent shall give the applicable Pledgors 10 Business Days' written notice (which each Pledgor agrees is reasonable notice within the meaning of Section 9-611 of the New York UCC or its equivalent in other jurisdictions) of the Collateral Agent's intention to make any sale of Collateral. Such notice, in the case of a public sale, shall state the time and place for such sale and, in the case of a sale at a broker's board or on a securities exchange, shall state the board or exchange at which such sale is to be made and the day on which the Collateral, or portion thereof, will first be offered for sale at such board or exchange. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Collateral Agent may fix and state in the notice (if any) of such sale. At any such sale, the Collateral, or the portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as the Collateral Agent may (in its sole and absolute discretion) determine. The Collateral Agent shall not be obligated to make any sale of any Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In the case of any sale of all or any part of the Collateral made on credit or for future delivery, the Collateral so sold may be retained by the Collateral Agent until the sale price is paid by the purchaser or purchasers thereof, but the Collateral Agent shall not incur any liability in the event that any such purchaser or purchasers shall fail to take up and pay for the Collateral so sold and, in the case of any such failure, such Collateral may be sold again upon notice given in accordance with provisions above. At any public (or, to the extent permitted by law, private) sale made pursuant to this Section 5.01, any Secured Party may bid for or purchase for cash, free (to the extent permitted by law) from any right of redemption, stay, valuation or appraisal on the part of any Pledgor (all such rights being also hereby waived and released to the extent permitted by law), the Collateral or any part thereof offered for sale and such Secured Party may, upon compliance with the terms of sale, hold, retain and dispose of such property in accordance with Section 5.02 hereof without further accountability to any Pledgor therefor. For purposes hereof, a written agreement to purchase the Collateral or any portion thereof shall be treated as a sale thereof; the Collateral Agent shall be free to carry out such sale pursuant to such agreement and no Pledgor shall be entitled to the return of the Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Collateral Agent shall have entered into such an agreement all Events of Default shall have been remedied and the Obligations paid in full. As an alternative to exercising the power of sale herein conferred upon it, the Collateral Agent may proceed by a suit or suits at law or in equity to foreclose this Agreement and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver. Any sale pursuant to the provisions of this Section 5.01 shall be deemed to conform to the commercially reasonable standards as provided in Section 9-610(b) of the New York UCC or its equivalent in other jurisdictions.

SECTION 5.02. Application of Proceeds. The Collateral Agent shall, subject to the Intercreditor Agreement, promptly apply the proceeds, moneys or balances of any collection or sale of Collateral, as well as any Collateral consisting of cash, as follows:

FIRST, to the payment of all reasonable costs and expenses incurred by the Collateral Agent in connection with such collection or sale or otherwise in connection with this Agreement, any other Indenture Document or any of the Obligations,

including all court costs and the reasonable fees and expenses of its agents and legal counsel, the repayment of all advances made by the Collateral Agent hereunder or under any other Indenture Document on behalf of any Pledgor and any other reasonable costs or expenses incurred in connection with the exercise of any right or remedy hereunder or under any other Indenture Document;

SECOND, to the payment in full of the Obligations (the amounts so applied to be distributed among the Secured Parties pro rata in accordance with the respective amounts of the Obligations owed to them on the date of any such distribution); and

THIRD, to the Pledgors, their successors or assigns, or as a court of competent jurisdiction may otherwise direct.

The Collateral Agent shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. Upon any sale of Collateral by the Collateral Agent (including pursuant to a power of sale granted by statute or under a judicial proceeding), the receipt of the purchase money by the Collateral Agent or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold and such purchaser or purchasers shall not be obligated to see to the application of any part of the purchase money paid over to the Collateral Agent or such officer or be answerable in any way for the misapplication thereof.

SECTION 5.03. Grant of License to Use Intellectual Property. For the purpose of enabling the Collateral Agent to exercise rights and remedies under this Agreement in accordance with, and to the extent consistent with, the terms of the Intercreditor Agreement at such time as the Collateral Agent shall be lawfully entitled to exercise such rights and remedies, each Pledgor hereby grants to (in the Collateral Agent's sole discretion) a designee of the Collateral Agent or the Collateral Agent, for the ratable benefit of the Secured Parties, an irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to any Pledgor) to use, license or sublicense any of the Article 9 Collateral consisting of Intellectual Property now owned or hereafter acquired by such Pledgor, wherever the same may be located, and including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof, the right to prosecute and maintain all Intellectual Property and the right to sue for past infringement of the Intellectual Property. The use of such license by the Collateral Agent may be exercised, at the option of the Collateral Agent, upon the occurrence and during the continuation of an Event of Default following the Discharge of Senior Lender Claims; provided that any license, sublicense or other transaction entered into by the Collateral Agent in accordance herewith shall be binding upon the Pledgors notwithstanding any subsequent cure of an Event of Default.

SECTION 5.04. Securities Act, etc. In view of the position of the Pledgors in relation to the Pledged Collateral, or because of other current or future circumstances, a question may arise under the Securities Act of 1933, as now or hereafter in effect, or any similar federal statute hereafter enacted analogous in purpose or effect (such Act and any such similar statute as from time to time in effect being called the "Federal Securities Laws") with respect to any disposition of the Pledged Collateral permitted hereunder. Each

Pledgor understands that compliance with the Federal Securities Laws might very strictly limit the course of conduct of the Collateral Agent if the Collateral Agent were to attempt to dispose of all or any part of the Pledged Collateral, and might also limit the extent to which or the manner in which any subsequent transferee of any Pledged Collateral could dispose of the same. Similarly, there may be other legal restrictions or limitations affecting the Collateral Agent in any attempt to dispose of all or part of the Pledged Collateral under applicable Blue Sky or other state securities laws or similar laws analogous in purpose or effect. Each Pledgor acknowledges and agrees that in light of such restrictions and limitations, the Collateral Agent, in its sole and absolute discretion, in accordance with, and to the extent consistent with, the terms of the Intercreditor Agreement, (a) may proceed to make such a sale whether or not a registration statement for the purpose of registering such Pledged Collateral or part thereof shall have been filed under the Federal Securities Laws or, to the extent applicable, Blue Sky or other state securities laws and (b) may approach and negotiate with a single potential purchaser to effect such sale. Each Pledgor acknowledges and agrees that any such sale might result in prices and other terms less favorable to the seller than if such sale were a public sale without such restrictions. In the event of any such sale, the Collateral Agent shall incur no responsibility or liability for selling all or any part of the Pledged Collateral at a price that the Collateral Agent, in its sole and absolute discretion, may in good faith deem reasonable under the circumstances, notwithstanding the possibility that a substantially higher price might have been realized if the sale were deferred until after registration as aforesaid or if more than a single purchaser were approached. The provisions of this Section 5.04 will apply notwithstanding the existence of a public or private market upon which the quotations or sales prices may exceed substantially the price at which the Collateral Agent sells.

SECTION 5.05. Registration, etc. Each Pledgor agrees that, upon the occurrence and during the continuance of an Event of Default following a Discharge of Senior Lender Claims, if, in accordance with, and to the extent consistent with, the terms of the Intercreditor Agreement, for any reason the Collateral Agent desires to sell any of the Pledged Collateral at a public sale, it will, at any time and from time to time, upon the written request of the Collateral Agent, use its commercially reasonable efforts to take or to cause the issuer of such Pledged Collateral to take such action and prepare, distribute and/or file such documents, as are required or advisable in the reasonable opinion of counsel for the Collateral Agent to permit the public sale of such Pledged Collateral. Each Pledgor further agrees to indemnify, defend and hold harmless the Collateral Agent, each other Secured Party, any underwriter and their respective officers, directors, affiliates and controlling persons from and against all loss, liability, expenses, costs of counsel (including reasonable fees and expenses to the Collateral Agent of legal counsel), and claims (including the costs of investigation) that they may incur insofar as such loss, liability, expense or claim arises out of or is based upon any alleged untrue statement of a material fact contained in any prospectus (or any amendment or supplement thereto) or in any notification or offering circular, or arises out of or is based upon any alleged omission to state a material fact required to be stated therein or necessary to make the statements in any thereof not misleading, except insofar as the same may have been caused by any untrue statement or omission based upon information furnished in writing to such Pledgor or the issuer of such Pledged Collateral by the Collateral Agent or any other Secured Party expressly for use therein. Each Pledgor further agrees, upon such written request referred to above, to use its commercially reasonable efforts to qualify, file or register, or cause the issuer of such Pledged Collateral to qualify, file or register,

any of the Pledged Collateral under the Blue Sky or other securities laws of such states as may be reasonably requested by the Collateral Agent and keep effective, or cause to be kept effective, all such qualifications, filings or registrations. Each Pledgor will bear all costs and expenses of carrying out its obligations under this Section 5.05. Each Pledgor acknowledges that there is no adequate remedy at law for failure by it to comply with the provisions of this Section 5.05 only and that such failure would not be adequately compensable in damages and, therefore, agrees that its agreements contained in this Section 5.05 may be specifically enforced.

ARTICLE VI.

[Intentionally Omitted]

ARTICLE VII.

Miscellaneous

SECTION 7.01. Notices. All communications and notices hereunder shall (except as otherwise expressly permitted herein) be in writing and given as provided in Section 13.02 of the Indenture. All communications and notices hereunder to any Subsidiary Party shall be given to it in care of the Parent, with such notice to be given as provided in Section 13.02 of the Indenture.

SECTION 7.02. Security Interest Absolute. All rights of the Collateral Agent hereunder, the Security Interest, the security interest in the Pledged Collateral and all obligations of each Pledgor hereunder shall be absolute and unconditional irrespective of (a) any lack of validity or enforceability of the Indenture, any other Indenture Document, any agreement with respect to any of the Obligations or any other agreement or instrument relating to any of the foregoing, (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Indenture, any other Indenture Document or any other agreement or instrument, (c) any exchange, release or non-perfection of any Lien on other collateral, or any release or amendment or waiver of or consent under or departure from any guarantee, securing or guaranteeing all or any of the Obligations or (d) any other circumstance that might otherwise constitute a defense available to, or a discharge of, any Pledgor in respect of the Obligations or this Agreement (other than a defense of payment or performance).

SECTION 7.03. Limitation By Law. All rights, remedies and powers provided in this Agreement may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of this Agreement are intended to be subject to all applicable mandatory provisions of law that may be controlling and to be limited to the extent necessary so that they shall not render this Agreement invalid, unenforceable, in whole or in part, or not entitled to be recorded, registered or filed under the provisions of any applicable law.

SECTION 7.04. Binding Effect; Several Agreement. This Agreement shall become effective as to any party to this Agreement when a counterpart hereof executed on behalf of such party shall have been delivered to the Collateral Agent and a

counterpart hereof shall have been executed on behalf of the Collateral Agent, and thereafter shall be binding upon such party and the Collateral Agent and their respective permitted successors and assigns, and shall inure to the benefit of such party, the Collateral Agent and the other Secured Parties and their respective permitted successors and assigns, except that no party shall have the right to assign or transfer its rights or obligations hereunder or any interest herein or in the Collateral (and any such assignment or transfer shall be void) except as expressly contemplated by this Agreement or the Indenture. This Agreement shall be construed as a separate agreement with respect to each party and may be amended, modified, supplemented, waived or released with respect to any party without the approval of any other party and without affecting the obligations of any other party hereunder.

SECTION 7.05. Successors and Assigns. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of any Pledgor or the Collateral Agent that are contained in this Agreement shall bind and inure to the benefit of their respective permitted successors and assigns. The Collateral Agent hereunder shall at all times be the same person that is the Collateral Agent under the Indenture. Written notice of resignation by the Collateral Agent pursuant to the Indenture shall also constitute notice of resignation as the Collateral Agent under this Agreement; provided that such resignation shall not affect the rights of the Collateral Agent pursuant to the Parallel Debt Notes Obligations and the Collateral Agent shall continue to hold such right until the effectiveness of the assignment thereof by the Collateral Agent to its successor agent. Upon the acceptance of any appointment as the Collateral Agent under the Indenture by a successor Collateral Agent, that successor Collateral Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Collateral Agent pursuant hereto. The Collateral Agent will reasonably cooperate in assigning its right under the Parallel Debt Notes Obligations to any successor agent and the transfer of the Dutch Security Documents to such successor agent.

SECTION 7.06. Collateral Agent's Fees and Expenses; Indemnification.

(a) The parties hereto agree that the Collateral Agent shall be entitled to reimbursement of its expenses incurred hereunder as provided in the Indenture.

(b) Without limitation of its indemnification obligations under the other Indenture Documents, each Pledgor jointly and severally agrees to indemnify the Collateral Agent against, and hold the Collateral Agent harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against the Collateral Agent arising out of, in connection with, or as a result of, (i) the execution or delivery of this Agreement or any other Indenture Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto and thereto of their respective obligations thereunder or the consummation of the transactions contemplated hereby, (ii) the use of proceeds of the Notes or (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, or to the Collateral, whether or not the Collateral Agent is a party thereto; provided that such indemnity shall not, as to the Collateral Agent, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of the Collateral Agent.

(c) Any such amounts payable as provided hereunder shall be additional Obligations secured hereby and by the other Security Documents. The provisions of this Section 7.06 shall remain operative and in full force and effect regardless of the termination of this Agreement or any other Indenture Document, the consummation of the transactions contemplated hereby, the repayment of any of the Obligations, the invalidity or unenforceability of any term or provision of this Agreement or any other Indenture Document, or any investigation made by or on behalf of the Collateral Agent or any other Secured Party. All amounts due under this Section 7.06 shall be payable on written demand therefor.

SECTION 7.07. Collateral Agent Appointed Attorney-in-Fact. Each Pledgor hereby appoints the Collateral Agent the attorney-in-fact of such Pledgor for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instrument that the Collateral Agent may deem necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, subject to the Intercreditor Agreement, the Collateral Agent shall have the right, upon the occurrence and during the continuance of an Event of Default following the Discharge of Senior Lender Claims, with full power of substitution either in the Collateral Agent's name or in the name of such Pledgor, (a) to receive, endorse, assign or deliver any and all notes, acceptances, checks, drafts, money orders or other evidences of payment relating to the Collateral or any part thereof, (b) to demand, collect, receive payment of, give receipt for and give discharges and releases of all or any of the Collateral; (c) to ask for, demand, sue for, collect, receive and give acquittance for any and all moneys due or to become due under and by virtue of any Collateral; (d) to sign the name of any Pledgor on any invoice or bill of lading relating to any of the Collateral; (e) to send verifications of Accounts to any Account Debtor; (f) to commence and prosecute any and all suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect or otherwise realize on all or any of the Collateral or to enforce any rights in respect of any Collateral; (g) to settle, compromise, compound, adjust or defend any actions, suits or proceedings relating to all or any of the Collateral; (h) to notify, or to require any Pledgor to notify, Account Debtors to make payment directly to the Collateral Agent; and (i) to use, sell, assign, transfer, pledge, make any agreement with respect to or otherwise deal with all or any of the Collateral, and to do all other acts and things necessary to carry out the purposes of this Agreement, as fully and completely as though the Collateral Agent were the absolute owner of the Collateral for all purposes; provided, that nothing herein contained shall be construed as requiring or obligating the Collateral Agent to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by the Collateral Agent, or to present or file any claim or notice, or to take any action with respect to the Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby. The Collateral Agent and the other Secured Parties shall be accountable only for amounts actually received as a result of the exercise of the powers granted to them herein, and neither they nor their officers, directors, employees or agents shall be responsible to any Pledgor for any act or failure to act hereunder, except for their own gross negligence or willful misconduct. The Collateral Agent is authorized, but not obligated, to take any action reasonably required to effect a pledge of any Pledged Stock issued by any company organized under the laws of the Netherlands.

SECTION 7.08. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

SECTION 7.09. Waivers; Amendment.

(a) No failure or delay by the Collateral Agent or any Holder in exercising any right, power or remedy hereunder or under any other Indenture Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy, or any abandonment or discontinuance of steps to enforce such a right, power or remedy, preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The rights, powers and remedies of the Collateral Agent and the Holder hereunder and under the other Indenture Documents are cumulative and are not exclusive of any rights, powers or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by any Holder therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section 7.09, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Collateral Agent and the Pledgor or Pledgors with respect to which such waiver, amendment or modification is to apply, subject to any consent required in accordance with Article 9 of the Indenture.

(c) For the purpose of Section 7.09(b) above, the Collateral Agent shall be entitled to rely upon (i) written confirmation from the agent managing the solicitation of consents and a certificate signed by two Officers of the Parent, provided by the Trustee, as to the receipt of valid consents from the Holders of at least a majority in aggregate principal amount of the outstanding Notes to amend this Agreement (or two-thirds in aggregate principal amount of the outstanding Notes if required by Article 9 of the Indenture), and (ii) any document believed by it to be genuine and to have been signed or presented by the proper Person and the Collateral Agent need not investigate any fact or matter stated in the document. At any time that Parent desires that this Agreement be amended as provided in Section 7.09(b) above, Parent shall deliver to the Collateral Agent a certificate signed by two Officers of Parent stating that the amendment of this Agreement is permitted pursuant to Section 7.09(b) above. If requested by the Collateral Agent (although the Collateral Agent shall have no obligation to make any such request), Parent shall furnish appropriate legal opinions (from counsel reasonably acceptable to the Collateral Agent) to the effect set forth in the immediately preceding sentence. Such officers' certificate and legal opinion will contain the statements required by Section 13.05 of the Indenture. If requested by the Collateral Agent (although the Collateral Agent shall have no obligation to make any such request), Parent shall furnish to the Collateral Agent copies of officers' certificates and legal opinions delivered to the Trustee in connection with any amendment to the Indenture affecting the operation of this Section 7.09. The Collateral Agent shall not be liable for any action it takes or omits to take in good faith in reliance on such certificates or opinions.

(d) Upon the Incurrence of Pari Passu Indebtedness secured by Liens permitted under the Indenture, which liens are intended to rank equal in priority with the Liens granted under this Agreement (“Additional Second Lien Obligations”), the holders of such Pari Passu Indebtedness or the trustee or agent on behalf of such holders shall execute and deliver a joinder, amendment or supplement to this Agreement to provide that the new holder(s) (and/or the trustee or agent for such holder(s)) shall be “Secured Parties” hereunder, which joinder, amendment or supplement may provide for the appointment of the Collateral Agent as agent for such holder(s) and/or provide for the grant of a security interest in the Collateral by the Pledgors in form and substance reasonably satisfactory to the Collateral Agent. Upon the execution and delivery by such holder(s) (or trustee or agent) and the other parties thereto of such joinder, amendment or supplement, such holder(s) (or trustee or agent for such holders) shall become a “Secured Party” hereunder with the same force and effect as if it were originally a party to this Agreement and named as a “Secured Party” herein. The execution and delivery of such joinder, amendment or supplement shall not require the consent of any other Secured Party hereunder (other than the Collateral Agent), and the rights and obligations of each Secured Party hereunder shall remain in full force and effect notwithstanding the addition of any new Secured Party as a party to this Agreement. For the purpose of this Section 7.09(d), the Collateral Agent shall be entitled to rely upon an officers’ certificate stating that the amendment of this Agreement is permitted pursuant to this Section 7.09(d).

SECTION 7.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER INDENTURE DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 7.10.

SECTION 7.11. Severability. In the event any one or more of the provisions contained in this Agreement or in any other Indenture Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7.12. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract, and shall become effective as provided in Section 7.04. Delivery of an executed counterpart to this Agreement by facsimile transmission shall be as effective as delivery of a manually signed original.

SECTION 7.13. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 7.14. Jurisdiction; Consent to Service of Process.

(a) Each party to this Agreement hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any other Indenture Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Collateral Agent or any Holder may otherwise have to bring any action or proceeding relating to this Agreement or any other Indenture Document against any Pledgor, or its properties, in the courts of any jurisdiction.

(b) Each party to this Agreement hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Indenture Document in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 7.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 7.15. Termination or Release.

(a) (i) This Agreement, the pledges made herein, the Security Interest and all other security interests granted hereby, and all other Security Documents securing the Obligations (including without limitation foreign security documents), shall automatically terminate as of the date when all Obligations (other than contingent or unliquidated obligations or liabilities) have been paid in full in cash or immediately available funds. (ii) This Agreement, the pledges made herein, the Security Interest and all other security interests granted hereby, and all other Security Documents securing the Obligations (including without limitation foreign security documents), shall automatically terminate as of the date when the Holders of at least two thirds in aggregate principal amount of all Notes issued under the Indenture consent to the termination of this Agreement, such termination to include, without limitation, the termination of the pledge of the Pledged Collateral and the Security Interest (including the Security Interest relating to any Subsidiary Guarantee but not the Guarantee itself).

(b) A Subsidiary Party shall automatically be released from its obligations hereunder and the security interests in the Collateral of such Subsidiary Party shall be automatically released upon the consummation of any transaction permitted by the Indenture as a result of which such Subsidiary Party ceases to be a Subsidiary of Parent or otherwise ceases to be a Pledgor; provided that the requisite Holders shall have consented to such transaction (to the extent such consent is required by the Indenture) and the terms of such consent did not provide otherwise.

(c) Upon any sale or other transfer by any Pledgor of any Collateral that is permitted under the Indenture to any person that is not a Pledgor (including in connection with an Event of Loss), or upon the effectiveness of any written consent to the release of the security interest granted hereby in any Collateral pursuant to the Indenture, the security interest in such Collateral shall be automatically released.

(d) In the case of a Pledgor making a Permitted Transfer that is permitted by clause (y) of the last paragraph of Article 5 of the Indenture and such Permitted Transfer is to a Restricted Subsidiary that is not a Pledgor, the security interest in the Collateral of such Pledgor shall be automatically released.

(e) If any of the Collateral shall become subject to the release provisions set forth in Section 5.1 of the Intercreditor Agreement, such Collateral shall be automatically released from the security interest in such Collateral to the extent provided therein.

(f) In connection with any termination or release pursuant to paragraph (a), (b), (c), (d) or (e) of this Section 7.15, the Collateral Agent shall execute and deliver to any Pledgor, at such Pledgor's, expense all documents that such Pledgor shall reasonably request to evidence such termination or release (including UCC termination statements), and will duly assign and transfer to such Pledgor, such of the Pledged Collateral that may be in the possession of the Collateral Agent and has not theretofore been sold or otherwise applied or released pursuant to this Agreement. Any execution and delivery of documents pursuant to this Section 7.15 shall be without recourse to or warranty by the Collateral Agent.

SECTION 7.16. Additional Subsidiaries. Upon execution and delivery by the Collateral Agent and any Subsidiary that is required to become a party hereto by Section 4.15 of the Indenture of an instrument in the form of Exhibit I hereto, such subsidiary shall become a Subsidiary Party hereunder with the same force and effect as if originally named as a Subsidiary Party herein. The execution and delivery of any such instrument shall not require the consent of any other party to this Agreement. The rights and obligations of each party to this Agreement shall remain in full force and effect notwithstanding the addition of any new party to this Agreement.

SECTION 7.17. Intercreditor Agreement. Notwithstanding anything herein to the contrary, (i) the liens and security interests granted to the Collateral Agent pursuant to this Agreement are expressly subject and subordinate to the liens and security interests granted to (a) JPMorgan Chase Bank, N.A., as administrative agent and collateral agent (and its permitted successors), pursuant to the Second Amended and Restated Collateral Agreement dated as of November 3, 2006 (as further amended, restated, supplemented or otherwise modified from time to time), by and among Hexion LLC, Parent, certain subsidiaries of Parent, and

JPMorgan Chase Bank, N.A., as collateral agent, or (b) any agent or trustee for any other Senior Lenders (as defined in the Intercreditor Agreement), and (ii) the exercise of any right or remedy by the Collateral Agent hereunder is subject to the limitations and provisions of the Intercreditor Agreement. In the event of any conflict between the terms of the Intercreditor Agreement and the terms of this Agreement, the terms of the Intercreditor Agreement shall govern.

SECTION 7.18. Senior Collateral Documents. The Collateral Agent acknowledges and agrees, on behalf of itself and any Secured Party, that, any provision of this Agreement to the contrary notwithstanding, until the Discharge of Senior Lender Claims, the Pledgors shall not be required to act or refrain from acting pursuant to this Agreement or with respect to any Collateral on which the Intercreditor Agent has a Lien superior in priority to the Collateral Agent's Lien thereon in any manner that would result in a default under the terms and provisions of the Senior Lender Documents.

SECTION 7.19. Dutch Parallel Debt.

(a) Each of the Issuers hereby irrevocably and unconditionally undertakes to pay to the Collateral Agent amounts equal to the aggregate amount payable (*verschuldigd*) by it to the Holders under the Notes Obligations, (these payment undertakings to the Collateral Agent hereinafter collectively referred to as the "Parallel Debt Notes Obligations").

(b) The Parallel Debt Notes Obligations will become due and payable (*opeisbaar*) immediately upon the Collateral Agent's first demand, which may be made at any time, as and when one or more of the Notes Obligations becomes due and payable.

(c) Each of the parties to this Agreement hereby acknowledges that: (i) the Parallel Debt Notes Obligations constitutes undertakings, obligations and liabilities of the Issuers to the Collateral Agent which are transferable and independent from, and without prejudice to, the corresponding Notes Obligations and (ii) the Parallel Debt Notes Obligations represent the Collateral Agent's own separate claims to receive payment of the Parallel Debt Notes Obligations from the Issuers, it being understood, that the amounts which may become due and payable by the Issuers in respect of the Parallel Debt Notes Obligations from time to time shall never exceed the aggregate amount which is payable under the Notes Obligations from time to time.

(d) For the avoidance of doubt, each of the parties to this Agreement confirms that the claims of the Collateral Agent against the Issuers in respect of the Parallel Debt Notes Obligations and the claims of any or more of the Holders against the Issuers in respect of the Notes Obligations payable to the Holders do not constitute common property (*een gemeenschap*) within the meaning of Article 3:166 of the Netherlands Civil Code ("NCC") and that the provisions relating to such common property shall not apply. If, however, it shall be held that such claims of the Collateral Agent and such claims of any one or more of the Holders do constitute such common property and such provisions do apply, the parties to this Agreement agree that the Intercreditor Agreement shall constitute the administration agreement (*beheersregeling*) within the meaning of Article 3:168 NCC.

(e) For the avoidance of doubt, the parties hereto confirm that this Agreement is not to be construed as an agreement as referred to in Article 6:16 NCC and that Article 6:16 NCC shall not apply, and therefore that the provisions relating to common property (*een gemeenschap*) within the meaning of article 3:166 NCC shall not apply by analogy to the relationship between the Holders and the Collateral Agent on the one hand, and the Issuers as debtors of the Parallel Debt Notes Obligations on the other hand.

(f) To the extent the Collateral Agent irrevocably (*onaantastbaar*) receives any amount in payment of the Parallel Debt Notes Obligations (the “Notes Received Amount”), the Collateral Agent shall distribute such amount among the Holders in accordance with the Intercreditor Agreement. Upon irrevocable (*onaantastbaar*) receipt of any Notes Received Amount, the Notes Obligations shall be reduced by an aggregate amount (the “Notes Deductible Amount”) equal to the Notes Received Amount in the manner as if the Notes Deductible Amount were received as a payment of the Notes Obligations on the date of receipt by the Collateral Agent of the Notes Received Amount.

SECTION 7.20. ULC Shares. Notwithstanding any provisions to the contrary contained in this Agreement or any other document or agreement among all or some of the parties hereto, the applicable Pledgor is the sole registered and beneficial owner of Pledged ULC Shares pledged by such Pledgor and will remain so until such time as such Pledged ULC Shares are effectively transferred into the name of the Collateral Agent or another person on the books and records of the issuer of such ULC Shares. Accordingly the Pledgor shall be entitled to receive and retain for its own account any dividend on or other distribution, if any, in respect of such Pledged ULC Shares (except insofar as the Pledgor has granted a security interest in such dividend on or other distribution, and any shares that are collateral shall be delivered to the Collateral Agent to hold as collateral hereunder) and shall have the right to vote such collateral and to control the direction, management and policies of the issuer of such Pledged ULC Shares to the same extent as the Pledgor would if such collateral were not pledged to the Collateral Agent pursuant hereto. Nothing in this Agreement or any other document or agreement among all or some of the parties hereto is intended to, and nothing in this Agreement or any other document or agreement among all or some of the parties hereto shall, constitute the Collateral Agent or any person other than the relevant Pledgor, a member of the issuer of such Pledged ULC Shares or any other ULC for the purposes of the Companies Act (Nova Scotia) until such time as notice is given to the Pledgor (and not revoked) as provided herein and further steps are taken thereunder so as to register the Collateral Agent or other person as holder of such Pledged ULC Shares. To the extent any provision hereof would have the effect of constituting the Collateral Agent as a member of the issuer of Pledged ULC Shares prior to such time, such provision shall be severed therefrom and ineffective with respect to collateral that are Pledged ULC Shares without otherwise invalidating or rendering unenforceable this Agreement or invalidating or rendering unenforceable such provision insofar as it relates to property that is not Pledged ULC Shares. Except upon the exercise of rights to sell or otherwise dispose of the Pledged ULC Shares following the occurrence of an Event of Default the Pledgor shall not cause or permit, or enable the issuer of Pledged ULC Shares to cause or permit, the Collateral Agent to: (a) be registered as a shareholder or member of the issuer of Pledged ULC Shares; (b) have any notation entered in its favor in the share register of the issuer of Pledged ULC Shares; (c) be held out as shareholder or member of the issuer of Pledged ULC Shares; (d) receive, directly or indirectly, any dividends, property or other distributions from the issuer of Pledged ULC Shares by reason of the Collateral Agent holding a security interest in the Pledged ULC Shares; or (e) act as a

shareholder or member of the issuer of Pledged ULC Shares, or exercise any rights of a shareholder or member including the right to attend a meeting of the issuer of Pledged ULC Shares or vote the Pledged ULC Shares.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

HEXION SPECIALTY CHEMICALS, INC.,

By: _____

Name: _____

Title: _____

[DOMESTIC SUBSIDIARY LOAN PARTIES]

By: _____

Name: _____

Title: _____

Notes Collateral Agreement

By: _____
Name:
Title:

Notes Collateral Agreement

SUPPLEMENT NO. _____ dated as of _____ (this "Supplement"), to the Collateral Agreement dated as of November 3, 2006 (the "Collateral Agreement"), among HEXION SPECIALTY CHEMICALS, INC., a New Jersey corporation, each Subsidiary Party party thereto and WILMINGTON TRUST COMPANY, as Collateral Agent (in such capacity, the "Collateral Agent") for the Secured Parties (as defined therein).

A. Reference is made to the Indenture dated as of November 3, 2006 (as amended, restated, supplemented, waived or otherwise modified from time to time, the "Indenture"), among Hexion Specialty Chemicals, Inc. ("Parent"), Hexion Nova Scotia Finance, ULC, a Nova Scotia unlimited liability company, Hexion U.S. Finance Corp., a Delaware corporation, each Subsidiary of Parent identified therein, and Wilmington Trust Company, as Trustee.

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Indenture and the Collateral Agreement referred to therein.

C. Section 7.16 of the Collateral Agreement provides that additional Subsidiaries may become Subsidiary Parties under the Collateral Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "New Subsidiary") is executing this Supplement in accordance with the requirements of the Indenture to become a Subsidiary Party under the Collateral Agreement.

Accordingly, the Collateral Agent and the New Subsidiary agree as follows:

SECTION 1. In accordance with Section 7.16 of the Collateral Agreement, the New Subsidiary by its signature below becomes a Subsidiary Party and a Pledgor under the Collateral Agreement with the same force and effect as if originally named therein as a Subsidiary Party and a Pledgor, and the New Subsidiary hereby (a) agrees to all the terms and provisions of the Collateral Agreement applicable to it as a Subsidiary Party and Pledgor thereunder and (b) represents and warrants that the representations and warranties made by it as a Pledgor thereunder are true and correct on and as of the date hereof. In furtherance of the foregoing, the New Subsidiary, as security for the payment and performance in full of the Obligations (as defined in the Collateral Agreement), does hereby create and grant to the Collateral Agent, its successors and assigns, for the ratable benefit of the Secured Parties, their successors and assigns, a security interest in and Lien on all the New Subsidiary's right, title and interest in and to the Collateral (as defined in the Collateral Agreement) of the New Subsidiary. Each reference to a "Subsidiary Party" or a "Pledgor" in the Collateral Agreement shall be deemed to include the New Subsidiary. The Collateral Agreement is hereby incorporated herein by reference.

SECTION 2. The New Subsidiary represents and warrants to the Collateral Agent and the other Secured Parties that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to (i) the effects of bankruptcy, insolvency, moratorium, reorganization, fraudulent

conveyance or other similar laws affecting creditors' rights generally, (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and (iii) implied covenants of good faith and fair dealing.

SECTION 3. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract. This Supplement shall become effective when (a) the Collateral Agent shall have received a counterpart of this Supplement that bears the signature of the New Subsidiary and (b) the Collateral Agent has executed a counterpart hereof. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. The New Subsidiary hereby represents and warrants that (a) set forth on Schedule I attached hereto is a true and correct schedule of the location of any and all Article 9 Collateral of the New Subsidiary, (b) set forth on Schedule II attached hereto is a true and correct schedule of all the Pledged Stock of the New Subsidiary, (c) set forth on Schedule III attached hereto is a true and correct schedule of all Intellectual Property and (d) set forth under its signature hereto, is the true and correct legal name of the New Subsidiary, its jurisdiction of formation, organizational ID number and the location of its chief executive office.

SECTION 5. Except as expressly supplemented hereby, the Collateral Agreement shall remain in full force and effect.

SECTION 6. THIS SUPPLEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS SUPPLEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

SECTION 7. In the event any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and in the Collateral Agreement shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 8. All communications and notices hereunder shall be in writing and given as provided in Section 7.01 of the Collateral Agreement.

SECTION 9. The New Subsidiary agrees to reimburse the Collateral Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, disbursements and other charges of counsel for the Collateral Agent.

IN WITNESS WHEREOF, the New Subsidiary and the Collateral Agent have duly executed this Supplement to the Collateral Agreement as of the day and year first above written.

[Name of New Subsidiary]

By: _____
Name:
Title:

Legal Name:

Jurisdiction of Formation:

Location of Chief
Executive Office:

By: _____
Name:
Title:

LOCATION OF ARTICLE 9 COLLATERAL

Description

Location

Pledged Collateral of the New Subsidiary

EQUITY INTERESTS

<u>Number of Issuer Certificate</u>	<u>Registered Owner</u>	<u>Number and Class of Equity Interest</u>	<u>Percentage of Equity Interests</u>
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DEBT SECURITIES

<u>Issuer</u>	<u>Principal Amount</u>	<u>Date of Note</u>	<u>Maturity Date</u>
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OTHER PROPERTY

Intellectual Property of the New Subsidiary.

SECOND AMENDED AND RESTATED
COLLATERAL AGREEMENT

dated and effective as of

November 3, 2006,

among

HEXION LLC,

HEXION SPECIALTY CHEMICALS, INC.,

each Subsidiary of the U.S. Borrower identified herein,

and

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

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Exhibit I	Form of Supplement to the Collateral Agreement
Exhibit II	Form of Perfection Certificate

SECOND AMENDED AND RESTATED COLLATERAL AGREEMENT dated and effective as of November 3, 2006 (this "Agreement"), among **HEXION LLC**, a Delaware limited liability company ("Holdings"), **HEXION SPECIALTY CHEMICALS, INC.**, a New Jersey corporation (the "U.S. Borrower"), each Subsidiary of the U.S. Borrower listed on Schedule I hereto and each Subsidiary of the U.S. Borrower that becomes a party hereto (each, a "Subsidiary Party"), and **JPMORGAN CHASE BANK, N.A.**, as Administrative Agent (in such capacity, the "Administrative Agent") for the Secured Parties (as defined below).

This Agreement is an amendment and restatement of the Amended and Restated Collateral Agreement dated as of May 31, 2005, among Holdings, the U.S. Borrower, each subsidiary of the U.S. Borrower party thereto and the Administrative Agent.

Reference is made to (a) the Second Amended and Restated Credit Agreement dated as of November 3, 2006 (as further amended, restated, supplemented, waived or otherwise modified from time to time, the "Credit Agreement"), among Holdings, the U.S. Borrower, Hexion Specialty Chemicals Canada, Inc., a Canadian corporation (the "Canadian Borrower"), Hexion Specialty Chemicals B.V., a company organized under the laws of The Netherlands (the "Dutch Borrower"), Hexion Specialty Chemicals UK Limited, a corporation organized under the laws of England and Wales, and Borden Chemical UK Limited, a corporation organized under the laws of England and Wales (together, the "U.K. Borrowers" and, together with the U.S. Borrower, the Canadian Borrower and the Dutch Borrower, the "Borrowers"), the Lenders party thereto from time to time, the Administrative Agent, Credit Suisse, as syndication agent, and J.P. Morgan Securities Inc. and Credit Suisse Securities (USA) LLC, as joint lead arrangers and joint bookrunners, and (b) the Intercreditor Agreement dated as of November 3, 2006 (as amended, restated, supplemented or otherwise modified from time to time, the "Intercreditor Agreement"), among Holdings, the U.S. Borrower, each Subsidiary of the U.S. Borrower identified therein, Wilmington Trust Company as trustee and collateral agent, and the Administrative Agent.

The Lenders have agreed to extend credit to the Borrowers subject to the terms and conditions set forth in the Credit Agreement. The obligations of the Lenders to extend such credit are conditioned upon, among other things, the execution and delivery of this Agreement. The Subsidiary Parties are subsidiaries of the U.S. Borrower, will derive substantial benefits from the extension of credit to the Borrowers pursuant to the Credit Agreement and are willing to execute and deliver this Agreement in order to induce the Lenders to extend such credit. Accordingly, the parties hereto agree as follows:

ARTICLE I.

Definitions

SECTION 1.01. Credit Agreement. (a) Capitalized terms used in this Agreement and not otherwise defined herein have the respective meanings assigned thereto in the Credit Agreement. All terms defined in the New York UCC (as defined herein) and not defined in this Agreement have the meanings specified therein. The term "instrument" shall have the meaning specified in Article 9 of the New York UCC.

(b) The rules of construction specified in Section 1.02 of the Credit Agreement also apply to this Agreement.

SECTION 1.02. Other Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

“Account Debtor” means any person who is or who may become obligated to any Pledgor under, with respect to or on account of an Account.

“Article 9 Collateral” has the meaning assigned to such term in Section 4.01.

“Collateral” means Article 9 Collateral and Pledged Collateral.

“Control Agreement” means a securities account control agreement or a commodity account control agreement, as applicable, enabling the Administrative Agent to obtain “control” (within the meaning of the New York UCC) of any such accounts, in form and substance reasonably satisfactory to the Administrative Agent.

“Copyright License” means any written agreement, now or hereafter in effect, granting any right to any Pledgor under any Copyright now or hereafter owned by any third party, and all rights of any Pledgor under any such agreement (including any such rights that such Pledgor has the right to license).

“Copyrights” means all of the following now owned or hereafter acquired by any Pledgor (or, as required in the context of the definition of “Copyright License,” any third party licensor): (a) all copyright rights in any work subject to the copyright laws of the United States or any other country, whether as author, assignee, transferee or otherwise; and (b) all registrations and applications for registration of any such Copyright in the United States or any other country, including registrations, supplemental registrations and pending applications for registration in the United States Copyright Office, including those listed on Schedule IV.

“Credit Agreement” has the meaning assigned to such term in the preliminary statement of this Agreement.

“Federal Securities Laws” has the meaning assigned to such term in Section 5.04.

“General Intangibles” means all “General Intangibles” as defined in the New York UCC, including all choses in action and causes of action and all other intangible personal property of any Pledgor of every kind and nature (other than Accounts) now owned or hereafter acquired by any Pledgor, including corporate or other business records, indemnification claims, contract rights (including rights under leases, whether entered into as lessor or lessee, Swap Agreements and other agreements), Intellectual Property, goodwill, registrations, franchises, tax refund claims and any letter of credit, guarantee, claim, security interest or other security held by or granted to any Pledgor to secure payment by an Account Debtor of any of the Accounts.

“Intellectual Property” means all intellectual and similar property of every kind and nature now owned or hereafter acquired by any Pledgor, including inventions, designs, Patents, Copyrights, Trademarks, Patent Licenses, Copyright Licenses, Trademark Licenses, trade secrets, domain names, confidential or proprietary technical and business information, know-how, show-how or other data or information and all related documentation.

“Loan Document Obligations” means (a) the due and punctual payment by each Borrower of (i) the principal of and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Loans and B/As, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, (ii) each payment required to be made by each Borrower under the Credit Agreement in respect of any Letter of Credit or B/A, when and as due, including payments in respect of reimbursement of disbursements, interest thereon and obligations to provide cash collateral, and (iii) all other monetary obligations of each Borrower to any of the Secured Parties under the Credit Agreement and each of the other Loan Documents, including obligations to pay fees, expense reimbursement obligations and indemnification obligations, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), (b) the due and punctual performance of all other obligations of each Borrower under or pursuant to the Credit Agreement and each of the other Loan Documents and (c) the due and punctual payment and performance of all the obligations of each other Loan Party under or pursuant to this Agreement and each of the other Loan Documents.

“New York UCC” means the Uniform Commercial Code as from time to time in effect in the State of New York.

“Obligations” means (a) the Loan Document Obligations, (b) the due and punctual payment and performance of all obligations of each Loan Party under each Swap Agreement that (i) is in effect on the Closing Date with a counterparty that is a Lender or an Affiliate of a Lender as of the Closing Date or (ii) is entered into after the Closing Date with any counterparty that is a Lender or an Affiliate of a Lender at the time such Swap Agreement is entered into and (c) the due and punctual payment and performance of all obligations in respect of the Overdraft Line; provided that in no event shall the holders of the obligations referred to in this clause (c) have the right to receive proceeds in respect of a claim in excess of \$40.0 million in the aggregate (plus (i) any accrued and unpaid interest in respect of Indebtedness incurred by the U.S. Borrower and the Subsidiaries under the Overdraft Line and (ii) any accrued and unpaid fees and expenses owing by the U.S. Borrower and the Subsidiaries under the Overdraft Line) from the enforcement of any remedies available to the Secured Parties under all of the Loan Documents.

“Patent License” means any written agreement, now or hereafter in effect, granting to any Pledgor any right to make, use or sell any invention covered by a Patent, now or hereafter owned by any third party (including any such rights that such Pledgor has the right to license).

“Patents” means all of the following now owned or hereafter acquired by any Pledgor (or, as required in the context of the definition of “Patent License,” any third party licensor): (a) all letters patent of the United States or the equivalent thereof in any other country, and all applications for letters patent of the United States or the equivalent thereof in any other country, including those listed on Schedule IV, and (b) all reissues, continuations, divisions, continuations-in-part or extensions thereof, and the inventions disclosed or claimed therein, including the right to make, use and/or sell the inventions disclosed or claimed therein.

“Perfection Certificate” means a certificate substantially in the form of Exhibit II, completed and supplemented with the schedules and attachments contemplated thereby, and duly executed by an officer of each Pledgor.

“Permitted Liens” means, with respect to any asset, any Lien permitted to exist on such asset by Section 6.02 of the Credit Agreement.

“Pledged Collateral” has the meaning assigned to such term in Section 3.01.

“Pledged Debt Securities” has the meaning assigned to such term in Section 3.01.

“Pledged Securities” means any promissory notes, stock certificates or other certificated securities now or hereafter included in the Pledged Collateral, including all certificates, instruments or other documents representing or evidencing any Pledged Collateral.

“Pledged Stock” has the meaning assigned to such term in Section 3.01.

“Pledged ULC Shares” means Pledged Stock which are shares of a ULC.

“Pledgor” shall mean Holdings, the U.S. Borrower and each Subsidiary Party.

“Requirement of Law” means, with respect to any person, the common law and all federal, state, local and foreign laws, rules and regulations, orders, judgments, decrees and other legal requirements or determinations of any Governmental Authority or arbitrator, applicable to or binding upon such person or any of its property or to which such person or any of its property is subject.

“Secured Parties” means (a) the Lenders, (b) the Administrative Agent, (c) each Issuing Bank, (d) each counterparty to any Swap Agreement with a Loan Party the obligations under which constitute Obligations, (e) the beneficiaries of each indemnification obligation undertaken by any Loan Party under any Loan Document, (f) the providers of the Overdraft Line, the obligations in respect of which constitute Obligations and (g) the successors and permitted assigns of each of the foregoing.

“Security Interest” has the meaning assigned to such term in Section 4.01.

“Subsidiary Party” has the meaning assigned to such term in the preliminary statement of this Agreement.

“Trademark License” means any written agreement, now or hereafter in effect, granting to any Pledgor any right to use any Trademark now or hereafter owned by any third party (including any such rights that such Pledgor has the right to license).

“Trademarks” means all of the following now owned or hereafter acquired by any Pledgor (or, as required in the context of the definition of “Trademark License,” any third party licensor): (a) all trademarks, service marks, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, other source or business identifiers, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations thereof (if any), and all registration and recording applications filed in connection therewith, including registrations and registration applications in the United States Patent and Trademark Office or any similar offices in any State of the United States or any other country or any political subdivision thereof, and all renewals thereof, including those listed on Schedule IV and (b) all goodwill associated therewith or symbolized thereby.

“ULC” means an unlimited company existing under the laws of the Province of Nova Scotia, Canada.

ARTICLE II.

[Intentionally Omitted]

ARTICLE III.

Pledge of Securities

SECTION 3.01. Pledge. As security for the payment or performance, as the case may be, in full of the Obligations, each Pledgor hereby (except in the case of Pledged ULC Shares) assigns and (in all cases) pledges to the Administrative Agent, its successors and permitted assigns, for the ratable benefit of the Secured Parties, and hereby grants to the Administrative Agent, its successors and permitted assigns, for the ratable benefit of the Secured Parties, a security interest in all of such Pledgor’s right, title and interest in, to and under (a) the Equity Interests directly owned by it (which such Equity Interests constituting Pledged Stock shall be listed on Schedule III) and any other Equity Interests obtained in the future by such Pledgor and any certificates representing all such Equity Interests; provided that the Pledged Stock shall not include (i) to the extent such pledge is made as security for the payment or performance, as the case may be, of the Obligations of any Domestic Loan Party, more than 65% of the issued and outstanding voting Equity Interests of any Foreign Subsidiary, which pledge, except in the case of a pledge of Pledged ULC Shares, shall be duly noted on the share register, if any, of such Foreign Subsidiary, (ii) any Equity Interests with respect to which the Collateral and Guarantee Requirement or the other paragraphs of Section 5.10 of the Credit Agreement need not be satisfied by reason of Section 5.10(g) of the Credit Agreement, (iii) any Equity Interests of a Subsidiary to the extent that, as of the Closing Date, and for so long as, such a pledge of such Equity Interests would violate a contractual obligation binding on or relating to such Equity Interests, (iv) any Equity Interests of any Indenture Restricted Subsidiary owned by the U.S. Borrower or any Indenture Restricted Subsidiary or (v) any Equity Interests of the U.S. Borrower following a Qualified IPO (the Equity Interests pledged pursuant to this clause (a), the “Pledged Stock”); (b)(i) the debt securities currently issued to any Pledgor (which such debt securities constituting Pledged Debt Securities shall be listed on Schedule III), (ii) any debt securities in the future issued to such Pledgor and (iii) the promissory notes and any other instruments, if any, evidencing such debt securities; provided that the Pledged Debt Securities

shall not include debt securities (A) issued by any Indenture Restricted Subsidiary to the U.S. Borrower or any Indenture Restricted Subsidiary or (B) issued by any Foreign Subsidiary to the U.S. Borrower or a Domestic Subsidiary, in the case of this clause (B), for so long as the pledge of such Indebtedness would be deemed an incurrence of Indebtedness under any of the Existing Notes Documents or the New Second Secured Notes Documents (the debt securities pledged pursuant to this clause (b), the “Pledged Debt Securities”); (c) subject to Section 3.06, all payments of principal or interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of, in exchange for or upon the conversion of, and all other proceeds received in respect of, the securities referred to in clauses (a) and (b) above; (d) subject to Section 3.06, all rights and privileges of such Pledgor with respect to the securities and other property referred to in clauses (a), (b) and (c) above; and (e) all proceeds of any of the foregoing (the items referred to in clauses (a) through (e) above being collectively referred to as the “Pledged Collateral”).

TO HAVE AND TO HOLD the Pledged Collateral, together with all right, title, interest, powers, privileges and preferences pertaining or incidental thereto, unto the Administrative Agent, its successors and permitted assigns, for the ratable benefit of the Secured Parties, forever; subject, however, to the terms, covenants and conditions hereinafter set forth.

SECTION 3.02. Delivery of the Pledged Collateral. (a) Each Pledgor agrees promptly to deliver or cause to be delivered to the Administrative Agent, for the ratable benefit of the Secured Parties, any and all Pledged Securities to the extent such Pledged Securities, in the case of promissory notes or other instruments evidencing Indebtedness, are required to be delivered pursuant to paragraph (b) of this Section 3.02.

(b) Each Pledgor will cause any Pledged Debt Security or other Indebtedness for borrowed money (i) having an aggregate principal amount in excess of \$15,000,000 or (ii) payable by the U.S. Borrower or any Subsidiary (other than, in the case of this clause (ii), any such Indebtedness referred to in clause (A) or (B) of the proviso to Section 3.01(b) and intercompany Indebtedness incurred in the ordinary course of business in connection with the cash management operations and intercompany sales of the U.S. Borrower and each Subsidiary) owed to such Pledgor by any person to be evidenced by a duly executed promissory note that is pledged and delivered to the Administrative Agent, for the ratable benefit of the Secured Parties, pursuant to the terms hereof. To the extent any such promissory note is a demand note, each Pledgor party thereto agrees, if requested by the Administrative Agent, to immediately demand payment thereunder upon an Event of Default specified under Section 7.01(b), (c), (f), (h) or (i) of the Credit Agreement.

(c) Upon delivery to the Administrative Agent, (i) any Pledged Securities required to be delivered pursuant to the foregoing paragraphs (a) and (b) of this Section 3.02 shall be accompanied by stock powers or note powers, as applicable, duly executed in blank or other instruments of transfer reasonably satisfactory to the Administrative Agent and by such other instruments and documents as the Administrative Agent may reasonably request and (ii) all other property composing part of the Pledged Collateral delivered pursuant to the terms of this Agreement shall be accompanied to the extent necessary to perfect the security interest in or allow realization on the Pledged Collateral by proper instruments of assignment duly executed by the applicable Pledgor and such other instruments or documents (including issuer acknowledgments in respect of uncertificated securities) as the Administrative

Agent may reasonably request. Each delivery of Pledged Securities shall be accompanied by a schedule describing the securities, which schedule shall be attached hereto as Schedule III and made a part hereof; provided that failure to attach any such schedule hereto shall not affect the validity of such pledge of such Pledged Securities. Each schedule so delivered shall supplement any prior schedules so delivered.

SECTION 3.03. Representations, Warranties and Covenants. The Pledgors, jointly and severally, represent, warrant and covenant to and with the Administrative Agent, for the ratable benefit of the Secured Parties, that:

(a) Schedule III correctly sets forth the percentage of the issued and outstanding shares of each class of the Equity Interests of the issuer thereof represented by such Pledged Stock and includes all Equity Interests, debt securities and promissory notes or instruments evidencing Indebtedness required to be (i) pledged in order to satisfy the Collateral and Guarantee Requirement or (ii) delivered pursuant to Section 3.02(b);

(b) the Pledged Stock, to the best of each Pledgor's knowledge, have been duly and validly authorized and issued by the issuers thereof and are fully paid and nonassessable, subject to the assessability of the Pledged ULC Shares under the Companies Act (Nova Scotia);

(c) except for the security interests granted hereunder, each Pledgor (i) is and, subject to any transfers made in compliance with the Credit Agreement, will continue to be the direct owner, beneficially and of record, of the Pledged Securities indicated on Schedule III as owned by such Pledgor, (ii) holds the same free and clear of all Liens, other than Permitted Liens, (iii) will make no assignment, pledge, hypothecation or transfer of, or create or permit to exist any security interest in or other Lien on, the Pledged Collateral, other than pursuant to a transaction permitted by the Credit Agreement and other than Permitted Liens, and (iv) subject to the rights of such Pledgor under the Loan Documents to dispose of Pledged Collateral, will use commercially reasonable efforts to defend its title or interest thereto or therein against any and all Liens (other than Permitted Liens), however arising, of all persons;

(d) other than as set forth in the Credit Agreement or the schedules thereto, and except for restrictions and limitations imposed by the Loan Documents, the New Second Secured Note Documents or securities laws generally, the Pledged Collateral is and will continue to be freely transferable and assignable, and none of the Pledged Collateral is or will be subject to any option, right of first refusal, shareholders agreement, charter, by-law, memorandum of association or articles of association provisions or contractual restriction of any nature, other than restrictions on transfer in the articles of association of a ULC, that might prohibit, impair, delay or otherwise affect the pledge of such Pledged Collateral hereunder, the sale or disposition thereof pursuant hereto or the exercise by the Administrative Agent of rights and remedies hereunder;

(e) each Pledgor has the power and authority to pledge the Pledged Collateral pledged by it hereunder in the manner hereby done or contemplated;

(f) other than as set forth in the Credit Agreement or the schedules thereto, no consent or approval of any Governmental Authority, any securities exchange or any other person was or is necessary to the validity of the pledge effected hereby (other than such as have been obtained and are in full force and effect);

(g) by virtue of the execution and delivery by the Pledgors of this Agreement and the Foreign Pledge Agreements, when any Pledged Securities (excluding any foreign stock not covered by a Foreign Pledge Agreement) are delivered to the Administrative Agent, for the ratable benefit of the Secured Parties, in accordance with this Agreement, the Administrative Agent will obtain, for the ratable benefit of the Secured Parties, a legal, valid and perfected lien upon and security interest in such Pledged Securities, subject only to Permitted Liens or Liens arising by operation of law, as security for the payment and performance of the Obligations; and

(h) the pledge effected hereby is effective to vest in the Administrative Agent, for the ratable benefit of the Secured Parties, the rights of the Administrative Agent in the Pledged Collateral as set forth herein.

SECTION 3.04. Certification of Limited Liability Company and Limited Partnership Interests. (a) Each interest in any limited liability company or limited partnership Controlled by any Pledgor, pledged hereunder and represented by a certificate, shall be a “security” within the meaning of Article 8 of the New York UCC and shall be governed by Article 8 of the New York UCC, and each such interest shall at all times hereafter be represented by a certificate.

(b) Each interest in any limited liability company or limited partnership Controlled by a Pledgor, pledged hereunder and not represented by a certificate shall not be a “security” within the meaning of Article 8 of the New York UCC and shall not be governed by Article 8 of the New York UCC, and the Pledgors shall at no time elect to treat any such interest as a “security” within the meaning of Article 8 of the New York UCC or issue any certificate representing such interest, unless the applicable Pledgor provides prior written notification to the Administrative Agent of such election and immediately delivers any such certificate to the Administrative Agent pursuant to the terms hereof.

SECTION 3.05. Registration in Nominee Name; Denominations. The Administrative Agent, on behalf of the Secured Parties, shall have the right (in its sole and absolute discretion) to hold the Pledged Securities in the name of the applicable Pledgor, endorsed or assigned in blank or, except in the case of the Pledged ULC Shares, in favor of the Administrative Agent or, except in the case of Pledged ULC Shares, if an Event of Default shall have occurred and be continuing, in its own name as pledgee or the name of its nominee (as pledgee or as sub-agent). Upon the occurrence of an Event of Default, each Pledgor will promptly give to the Administrative Agent copies of any notices or other communications received by it with respect to Pledged Securities registered in the name of such Pledgor. If an Event of Default shall have occurred and be continuing, the Administrative Agent shall have the right to exchange the certificates representing Pledged Securities for certificates of smaller or larger denominations for any purpose consistent with this Agreement. Each Pledgor shall use its commercially reasonable efforts to cause any Subsidiary that is not a party to this Agreement to comply with a request by the Administrative Agent, pursuant to this Section 3.05, to exchange certificates representing Pledged Securities of such Subsidiary for certificates of smaller or larger denominations.

SECTION 3.06. Voting Rights; Dividends and Interest, etc. (a) Unless and until an Event of Default shall have occurred and be continuing and the Administrative Agent shall have given notice to the relevant Pledgors of the Administrative Agent's intention to exercise its rights hereunder:

(i) Each Pledgor shall be entitled to exercise any and all voting and/or other consensual rights and powers inuring to an owner of Pledged Collateral or any part thereof for any purpose consistent with the terms of this Agreement, the Credit Agreement and the other Loan Documents; provided that such rights and powers shall not be exercised in any manner that could materially and adversely affect the rights and remedies of any of the Administrative Agent or the other Secured Parties under this Agreement, the Credit Agreement or any other Loan Document or the ability of the Secured Parties to exercise the same.

(ii) The Administrative Agent shall promptly execute and deliver to each Pledgor, or cause to be executed and delivered to such Pledgor, all such proxies, powers of attorney and other instruments as such Pledgor may reasonably request for the purpose of enabling such Pledgor to exercise the voting and/or consensual rights and powers it is entitled to exercise pursuant to subparagraph (i) above.

(iii) Each Pledgor shall be entitled to receive and retain any and all dividends, interest, principal and other distributions paid on or distributed in respect of the Pledged Collateral to the extent and only to the extent that such dividends, interest, principal and other distributions are permitted by, and otherwise paid or distributed in accordance with, the terms and conditions of the Credit Agreement, the other Loan Documents and applicable laws; provided that any noncash dividends, interest, principal or other distributions that would constitute Pledged Securities, whether resulting from a subdivision, combination or reclassification of the outstanding Equity Interests of the issuer of any Pledged Securities or received in exchange for Pledged Securities or any part thereof, or in redemption thereof, or as a result of any merger, consolidation, acquisition or other exchange of assets to which such issuer may be a party or otherwise, shall be and become part of the Pledged Collateral, and, if received by any Pledgor, shall not be commingled by such Pledgor with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Administrative Agent, for the ratable benefit of the Secured Parties, and shall be forthwith delivered to the Administrative Agent, for the ratable benefit of the Secured Parties, in the same form as so received (endorsed in a manner reasonably satisfactory to the Administrative Agent).

(b) Except in the case of Pledged ULC Shares (in which case the Pledgors shall maintain all membership rights described herein until they cease to be registered as members of the applicable ULC), upon the occurrence and during the continuance of an Event of Default and after notice by the Administrative Agent to the relevant Pledgors of the Administrative Agent's intention to

exercise its rights hereunder, all rights of any Pledgor to dividends, interest, principal or other distributions that such Pledgor is authorized to receive pursuant to paragraph (a)(iii) of this Section 3.06 shall cease, and all such rights shall thereupon become vested, for the ratable benefit of the Secured Parties, in the Administrative Agent, which shall have the sole and exclusive right and authority to receive and retain such dividends, interest, principal or other distributions. All dividends, interest, principal or other distributions received by any Pledgor contrary to the provisions of this Section 3.06 shall not be commingled by such Pledgor with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Administrative Agent, for the ratable benefit of the Secured Parties, and shall be forthwith delivered to the Administrative Agent, for the ratable benefit of the Secured Parties, in the same form as so received (endorsed in a manner reasonably satisfactory to the Administrative Agent). Any and all money and other property paid over to or received by the Administrative Agent pursuant to the provisions of this paragraph (b) shall be retained by the Administrative Agent in an account to be established by the Administrative Agent upon receipt of such money or other property and shall be applied in accordance with the provisions of Section 5.02. After all Events of Default have been cured or waived and the U.S. Borrower has delivered to the Administrative Agent a certificate to that effect, the Administrative Agent shall promptly repay to each Pledgor (without interest) all dividends, interest, principal or other distributions that such Pledgor would otherwise be permitted to retain pursuant to the terms of paragraph (a)(iii) of this Section 3.06 and that remain in such account.

(c) Except in the case of Pledged ULC Shares (in which case the Pledgors shall maintain all membership rights described herein until they cease to be registered as members of the applicable ULC), upon the occurrence and during the continuance of an Event of Default and after notice by the Administrative Agent to the relevant Pledgors of the Administrative Agent's intention to exercise its rights hereunder, all rights of any Pledgor to exercise the voting and/or consensual rights and powers it is entitled to exercise pursuant to paragraph (a)(i) of this Section 3.06, and the obligations of the Administrative Agent under paragraph (a)(ii) of this Section 3.06, shall cease, and all such rights shall thereupon become vested in the Administrative Agent, for the ratable benefit of the Secured Parties, which shall have the sole and exclusive right and authority to exercise such voting and consensual rights and powers; provided that, unless otherwise directed by the Required Lenders, the Administrative Agent shall have the right from time to time following and during the continuance of an Event of Default to permit the Pledgors to exercise such rights.

(d) Any notice given by the Administrative Agent to the Pledgors suspending their rights under paragraph (a) of this Section 3.06 (i) may be given by telephone if promptly confirmed in writing, (ii) may be given to one or more of the Pledgors at the same or different times and (iii) may suspend the rights of the Pledgors under paragraph (a)(i) or paragraph (a)(iii) in part without suspending all such rights (as specified by the Administrative Agent in its sole and absolute discretion) and without waiving or otherwise affecting the Administrative Agent's rights to give additional notices from time to time suspending other rights so long as an Event of Default has occurred and is continuing.

ARTICLE IV.

Security Interests in Personal Property.

SECTION 4.01. Security Interest. (a) As security for the payment or performance, as the case may be, in full of the Obligations, each Pledgor hereby assigns and pledges to the Administrative Agent, its successors and assigns, for the ratable benefit of the Secured Parties, and hereby grants to the Administrative Agent, its successors and assigns, for the ratable benefit of the Secured Parties, a security interest (the "Security Interest") in all right, title and interest in or to any and all of the following assets and properties now owned or at any time hereafter acquired by such Pledgor or in which such Pledgor now has or at any time in the future may acquire any right, title or interest (collectively, the "Article 9 Collateral"):

- (i) all Accounts;
- (ii) all Chattel Paper;
- (iii) all cash and Deposit Accounts;
- (iv) all Documents;
- (v) all Equipment;
- (vi) all General Intangibles;
- (vii) all Instruments;
- (viii) all Intellectual Property;
- (ix) all Inventory;
- (x) all Investment Property;
- (xi) all Letter of Credit Rights;
- (xii) all Commercial Tort Claims as described on Schedule II hereto;
- (xiii) all books and records pertaining to the Article 9 Collateral; and
- (xiv) to the extent not otherwise included, all proceeds, Supporting Obligations and products of any and all of the foregoing and all collateral security and guarantees given by any person with respect to any of the foregoing.

Notwithstanding anything to the contrary in this Agreement, this Agreement shall not constitute a grant of a security interest in (and the Article 9 Collateral shall not include) (a) any vehicle covered by a certificate of title or ownership, (b) any assets with respect to which the Collateral and Guarantee Requirement or the other paragraphs of Section 5.10 of the Credit Agreement need not be satisfied by reason of Section 5.10(g) of the Credit Agreement, (c) any Letter of Credit Rights to the extent any Pledgor is required by applicable law to apply the proceeds of a drawing of such Letter of Credit for a specified purpose, (d) any Equity Interests or debt securities excluded from the pledge made pursuant to Section 3.01 hereof (e) any Pledgor's right, title or interest in any license, contract or agreement to which such Pledgor is a party or any of its right, title or interest thereunder to the extent, but only to the

extent, that such a grant would, under the terms of such license, contract or agreement, result in a breach of the terms of, or constitute a default under, any license, contract or agreement to which such Pledgor is a party (other than to the extent that any such term would be rendered ineffective pursuant to Section 9-406, 9-408 or 9-409 of the New York UCC or any other applicable law (including Title 11 of the United States Code) or principles of equity); provided, that immediately upon the ineffectiveness, lapse or termination of any such provision, the Collateral shall include, and such Pledgor shall be deemed to have granted a security interest in, all such rights and interests as if such provision had never been in effect or (f) any Equipment or other asset owned by any Pledgor that is subject to a purchase money lien or a Capitalized Lease Obligation, in each case, as permitted under the Credit Agreement, if the contract or other agreement in which such Lien is granted (or the documentation providing for such Capitalized Lease Obligation) prohibits or requires the consent of any person other than the Pledgors as a condition to the creation of any other security interest on such Equipment and, in each case, such prohibition or requirement is permitted under the Credit Agreement.

(b) Each Pledgor hereby irrevocably authorizes the Administrative Agent at any time and from time to time to file in any relevant jurisdiction any initial financing statements (including fixture filings) with respect to the Article 9 Collateral or any part thereof and amendments thereto that contain the information required by Article 9 of the Uniform Commercial Code of each applicable jurisdiction for the filing of any financing statement or amendment, including (i) whether such Pledgor is an organization, the type of organization and any organizational identification number issued to such Pledgor, (ii) in the case of a financing statement filed as a fixture filing, a sufficient description of the real property to which such Article 9 Collateral relates and (iii) a description of collateral that describes such property in any other manner as the Administrative Agent may reasonably determine is necessary or advisable to ensure the perfection of the security interest in the Article 9 Collateral granted under this Agreement, including describing such property as "all assets" or "all property". Each Pledgor agrees to provide such information to the Administrative Agent promptly upon request.

The Administrative Agent is further authorized to file with the United States Patent and Trademark Office or United States Copyright Office (or any successor office or any similar office in any other country) such documents as may be necessary or advisable for the purpose of perfecting, confirming, continuing, enforcing or protecting the Security Interest granted by each Pledgor, without the signature of any Pledgor, and naming any Pledgor or the Pledgors as debtors and the Administrative Agent as secured party.

(c) The Security Interest is granted as security only and shall not subject the Administrative Agent or any other Secured Party to, or in any way alter or modify, any obligation or liability of any Pledgor with respect to or arising out of the Article 9 Collateral.

SECTION 4.02. Representations and Warranties. The Pledgors jointly and severally represent and warrant to the Administrative Agent and the Secured Parties that:

(a) Each Pledgor has good and valid rights in and title to the Article 9 Collateral with respect to which it has purported to grant a Security Interest hereunder and has full power and authority to grant to the Administrative Agent the Security Interest in such Article 9 Collateral pursuant hereto and to execute, deliver and perform its obligations in accordance with the terms of this

Agreement, without the consent or approval of any other person other than any consent or approval that has been obtained and is in full force and effect or has otherwise been disclosed herein or in the Credit Agreement and the Schedules thereto.

(b) The Perfection Certificate has been duly prepared, completed and executed and the information set forth therein, including the exact legal name of each Pledgor, is correct and complete, in all material respects, as of the Closing Date. Uniform Commercial Code financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations containing a description of the Article 9 Collateral have been prepared by the Administrative Agent based upon the information provided to the Administrative Agent in the Perfection Certificate for filing in each governmental, municipal or other office specified in Schedule 7 to the Perfection Certificate (or specified by notice from the U.S. Borrower to the Administrative Agent after the Closing Date in the case of filings, recordings or registrations required by Section 5.10 of the Credit Agreement), and constitute all the filings, recordings and registrations (other than filings required to be made in the United States Patent and Trademark Office and the United States Copyright Office in order to perfect the Security Interest in Article 9 Collateral consisting of United States Patents, United States registered Trademarks and United States registered Copyrights) that are necessary to publish notice of and protect the validity of and to establish a legal, valid and perfected security interest in favor of the Administrative Agent (for the ratable benefit of the Secured Parties) in respect of all Article 9 Collateral in which the Security Interest may be perfected by filing, recording or registration in the United States (or any political subdivision thereof) and its territories and possessions, and no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary in any such jurisdiction, except as provided under applicable law with respect to the filing of continuation statements or amendments. Each Pledgor represents and warrants that a fully executed agreement in the form hereof (or a short form hereof which form shall be reasonably acceptable to the Administrative Agent) containing a description of all Article 9 Collateral consisting of Intellectual Property with respect to Patents (and Patents for which registration applications are pending), registered Trademarks (and Trademarks for which registration applications are pending) and registered Copyrights (and Copyrights for which registration applications are pending) has been delivered to the Administrative Agent for recording with, in the case of United States Patents, Trademarks, Copyrights and applications, the United States Patent and Trademark Office and the United States Copyright Office pursuant to 35 U.S.C. § 261, 15 U.S.C. § 1060 or 17 U.S.C. § 205 and the regulations thereunder, as applicable, or, in the case of non-United States Patents, Trademarks, Copyrights and applications, the appropriate non-U.S. office, and otherwise as may be reasonably requested by the Administrative Agent, to protect the validity of and to establish a legal, valid and perfected security interest in favor of the Administrative Agent, for the ratable benefit of the Secured Parties, in respect of all Article 9 Collateral consisting of such Intellectual Property in which a security interest may be perfected by recording with the United States Patent and Trademark Office and the United States Copyright Office, and no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary (other than such actions as are necessary to perfect the Security Interest with respect to any Article 9 Collateral consisting of Patents, Trademarks and Copyrights (or registration or application for registration thereof) acquired or developed after the date hereof).

(c) The Security Interest constitutes (i) a legal and valid security interest in all the Article 9 Collateral securing the payment and performance of the Obligations, (ii) subject to the filings described in Section 4.02(b), a perfected security interest in all Article 9 Collateral in which a security interest may be perfected by filing, recording or registering a financing statement or analogous document in the United States (or any political subdivision thereof) and its territories and possessions pursuant to the Uniform Commercial Code or other applicable law in such jurisdictions and (iii) subject to Section 4.02(b), a security interest that shall be perfected in all Article 9 Collateral in which a security interest may be perfected upon the receipt and recording of this Agreement (or a short form hereof) with the United States Patent and Trademark Office and the United States Copyright Office, as applicable. The Security Interest is and shall be prior to any other Lien on any of the Article 9 Collateral other than Permitted Liens (excluding Second-Priority Liens) or Liens arising by operation of law.

(d) The Article 9 Collateral is owned by the Pledgors free and clear of any Lien, other than Permitted Liens or Liens arising by operation of law. None of the Pledgors has filed or consented to the filing of (i) any financing statement or analogous document under the Uniform Commercial Code or any other applicable laws covering any Article 9 Collateral, (ii) any assignment in which any Pledgor assigns any Article 9 Collateral or any security agreement or similar instrument covering any Article 9 Collateral with the United States Patent and Trademark Office or the United States Copyright Office or (iii) any assignment in which any Pledgor assigns any Article 9 Collateral or any security agreement or similar instrument covering any Article 9 Collateral with any foreign governmental, municipal or other office, which financing statement or analogous document, assignment, security agreement or similar instrument is still in effect, except, in each case, for Permitted Liens.

(e) None of the Pledgors holds any Commercial Tort Claim individually in excess of \$5,000,000 as of the Closing Date except as indicated on the Perfection Certificate.

(f) Except as set forth in the Perfection Certificate, as of the Closing Date, all Accounts owned by the Pledgors have been originated by the Pledgors and all Inventory owned by the Pledgors has been acquired by the Pledgors in the ordinary course of business.

SECTION 4.03. Covenants. (a) Each Pledgor agrees promptly to notify the Administrative Agent in writing of any change (i) in its corporate name, (ii) in its identity or type of organization or corporate structure, (iii) in its Federal Taxpayer Identification Number or organizational identification number or (iv) in its jurisdiction of organization. Each Pledgor agrees promptly to provide the Administrative Agent with certified organizational documents reflecting any of the changes described in the immediately preceding sentence. Each Pledgor agrees not to effect or permit any change referred to in the first sentence of this paragraph (a) unless all filings have been made under the Uniform Commercial Code or otherwise that are required in order for the Administrative Agent to continue at all times following such change to have a valid, legal and perfected first priority security interest in all the Article 9 Collateral, for the ratable benefit of the Secured Parties. Each Pledgor agrees promptly to notify the Administrative Agent if any material portion of the Article 9 Collateral owned or held by such Pledgor is damaged or destroyed.

(b) Subject to the rights of such Pledgor under the Loan Documents to dispose of Collateral, each Pledgor shall, at its own expense, use commercially reasonable efforts to defend title to the Article 9 Collateral against all persons and to defend the Security Interest of the Administrative Agent, for the ratable benefit of the Secured Parties, in the Article 9 Collateral and the priority thereof against any Lien that is not a Permitted Lien and to defend the priority thereof against any Second-Priority Lien.

(c) Each Pledgor agrees, at its own expense, to execute, acknowledge, deliver and cause to be duly filed all such further instruments and documents and take all such actions as the Administrative Agent may from time to time reasonably request to better assure, preserve, protect and perfect the Security Interest and the rights and remedies created hereby, including the payment of any fees and taxes required in connection with the execution and delivery of this Agreement and the granting of the Security Interest and the filing of any financing statements (including fixture filings) or other documents in connection herewith or therewith. If any amount payable under or in connection with any of the Article 9 Collateral that is in excess of \$15,000,000 shall be or become evidenced by any promissory note or other instrument, such note or instrument shall be promptly pledged and delivered to the Administrative Agent, for the ratable benefit of the Secured Parties, duly endorsed in a manner reasonably satisfactory to the Administrative Agent.

Without limiting the generality of the foregoing, each Pledgor hereby authorizes the Administrative Agent, with prompt notice thereof to the Pledgors, to supplement this Agreement by supplementing Schedule IV or adding additional schedules hereto to specifically identify any asset or item that may constitute Copyrights, Licenses, Patents or Trademarks; provided that any Pledgor shall have the right, exercisable within 90 days after it has been notified by the Administrative Agent of the specific identification of such Collateral, to advise the Collateral Agent in writing of any inaccuracy of the representations and warranties made by such Pledgor hereunder with respect to such Collateral. Each Pledgor agrees that it will use its commercially reasonable efforts to take such action as shall be necessary in order that all representations and warranties hereunder shall be true and correct with respect to such Collateral within 90 days after the date it has been notified by the Administrative Agent of the specific identification of such Collateral.

(d) After the occurrence of an Event of Default and during the continuance thereof, the Administrative Agent shall have the right to verify under reasonable procedures the validity, amount, quality, quantity, value, condition and status of, or any other matter relating to, the Article 9 Collateral, including, in the case of Accounts or Article 9 Collateral in the possession of any third person, by contacting Account Debtors or the third person possessing such Article 9 Collateral for the purpose of making such a verification. The Administrative Agent shall have the right to share any information it gains from such inspection or verification with any Secured Party.

(e) At its option, the Administrative Agent may discharge any past due taxes, assessments, charges, fees, Liens, security interests or other encumbrances at any time levied or placed on the Article 9 Collateral and that is not a Permitted Lien, and may pay for the maintenance and preservation of the Article 9 Collateral to the extent any Pledgor fails to do so as required by the Credit Agreement or this Agreement, and each Pledgor jointly and severally agrees to reimburse the Administrative Agent on demand for

any reasonable payment made or any reasonable expense incurred by the Administrative Agent pursuant to the foregoing authorization; provided, however, that nothing in this Section 4.03(e) shall be interpreted as excusing any Pledgor from the performance of, or imposing any obligation on the Administrative Agent or any Secured Party to cure or perform, any covenants or other promises of any Pledgor with respect to taxes, assessments, charges, fees, Liens, security interests or other encumbrances and maintenance as set forth herein or in the other Loan Documents.

(f) Each Pledgor (rather than the Administrative Agent or any Secured Party) shall remain liable for the observance and performance of all the conditions and obligations to be observed and performed by it under each contract, agreement or instrument relating to the Article 9 Collateral and each Pledgor jointly and severally agrees to indemnify and hold harmless the Administrative Agent and the Secured Parties from and against any and all liability for such performance.

(g) None of the Pledgors shall make or permit to be made an assignment, pledge or hypothecation of the Article 9 Collateral or shall grant any other Lien in respect of the Article 9 Collateral, except as expressly permitted by the Credit Agreement. None of the Pledgors shall make or permit to be made any transfer of the Article 9 Collateral and each Pledgor shall remain at all times in possession of the Article 9 Collateral owned by it, except as permitted by the Credit Agreement. Notwithstanding the foregoing, if the Administrative Agent shall have notified the Pledgors that an Event of Default under clause (b), (c), (h) or (i) of Section 7.01 of the Credit Agreement shall have occurred and be continuing, and during the continuance thereof, the Pledgors shall not sell, convey, lease, assign, transfer or otherwise dispose of any Article 9 Collateral (which notice may be given by telephone if promptly confirmed in writing).

(h) None of the Pledgors will, without the Administrative Agent's prior written consent (which consent shall not be unreasonably withheld), grant any extension of the time of payment of any Accounts included in the Article 9 Collateral, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any person liable for the payment thereof or allow any credit or discount whatsoever thereon, other than extensions, credits, discounts, compromises or settlements granted or made in the ordinary course of business and consistent with prudent business practices.

(i) Each Pledgor irrevocably makes, constitutes and appoints the Administrative Agent (and all officers, employees or agents designated by the Administrative Agent) as such Pledgor's true and lawful agent (and attorney-in-fact) for the purpose, during the continuance of an Event of Default, of making, settling and adjusting claims in respect of Article 9 Collateral under policies of insurance, endorsing the name of such Pledgor on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and for making all determinations and decisions with respect thereto. In the event that any Pledgor at any time or times shall fail to obtain or maintain any of the policies of insurance required by the Loan Documents or to pay any premium in whole or part relating thereto, the Administrative Agent may, without waiving or releasing any obligation or liability of the Pledgors hereunder or any Event of Default, in its sole discretion, obtain and maintain such policies of insurance and pay such premium and take any other actions with respect thereto as the Administrative Agent reasonably deems advisable. All sums disbursed by the

Administrative Agent in connection with this Section 4.03(i), including reasonable attorneys' fees, court costs, expenses and other charges relating thereto, shall be payable, upon demand, by the Pledgors to the Administrative Agent and shall be additional Obligations secured hereby.

SECTION 4.04. Other Actions. In order to further ensure the attachment, perfection and priority of, and the ability of the Administrative Agent to enforce, for the ratable benefit of the Secured Parties, the Administrative Agent's security interest in the Article 9 Collateral, each Pledgor agrees, in each case at such Pledgor's own expense, to take the following actions with respect to the following Article 9 Collateral:

(a) Instruments and Tangible Chattel Paper. If any Pledgor shall at any time own or acquire any Instruments or Tangible Chattel Paper evidencing an amount in excess of \$10,000,000, such Pledgor shall forthwith endorse, assign and deliver the same to the Administrative Agent, accompanied by such instruments of transfer or assignment duly executed in blank as the Administrative Agent may from time to time reasonably request.

(b) Investment Property. Except to the extent otherwise provided in Article III, if any Pledgor shall at any time hold or acquire any Certificated Security, such Pledgor shall forthwith endorse, assign and deliver the same to the Administrative Agent, accompanied by such instruments of transfer or assignment duly executed in blank as the Administrative Agent may from time to time reasonably specify. If any security of a domestic issuer now or hereafter acquired by any Pledgor is uncertificated and is issued to such Pledgor or its nominee directly by the issuer thereof, upon the Administrative Agent's reasonable request or upon and during the continuance of an Event of Default, such Pledgor shall promptly notify the Administrative Agent of such uncertificated securities and pursuant to an agreement in form and substance reasonably satisfactory to the Administrative Agent, either (i) cause the issuer to agree to comply with instructions from the Administrative Agent as to such security, without further consent of any Pledgor or such nominee, or (ii) cause the issuer to register the Administrative Agent as the registered owner of such security. If any security or other Investment Property, whether certificated or uncertificated, representing an Equity Interest in a third party and having a fair market value in excess of \$10,000,000 now or hereafter acquired by any Pledgor is held by such Pledgor or its nominee through a securities intermediary or commodity intermediary, such Pledgor shall promptly notify the Administrative Agent thereof and, at the Administrative Agent's request and option, pursuant to a Control Agreement in form and substance reasonably satisfactory to the Administrative Agent, either (A) cause such securities intermediary or commodity intermediary, as applicable, to agree, in the case of a securities intermediary, to comply with entitlement orders or other instructions from the Administrative Agent to such securities intermediary as to such securities or other Investment Property or, in the case of a commodity intermediary, to apply any value distributed on account of any commodity contract as directed by the Administrative Agent to such commodity intermediary, in each case without further consent of any Pledgor or such nominee, or (B) in the case of Financial Assets or other Investment Property held through a securities intermediary, arrange for the Administrative Agent to become the entitlement holder with respect to such Financial Assets or Investment Property, for the ratable benefit of the Secured Parties, with such Pledgor being permitted, only with the consent of the Administrative Agent, to exercise rights to withdraw or otherwise deal with such Financial Assets or Investment Property. The Administrative Agent agrees with each of the Pledgors that the Administrative Agent shall not give any such

entitlement orders or instructions or directions to any such issuer, securities intermediary or commodity intermediary, and shall not withhold its consent to the exercise of any withdrawal or dealing rights by any Pledgor, unless an Event of Default has occurred and is continuing or, after giving effect to any such withdrawal or dealing rights, would occur. The provisions of this paragraph (b) shall not apply to any Financial Assets credited to a securities account for which the Administrative Agent is the securities intermediary.

(c) Commercial Tort Claims. If any Pledgor shall at any time hold or acquire a Commercial Tort Claim in an amount reasonably estimated to exceed \$5,000,000, such Pledgor shall promptly notify the Administrative Agent thereof in a writing signed by such Pledgor, including a summary description of such claim, and grant to the Administrative Agent in writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to the Administrative Agent.

SECTION 4.05. Covenants Regarding Patent, Trademark and Copyright Collateral. Except as permitted by the Credit Agreement:

(a) Each Pledgor agrees that it will not knowingly do any act or omit to do any act (and will exercise commercially reasonable efforts to prevent its licensees from doing any act or omitting to do any act) whereby any Patent material to the normal conduct of such Pledgor's business may become prematurely invalidated or dedicated to the public, and agrees that it shall take commercially reasonable steps with respect to any material products covered by any such Patent as necessary and sufficient to establish and preserve its rights under applicable patent laws.

(b) Each Pledgor will, and will use its commercially reasonable efforts to cause its licensees or its sublicensees to, for each Trademark material to the normal conduct of such Pledgor's business, (i) maintain such Trademark in full force free from any adjudication of abandonment or invalidity for non-use, (ii) maintain the quality of products and services offered under such Trademark, (iii) display such Trademark with notice of federal or foreign registration or claim of trademark or service mark as required under applicable law and (iv) not knowingly use or knowingly permit its licensees' use of such Trademark in violation of any third-party rights.

(c) Each Pledgor will, and will use its commercially reasonable efforts to cause its licensees or its sublicensees to, for each work covered by a material Copyright necessary to the normal conduct of such Pledgor's business that it publishes, displays and distributes, use copyright notice as required under applicable copyright laws.

(d) Each Pledgor shall notify the Administrative Agent promptly if it knows that any Patent, Trademark or Copyright material to the normal conduct of such Pledgor's business may imminently become abandoned, lost or dedicated to the public, or of any materially adverse determination or development, excluding office actions and similar determinations or developments, in the United States Patent and Trademark Office, United States Copyright Office, any court or any similar office of any country, regarding such Pledgor's ownership of any such material Patent, Trademark or Copyright or its right to register or to maintain the same.

(e) Each Pledgor, either itself or through any agent, employee, licensee or designee, shall (i) inform the Administrative Agent on a quarterly basis of each application by itself, or through any agent, employee, licensee or designee, for any Patent with the United States Patent and Trademark Office and each registration of any Trademark or Copyright with the United States Patent and Trademark Office, the United States Copyright Office or any comparable office or agency in any other country filed during the preceding three-month period, and (ii) upon the reasonable request of the Administrative Agent, execute and deliver any and all agreements, instruments, documents and papers as the Administrative Agent may reasonably request to evidence the Administrative Agent's security interest in such Patent, Trademark or Copyright.

(f) Each Pledgor shall exercise its reasonable business judgment consistent with the practice in any proceeding before the United States Patent and Trademark Office, the United States Copyright Office or any comparable office or agency in any other country with respect to maintaining and pursuing each material application relating to any Patent, Trademark and/or Copyright (and obtaining the relevant grant or registration) material to the normal conduct of such Pledgor's business and to maintain (i) each issued Patent and (ii) the registrations of each Trademark and each Copyright that is material to the normal conduct of such Pledgor's business, including, when applicable and necessary in such Pledgor's reasonable business judgment, timely filings of applications for renewal, affidavits of use, affidavits of incontestability and payment of maintenance fees, and, if any Pledgor believes necessary in its reasonable business judgment, to initiate opposition, interference and cancellation proceedings against third parties.

(g) In the event that any Pledgor knows or has reason to know that any Article 9 Collateral consisting of a Patent, Trademark or Copyright material to the normal conduct of its business has been or is about to be materially infringed, misappropriated or diluted by a third party, such Pledgor shall promptly notify the Administrative Agent and shall, if such Pledgor deems it necessary in its reasonable business judgment, promptly sue and recover any and all damages, and take such other actions as are reasonably appropriate under the circumstances.

(h) Upon and during the continuance of an Event of Default, each Pledgor shall use commercially reasonable efforts to obtain all requisite consents or approvals from the licensor under each Copyright License, Patent License or Trademark License to effect the assignment of all such Pledgor's right, title and interest thereunder to (in the Administrative Agent's sole discretion) the designee of the Administrative Agent or the Administrative Agent.

ARTICLE V.

Remedies

SECTION 5.01. Remedies Upon Default. Upon the occurrence and during the continuance of an Event of Default, each Pledgor agrees to deliver each item of Collateral to the Administrative Agent on demand, and it is agreed that the Administrative Agent shall have the right to take any of or all the following actions at the same or different times: (a) with respect to any Article 9 Collateral consisting of Intellectual Property, on demand, to cause the Security Interest to become an assignment, transfer and conveyance of any of or all such Article 9 Collateral by the applicable Pledgors to the Administrative Agent or to license or sublicense, whether general, special or otherwise, and whether on an exclusive or a nonexclusive basis, any such Article 9

Collateral throughout the world on such terms and conditions and in such manner as the Administrative Agent shall determine (other than in violation of any then-existing licensing arrangements to the extent that waivers thereunder cannot be obtained) and (b) with or without legal process and with or without prior notice or demand for performance, to take possession of the Article 9 Collateral and without liability for trespass to the applicable Pledgor to enter any premises where the Article 9 Collateral may be located for the purpose of taking possession of or removing the Article 9 Collateral and, generally, to exercise any and all rights afforded to a secured party under the applicable Uniform Commercial Code or other applicable law. Without limiting the generality of the foregoing, each Pledgor agrees that the Administrative Agent shall have the right, subject to the requirements of applicable law, to sell or otherwise dispose of all or any part of the Collateral at a public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as the Administrative Agent shall deem appropriate. The Administrative Agent shall be authorized in connection with any sale of a security (if it deems it advisable to do so) pursuant to the foregoing to restrict the prospective bidders or purchasers to persons who represent and agree that they are purchasing such security for their own account, for investment, and not with a view to the distribution or sale thereof. Upon consummation of any such sale of Collateral pursuant to this Section 5.01 the Administrative Agent shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each such purchaser at any such sale shall hold the property sold absolutely, free from any claim or right on the part of any Pledgor, and each Pledgor hereby waives and releases (to the extent permitted by law) all rights of redemption, stay, valuation and appraisal that such Pledgor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted.

The Administrative Agent shall give the applicable Pledgors 10 Business Days' written notice (which each Pledgor agrees is reasonable notice within the meaning of Section 9-611 of the New York UCC or its equivalent in other jurisdictions) of the Administrative Agent's intention to make any sale of Collateral. Such notice, in the case of a public sale, shall state the time and place for such sale and, in the case of a sale at a broker's board or on a securities exchange, shall state the board or exchange at which such sale is to be made and the day on which the Collateral, or portion thereof, will first be offered for sale at such board or exchange. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Administrative Agent may fix and state in the notice (if any) of such sale. At any such sale, the Collateral, or the portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as the Administrative Agent may (in its sole and absolute discretion) determine. The Administrative Agent shall not be obligated to make any sale of any Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. The Administrative Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In the case of any sale of all or any part of the Collateral made on credit or for future delivery, the Collateral so sold may be retained by the Administrative Agent until the sale price is paid by the purchaser or purchasers thereof, but the Administrative Agent shall not incur any liability in the event that any such purchaser or purchasers shall fail to take up and pay for the Collateral so sold and, in the case of any such failure, such Collateral may be sold again upon notice given in accordance with provisions above. At any public (or, to the extent

permitted by law, private) sale made pursuant to this Section 5.01, any Secured Party may bid for or purchase for cash, free (to the extent permitted by law) from any right of redemption, stay, valuation or appraisal on the part of any Pledgor (all such rights being also hereby waived and released to the extent permitted by law), the Collateral or any part thereof offered for sale and such Secured Party may, upon compliance with the terms of sale, hold, retain and dispose of such property in accordance with Section 5.02 hereof without further accountability to any Pledgor therefor. For purposes hereof, a written agreement to purchase the Collateral or any portion thereof shall be treated as a sale thereof; the Administrative Agent shall be free to carry out such sale pursuant to such agreement and no Pledgor shall be entitled to the return of the Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Administrative Agent shall have entered into such an agreement all Events of Default shall have been remedied and the Obligations paid in full. As an alternative to exercising the power of sale herein conferred upon it, the Administrative Agent may proceed by a suit or suits at law or in equity to foreclose this Agreement and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver. Any sale pursuant to the provisions of this Section 5.01 shall be deemed to conform to the commercially reasonable standards as provided in Section 9-610(b) of the New York UCC or its equivalent in other jurisdictions.

SECTION 5.02. Application of Proceeds. The Administrative Agent shall promptly apply the proceeds, moneys or balances of any collection or sale of Collateral, as well as any Collateral consisting of cash, as follows:

FIRST, to the payment of all reasonable costs and expenses incurred by the Administrative Agent in connection with such collection or sale or otherwise in connection with this Agreement, any other Loan Document or any of the Obligations, including all court costs and the reasonable fees and expenses of its agents and legal counsel, the repayment of all advances made by the Administrative Agent hereunder or under any other Loan Document on behalf of any Pledgor and any other reasonable costs or expenses incurred in connection with the exercise of any right or remedy hereunder or under any other Loan Document;

SECOND, to the payment in full of the Obligations (the amounts so applied to be distributed among the Secured Parties pro rata in accordance with the respective amounts of the Obligations owed to them on the date of any such distribution); and

THIRD, to the Pledgors, their successors or assigns, or as a court of competent jurisdiction may otherwise direct.

The Administrative Agent shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. Upon any sale of Collateral by the Administrative Agent (including pursuant to a power of sale granted by statute or under a judicial proceeding), the receipt of the purchase money by the Administrative Agent or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold and such purchaser or purchasers shall not be obligated to see to the application of any part of the purchase money paid over to the Administrative Agent or such officer or be answerable in any way for the misapplication thereof.

SECTION 5.03. Grant of License to Use Intellectual Property. For the purpose of enabling the Administrative Agent to exercise rights and remedies under this Agreement at such time as the Administrative Agent shall be lawfully entitled to exercise such rights and remedies, each Pledgor hereby grants to (in the Administrative Agent's sole discretion) a designee of the Administrative Agent or the Administrative Agent, for the ratable benefit of the Secured Parties, an irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to any Pledgor) to use, license or sublicense any of the Article 9 Collateral consisting of Intellectual Property now owned or hereafter acquired by such Pledgor, wherever the same may be located, and including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof, the right to prosecute and maintain all Intellectual Property and the right to sue for past infringement of the Intellectual Property. The use of such license by the Administrative Agent may be exercised, at the option of the Administrative Agent, upon the occurrence and during the continuation of an Event of Default; provided that any license, sublicense or other transaction entered into by the Administrative Agent in accordance herewith shall be binding upon the Pledgors notwithstanding any subsequent cure of an Event of Default.

SECTION 5.04. Securities Act, etc. In view of the position of the Pledgors in relation to the Pledged Collateral, or because of other current or future circumstances, a question may arise under the Securities Act of 1933, as now or hereafter in effect, or any similar federal statute hereafter enacted analogous in purpose or effect (such Act and any such similar statute as from time to time in effect being called the "Federal Securities Laws") with respect to any disposition of the Pledged Collateral permitted hereunder. Each Pledgor understands that compliance with the Federal Securities Laws might very strictly limit the course of conduct of the Administrative Agent if the Administrative Agent were to attempt to dispose of all or any part of the Pledged Collateral, and might also limit the extent to which or the manner in which any subsequent transferee of any Pledged Collateral could dispose of the same. Similarly, there may be other legal restrictions or limitations affecting the Administrative Agent in any attempt to dispose of all or part of the Pledged Collateral under applicable Blue Sky or other state securities laws or similar laws analogous in purpose or effect. Each Pledgor acknowledges and agrees that in light of such restrictions and limitations, the Administrative Agent, in its sole and absolute discretion, (a) may proceed to make such a sale whether or not a registration statement for the purpose of registering such Pledged Collateral or part thereof shall have been filed under the Federal Securities Laws or, to the extent applicable, Blue Sky or other state securities laws and (b) may approach and negotiate with a single potential purchaser to effect such sale. Each Pledgor acknowledges and agrees that any such sale might result in prices and other terms less favorable to the seller than if such sale were a public sale without such restrictions. In the event of any such sale, the Administrative Agent shall incur no responsibility or liability for selling all or any part of the Pledged Collateral at a price that the Administrative Agent, in its sole and absolute discretion, may in good faith deem reasonable under the circumstances, notwithstanding the possibility that a substantially higher price might have been realized if the sale were deferred until after registration as aforesaid or if more than a single purchaser were approached. The provisions of this Section 5.04 will apply notwithstanding the existence of a public or private market upon which the quotations or sales prices may exceed substantially the price at which the Administrative Agent sells.

SECTION 5.05. Registration, etc. Each Pledgor agrees that, upon the occurrence and during the continuance of an Event of Default, if for any reason the Administrative Agent desires to sell any of the Pledged Collateral at a public sale, it will, at any time and from time to time, upon the written request of the Administrative Agent, use its commercially reasonable efforts to take or to cause the issuer of such Pledged Collateral to take such action and prepare, distribute and/or file such documents, as are required or advisable in the reasonable opinion of counsel for the Administrative Agent to permit the public sale of such Pledged Collateral. Each Pledgor further agrees to indemnify, defend and hold harmless the Administrative Agent, each other Secured Party, any underwriter and their respective officers, directors, affiliates and controlling persons from and against all loss, liability, expenses, costs of counsel (including reasonable fees and expenses to the Administrative Agent of legal counsel), and claims (including the costs of investigation) that they may incur insofar as such loss, liability, expense or claim arises out of or is based upon any alleged untrue statement of a material fact contained in any prospectus (or any amendment or supplement thereto) or in any notification or offering circular, or arises out of or is based upon any alleged omission to state a material fact required to be stated therein or necessary to make the statements in any thereof not misleading, except insofar as the same may have been caused by any untrue statement or omission based upon information furnished in writing to such Pledgor or the issuer of such Pledged Collateral by the Administrative Agent or any other Secured Party expressly for use therein. Each Pledgor further agrees, upon such written request referred to above, to use its commercially reasonable efforts to qualify, file or register, or cause the issuer of such Pledged Collateral to qualify, file or register, any of the Pledged Collateral under the Blue Sky or other securities laws of such states as may be reasonably requested by the Administrative Agent and keep effective, or cause to be kept effective, all such qualifications, filings or registrations. Each Pledgor will bear all costs and expenses of carrying out its obligations under this Section 5.05. Each Pledgor acknowledges that there is no adequate remedy at law for failure by it to comply with the provisions of this Section 5.05 only and that such failure would not be adequately compensable in damages and, therefore, agrees that its agreements contained in this Section 5.05 may be specifically enforced.

ARTICLE VI.

[Intentionally Omitted]

ARTICLE VII.

Miscellaneous

SECTION 7.01. Notices. All communications and notices hereunder shall (except as otherwise expressly permitted herein) be in writing and given as provided in Section 9.01 of the Credit Agreement. All communications and notices hereunder to any Subsidiary Party shall be given to it in care of the U.S. Borrower, with such notice to be given as provided in Section 9.01 of the Credit Agreement.

SECTION 7.02. Security Interest Absolute. All rights of the Administrative Agent hereunder, the Security Interest, the security interest in the Pledged Collateral and all obligations of each Pledgor hereunder shall be absolute and unconditional irrespective of (a) any lack of validity or enforceability of the Credit Agreement, any other Loan Document, any agreement with respect to any of the Obligations or any other agreement or instrument relating to any of the foregoing, (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement, any other Loan Document or any other agreement or instrument, (c) any exchange, release or non-perfection of any Lien on other collateral, or any release or amendment or waiver of or consent under or departure from any guarantee, securing or guaranteeing all or any of the Obligations or (d) any other circumstance that might otherwise constitute a defense available to, or a discharge of, any Pledgor in respect of the Obligations or this Agreement (other than a defense of payment or performance).

SECTION 7.03. Limitation By Law. All rights, remedies and powers provided in this Agreement may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of this Agreement are intended to be subject to all applicable mandatory provisions of law that may be controlling and to be limited to the extent necessary so that they shall not render this Agreement invalid, unenforceable, in whole or in part, or not entitled to be recorded, registered or filed under the provisions of any applicable law.

SECTION 7.04. Binding Effect; Several Agreement. This Agreement shall become effective as to any party to this Agreement when a counterpart hereof executed on behalf of such party shall have been delivered to the Administrative Agent and a counterpart hereof shall have been executed on behalf of the Administrative Agent, and thereafter shall be binding upon such party and the Administrative Agent and their respective permitted successors and assigns, and shall inure to the benefit of such party, the Administrative Agent and the other Secured Parties and their respective permitted successors and assigns, except that no party shall have the right to assign or transfer its rights or obligations hereunder or any interest herein or in the Collateral (and any such assignment or transfer shall be void) except as expressly contemplated by this Agreement or the Credit Agreement. This Agreement shall be construed as a separate agreement with respect to each party and may be amended, modified, supplemented, waived or released with respect to any party without the approval of any other party and without affecting the obligations of any other party hereunder.

SECTION 7.05. Successors and Assigns. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of any Pledgor or the Administrative Agent that are contained in this Agreement shall bind and inure to the benefit of their respective permitted successors and assigns. The Administrative Agent hereunder shall at all times be the same person that is the Administrative Agent under the Credit Agreement. Written notice of resignation by the Administrative Agent pursuant to the Credit Agreement shall also constitute notice of resignation as the Administrative Agent under this Agreement. Upon the acceptance of any appointment as the Administrative Agent under the Credit Agreement by a successor Administrative Agent, that successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent pursuant hereto.

SECTION 7.06. Administrative Agent's Fees and Expenses; Indemnification. (a) The parties hereto agree that the Administrative Agent shall be entitled to reimbursement of its expenses incurred hereunder as provided in Section 9.05 of the Credit Agreement.

(b) Without limitation of its indemnification obligations under the other Loan Documents, each Pledgor jointly and severally agrees to indemnify the Administrative Agent and the other Indemnitees (as defined in Section 9.05 of the Credit Agreement) against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of, (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto and thereto of their respective obligations thereunder or the consummation of the Transactions and other transactions contemplated hereby, (ii) the use of proceeds of the Loans or the B/As or the use of any Letter of Credit or (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, or to the Collateral, whether or not any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) Any such amounts payable as provided hereunder shall be additional Obligations secured hereby and by the other Security Documents. The provisions of this Section 7.06 shall remain operative and in full force and effect regardless of the termination of this Agreement or any other Loan Document, the consummation of the transactions contemplated hereby, the repayment of any of the Obligations, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent or any other Secured Party. All amounts due under this Section 7.06 shall be payable on written demand therefor.

SECTION 7.07. Administrative Agent Appointed Attorney-in-Fact. Each Pledgor hereby appoints the Administrative Agent the attorney-in-fact of such Pledgor for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instrument that the Administrative Agent may deem necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, the Administrative Agent shall have the right, upon the occurrence and during the continuance of an Event of Default, with full power of substitution either in the Administrative Agent's name or in the name of such Pledgor, (a) to receive, endorse, assign or deliver any and all notes, acceptances, checks, drafts, money orders or other evidences of payment relating to the Collateral or any part thereof, (b) to demand, collect, receive payment of, give receipt for and give discharges and releases of all or any of the Collateral; (c) to ask for, demand, sue for, collect, receive and give acquittance for any and all moneys due or to become due under and by virtue of any Collateral; (d) to sign the name of any Pledgor on any invoice or bill of lading relating to any of the Collateral; (e) to send verifications of Accounts

to any Account Debtor; (f) to commence and prosecute any and all suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect or otherwise realize on all or any of the Collateral or to enforce any rights in respect of any Collateral; (g) to settle, compromise, compound, adjust or defend any actions, suits or proceedings relating to all or any of the Collateral; (h) to notify, or to require any Pledgor to notify, Account Debtors to make payment directly to the Administrative Agent; and (i) to use, sell, assign, transfer, pledge, make any agreement with respect to or otherwise deal with all or any of the Collateral, and to do all other acts and things necessary to carry out the purposes of this Agreement, as fully and completely as though the Administrative Agent were the absolute owner of the Collateral for all purposes; provided that nothing herein contained shall be construed as requiring or obligating the Administrative Agent to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by the Administrative Agent, or to present or file any claim or notice, or to take any action with respect to the Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby. The Administrative Agent and the other Secured Parties shall be accountable only for amounts actually received as a result of the exercise of the powers granted to them herein, and neither they nor their officers, directors, employees or agents shall be responsible to any Pledgor for any act or failure to act hereunder, except for their own gross negligence or wilful misconduct.

SECTION 7.08. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

SECTION 7.09. Waivers; Amendment. (a) No failure or delay by the Administrative Agent, any Issuing Bank or any Lender in exercising any right, power or remedy hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy, or any abandonment or discontinuance of steps to enforce such a right, power or remedy, preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The rights, powers and remedies of the Administrative Agent, any Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights, powers or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by any Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section 7.09, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan, the acceptance and purchase of a B/A or the issuance of a Letter of Credit shall not be construed as a waiver of any Default or Event of Default, regardless of whether the Administrative Agent, any Lender or any Issuing Bank may have had notice or knowledge of such Default or Event of Default at the time. No notice or demand on any Loan Party in any case shall entitle any Loan Party to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Administrative Agent and the Loan Party or Loan Parties with respect to which such waiver, amendment or modification is to apply, subject to any consent required in accordance with Section 9.08 of the Credit Agreement.

SECTION 7.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 7.10.

SECTION 7.11. Severability. In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7.12. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract, and shall become effective as provided in Section 7.04. Delivery of an executed counterpart to this Agreement by facsimile transmission shall be as effective as delivery of a manually signed original.

SECTION 7.13. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 7.14. Jurisdiction; Consent to Service of Process. (a) Each party to this Agreement hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, any Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against any Pledgor, or its properties, in the courts of any jurisdiction.

(b) Each party to this Agreement hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 7.01. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 7.15. Termination or Release. (a) This Agreement, the pledges made herein, the Security Interest and all other security interests granted hereby, and all other Security Documents securing the Obligations (including without limitation foreign security documents), shall automatically terminate as of the date when all the Loan Document Obligations (other than contingent or unliquidated obligations or liabilities) have been paid in full in cash or immediately available funds and the Lenders have no further commitment to lend under the Credit Agreement, each of the Revolving L/C Exposure and the Tranche B-3 L/C Exposure has been reduced to zero and each Issuing Bank has no further obligations to issue Letters of Credit under the Credit Agreement.

(b) A Subsidiary Party shall automatically be released from its obligations hereunder and the security interests in the Collateral of such Subsidiary Party shall be automatically released upon the consummation of any transaction permitted by the Credit Agreement as a result of which such Subsidiary Party ceases to be a Subsidiary or otherwise ceases to be a Pledgor; provided that the Required Lenders shall have consented to such transaction (to the extent such consent is required by the Credit Agreement) and the terms of such consent did not provide otherwise.

(c) Upon any sale or other transfer by any Pledgor of any Collateral that is permitted under the Credit Agreement to any person that is not a Pledgor (including in connection with an Event of Loss), or upon the effectiveness of any written consent to the release of the security interest granted hereby in any Collateral pursuant to Section 9.08 of the Credit Agreement, the security interest in such Collateral shall be automatically released.

(d) In connection with any termination or release pursuant to paragraph (a), (b) or (c) of this Section 7.15, the Administrative Agent shall execute and deliver to any Pledgor, at such Pledgor's expense, all documents that such Pledgor shall reasonably request to evidence such termination or release (including UCC termination statements), and will duly assign and transfer to such Pledgor, such of the Pledged Collateral that may be in the possession of the Administrative Agent and has not theretofore been sold or otherwise applied or released pursuant to this Agreement. Any execution and delivery of documents pursuant to this Section 7.15 shall be without recourse to or warranty by the Administrative Agent.

(e) Holdings shall automatically be released from its obligations hereunder and the security interests in the Collateral owned by Holdings shall be automatically released upon a Qualified IPO.

SECTION 7.16. Additional Subsidiaries. Upon execution and delivery by the Administrative Agent and any Subsidiary that is required to become a party hereto by Section 5.10 of the Credit Agreement of an instrument in the form of Exhibit I hereto, such subsidiary shall become a Subsidiary Party hereunder with the same force and effect as if originally named as a Subsidiary Party herein. The execution and delivery of any such instrument shall not require the consent of any other party to this Agreement. The rights and obligations of each party to this Agreement shall remain in full force and effect notwithstanding the addition of any new party to this Agreement.

SECTION 7.17. Right of Set-off. If an Event of Default shall have occurred and be continuing, each Lender and each Issuing Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender or such Issuing Bank to or for the credit or the account of any party to this Agreement against any of and all the obligations of such party now or hereafter existing under this Agreement owed to such Lender or such Issuing Bank, irrespective of whether or not such Lender or such Issuing Bank shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section 7.17 are in addition to other rights and remedies (including other rights of set-off) that such Lender or such Issuing Bank may have.

SECTION 7.18. Intercreditor Agreement. In the event of any conflict between the terms of the Intercreditor Agreement and the terms of this Agreement, the terms of the Intercreditor Agreement shall govern.

SECTION 7.19. [Reserved].

SECTION 7.20. Dutch Parallel Debt. Section 9.20(a) of the Credit Agreement is incorporated herein by reference.

SECTION 7.21. ULC Shares. Notwithstanding any provisions to the contrary contained in this Agreement or any other document or agreement among all or some of the parties hereto, the applicable Pledgor is the sole registered and beneficial owner of Pledged ULC Shares pledged by such Pledgor and will remain so until such time as such Pledged ULC Shares are effectively transferred into the name of the Administrative Agent or another person on the books and records of the issuer of such ULC Shares. Accordingly the Pledgor shall be entitled to receive and retain for its own account any dividend on or other distribution, if any, in respect of such Pledged ULC Shares (except insofar as the Pledgor has granted a security interest in such dividend on or other distribution, and any shares that are collateral shall be delivered to the Administrative Agent to hold as collateral hereunder) and shall have the right to vote such collateral and to control the direction, management and policies of the issuer of such Pledged ULC Shares to the same extent as the Pledgor would if such collateral were not pledged to the Administrative Agent pursuant hereto. Nothing in this Agreement or any other document or agreement among all or some of the parties hereto is intended to, and nothing in this

Agreement or any other document or agreement among all or some of the parties hereto shall, constitute the Administrative Agent or any person other than the relevant Pledgor, a member of the issuer of such Pledged ULC Shares or any other ULC for the purposes of the Companies Act (Nova Scotia) until such time as notice is given to the Pledgor (and not revoked) as provided herein and further steps are taken thereunder so as to register the Administrative Agent or other person as holder of such Pledged ULC Shares. To the extent any provision hereof would have the effect of constituting the Administrative Agent as a member of the issuer of Pledged ULC Shares prior to such time, such provision shall be severed therefrom and ineffective with respect to collateral that are Pledged ULC Shares without otherwise invalidating or rendering unenforceable this Agreement or invalidating or rendering unenforceable such provision insofar as it relates to property that is not Pledged ULC Shares. Except upon the exercise of rights to sell or otherwise dispose of the Pledged ULC Shares following the occurrence of an Event of Default the Pledgor shall not cause or permit, or enable the issuer of Pledged ULC Shares to cause or permit, the Administrative Agent to: (a) be registered as a shareholder or member of the issuer of Pledged ULC Shares; (b) have any notation entered in its favor in the share register of the issuer of Pledged ULC Shares; (c) be held out as shareholder or member of the issuer of Pledged ULC Shares; (d) receive, directly or indirectly, any dividends, property or other distributions from the issuer of Pledged ULC Shares by reason of the Administrative Agent holding a security interest in the Pledged ULC Shares; or (e) act as a shareholder or member of the issuer of Pledged ULC Shares, or exercise any rights of a shareholder or member including the right to attend a meeting of the issuer of Pledged ULC Shares or vote the Pledged ULC Shares.

Subsidiary Parties

Borden Chemical Foundry, Inc.

Borden Chemical Investments, Inc.

Hexion U.S. Finance Corp.

HSC Capital Corporation

Lawter International Inc.

Borden Chemical International, Inc.

Oilfield Technology Group, Inc.

Hexion CI Holding Company (China) LLC

SUPPLEMENT NO. _____ dated as of (this "Supplement"), to the Second Amended and Restated Collateral Agreement dated as of November 3, 2006 (the "Collateral Agreement"), among HEXION LLC, a Delaware limited liability company, HEXION SPECIALTY CHEMICALS, INC., a New Jersey corporation, each Subsidiary Party party thereto and JPMORGAN CHASE BANK, N.A., as Administrative Agent (in such capacity, the "Administrative Agent") for the Secured Parties (as defined therein).

A. Reference is made to the Second Amended and Restated Credit Agreement dated as of November 3, 2006 (as further amended, restated, supplemented, waived or otherwise modified from time to time, the "Credit Agreement"), among Hexion LLC, Hexion Specialty Chemicals, Inc., Hexion Specialty Chemicals Canada, Inc., a Canadian corporation, Hexion Specialty Chemicals B.V., a company organized under the laws of The Netherlands, Hexion Specialty Chemicals UK Limited, a corporation organized under the laws of England and Wales, and Borden Chemical UK Limited, a corporation organized under the laws of England and Wales, the Lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the "Administrative Agent") for the Lenders, Credit Suisse, as syndication agent, and J.P. Morgan Securities Inc. and Credit Suisse Securities (USA) LLC, as joint lead arrangers and joint bookrunners.

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement and the Collateral Agreement referred to therein.

C. The Pledgors have entered into the Collateral Agreement in order to induce the Lenders to make Loans and accept and purchase B/As and each Issuing Bank to issue Letters of Credit. Section 7.16 of the Collateral Agreement provides that additional Subsidiaries may become Subsidiary Parties under the Collateral Agreement by execution and delivery of an instrument in the form of this Supplement. The undersigned Subsidiary (the "New Subsidiary") is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Subsidiary Party under the Collateral Agreement in order to induce the Lenders to make additional Loans and accept and purchase additional B/As and each Issuing Bank to issue additional Letters of Credit and as consideration for Loans previously made, B/As previously accepted and Letters of Credit previously issued.

Accordingly, the Administrative Agent and the New Subsidiary agree as follows:

SECTION 1. In accordance with Section 7.16 of the Collateral Agreement, the New Subsidiary by its signature below becomes a Subsidiary Party and a Pledgor under the Collateral Agreement with the same force and effect as if originally named therein as a Subsidiary Party and a Pledgor, and the New Subsidiary hereby (a) agrees to all the terms and provisions of the Collateral Agreement applicable to it as a Subsidiary Party and Pledgor thereunder and (b) represents and warrants that the representations and warranties made by it as a Pledgor thereunder are true and correct on and as of the date hereof. In furtherance of the foregoing, the New Subsidiary, as security for the payment and performance in full of the Obligations (as defined in the Collateral Agreement), does hereby create and grant to the Administrative Agent, its successors and assigns, for the ratable benefit of the Secured Parties, their

successors and assigns, a security interest in and Lien on all the New Subsidiary's right, title and interest in and to the Collateral (as defined in the Collateral Agreement) of the New Subsidiary. Each reference to a "Subsidiary Party" or a "Pledgor" in the Collateral Agreement shall be deemed to include the New Subsidiary. The Collateral Agreement is hereby incorporated herein by reference.

SECTION 2. The New Subsidiary represents and warrants to the Administrative Agent and the other Secured Parties that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to (i) the effects of bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance or other similar laws affecting creditors' rights generally, (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and (iii) implied covenants of good faith and fair dealing.

SECTION 3. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract. This Supplement shall become effective when (a) the Administrative Agent shall have received a counterpart of this Supplement that bears the signature of the New Subsidiary and (b) the Administrative Agent has executed a counterpart hereof. Delivery of an executed signature page to this Supplement by facsimile transmission shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. The New Subsidiary hereby represents and warrants that (a) set forth on Schedule I attached hereto is a true and correct schedule of the location of any and all Article 9 Collateral of the New Subsidiary, (b) set forth on Schedule II attached hereto is a true and correct schedule of all the Pledged Stock of the New Subsidiary, (c) set forth on Schedule III attached hereto is a true and correct schedule of all Intellectual Property and (d) set forth under its signature hereto, is the true and correct legal name of the New Subsidiary, its jurisdiction of formation, organizational ID number and the location of its chief executive office.

SECTION 5. Except as expressly supplemented hereby, the Collateral Agreement shall remain in full force and effect.

SECTION 6. THIS SUPPLEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS SUPPLEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

SECTION 7. In the event any one or more of the provisions contained in this Supplement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and in the Collateral Agreement shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 8. All communications and notices hereunder shall be in writing and given as provided in Section 7.01 of the Collateral Agreement.

SECTION 9. The New Subsidiary agrees to reimburse the Administrative Agent for its reasonable out-of-pocket expenses in connection with this Supplement, including the reasonable fees, disbursements and other charges of counsel for the Administrative Agent.

IN WITNESS WHEREOF, the New Subsidiary and the Administrative Agent have duly executed this Supplement to the Collateral Agreement as of the day and year first above written.

[Name of New Subsidiary]

By: _____
Name:
Title:

Legal Name:

Jurisdiction of Formation:

Location of Chief
Executive Office:

By: _____
Name:
Title:

LOCATION OF ARTICLE 9 COLLATERAL

Description

Location

Pledged Collateral of the New Subsidiary

EQUITY INTERESTS

<u>Number of Issuer Certificate</u>	<u>Registered Owner</u>	<u>Number and Class of Equity Interest</u>	<u>Percentage of Equity Interests</u>
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DEBT SECURITIES

<u>Issuer</u>	<u>Principal Amount</u>	<u>Date of Note</u>	<u>Maturity Date</u>
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OTHER PROPERTY

Intellectual Property of the New Subsidiary.

Subsidiaries of the Registrant
As of December 31, 2008

<u>Subsidiary</u>	<u>Jurisdiction</u>
Asia Dekor Borden (Heyuan) Chemical Company Limited	China
Asia Dekor Borden (Hong Kong) Chemical Company	Hong Kong
Bakelite Polymers U.K. Ltd.	UK
Borden Chemical Foundry, LLC	Delaware
Borden Chemical Holdings (Panama) S.A.	Panama
Borden Chemical International, Inc.	Delaware
Borden Chemical Investments, Inc.	Delaware
Borden Chemical UK Limited	UK
Borden International Holdings Limited	UK
Borden Luxembourg S.a r.l.	Luxembourg
Fengkai Hexion Specialty Chemicals Co. Ltd.	China
Fujian Nanping Hexion Specialty Chemicals Co., Ltd.	China
HA-International, LLC	Delaware
Hattrick (Barbados) Finco SRL	Barbados
Hexion Adhesives Holding Limited	Hong Kong
Hexion Chengdu Holdings Limited	Hong Kong
Hexion CI Holding Company (China) LLC	Delaware
Hexion Fengkai Holdings Limited	Hong Kong
Hexion Funing Holdings Limited	Hong Kong
Hexion IAR Holding (HK) Limited	Hong Kong
Hexion Nanping Holdings Limited	Hong Kong
Hexion Nova Scotia Finance, ULC	Nova Scotia, Canada
Hexion Quimica Argentina SA	Argentina
Hexion Quimica Industria e Comercio Ltda.	Brazil
Hexion Quimica S.A.	Panama
Hexion Quimica Uruguay S/A	Uruguay
Hexion Shchekinoazot Holding B.V.	Netherlands
Hexion Shchekinoazot LLC	Russia
Hexion Specialty Chemicals Asua SL	Spain
Hexion Specialty Chemicals B.V.	Netherlands
Hexion Specialty Chemicals Bangkok Limited	Thailand
Hexion Specialty Chemicals Barbastro S.A.	Spain
Hexion Specialty Chemicals BVBA	Belgium
Hexion Specialty Chemicals Canada, Inc.	Canada
Hexion Specialty Chemicals Clayton Ltd	UK
Hexion Specialty Chemicals (Caojing) Limited	Hong Kong
Hexion Specialty Chemicals Finance BV	Netherlands
Hexion Specialty Chemicals Forest Products GmbH	Germany
Hexion Specialty Chemicals France SAS	France
Hexion Specialty Chemicals GmbH	Germany
Hexion Specialty Chemicals Holding Germany GmbH	Germany
Hexion Specialty Chemicals Holding B.V.	Netherlands
Hexion Specialty Chemicals Holdings (China) Limited	Hong Kong
Hexion Specialty Chemicals Iberica, S.A.	Spain
Hexion Specialty Chemicals Italia S.p.A.	Italy
Hexion Specialty Chemicals Korea Company Limited	Korea
Hexion Specialty Chemicals Leuna GmbH	Germany
Hexion Specialty Chemicals (Heyuan) Limited	Hong Kong
Hexion Specialty Chemicals Lda.	Portugal
Hexion Specialty Chemicals Maastricht BV	Netherlands
Hexion Specialty Chemicals (N.Z.) Limited	New Zealand
Hexion Specialty Chemicals Oy	Finland
Hexion Specialty Chemicals Pardubice S.r.o.	Czech Republic
Hexion Specialty Chemicals Pty Ltd	Australia
Hexion Specialty Chemicals Research Belgium SA	Belgium
Hexion Specialty Chemicals Rotterdam Ink B.V.	Netherlands

Subsidiaries of the Registrant
As of December 31, 2008

<u>Subsidiary</u>	<u>Jurisdiction</u>
Hexion Specialty Chemicals S.A.	France
Hexion Specialty Chemicals S.r.l.	Italy
Hexion Specialty Chemicals Samusakorn Ltd.	Thailand
Hexion Specialty Chemicals Sdn. Bhd.	Malaysia
Hexion Specialty Chemicals SG. Petani SDN. BHD.	Malaysia
Hexion Specialty Chemicals Singapore Pte. Ltd.	Singapore
Hexion Specialty Chemicals Somersby Pty Ltd.	Australia
Hexion Specialty Chemicals Stanlow Limited	UK
Hexion Specialty Chemicals Stuttgart GmbH	Germany
Hexion Specialty Chemicals (Taiwan) Inc.	Taiwan
Hexion Specialty Chemicals Trading (Shanghai) Co., Ltd.	China
Hexion Specialty Chemicals UK Limited	UK
Hexion Specialty Chemicals Uruguay S.A.	Uruguay
Hexion Specialty Chemicals Wesseling GmbH	Germany
Hexion Specialty Chemicals, a.s.	Czech Republic
Hexion Specialty UV Coatings (Shanghai) Limited	Hong Kong
Hexion UV Coatings (Shanghai) Co., Ltd.	China
Hexion U.S. Finance Corp.	Delaware
Hexion ZhangJiaGang Holdings Limited	Hong Kong
HSC Capital Corporation	Delaware
InfraTec Duisburg GmbH	Germany
International Pine Products SA	Argentina
Jiangsu Funing Eastman International Co. Ltd.	China
Lawter International, Inc.	Delaware
National Borden Chemical Germany GmbH.	Germany
New Nimbus GmbH & Co Kg	Germany
Oilfield Technology Group, Inc.	Delaware
Quimica Borden Argentina S.A.	Argentina
Resolution Italia S.R.L.	Italy
Resolution Research Nederland B.V.	Netherlands
Resolution Specialty Materials Rotterdam B.V.	Netherlands
RSM Europe B.V.	Netherlands
Tianjin Hexion Specialty Chemicals Co., Ltd.	China

Certification of Financial Statements and Internal Controls

I, Craig O. Morrison, certify that:

1. I have reviewed this Annual Report on Form 10-K of Hexion Specialty Chemicals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. This registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2009

/s/ Craig O. Morrison
Craig O. Morrison
Chief Executive Officer

Certification of Financial Statements and Internal Controls

I, William H. Carter, certify that:

1. I have reviewed this Annual Report on Form 10-K of Hexion Specialty Chemicals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2009

/s/ William H. Carter

William H. Carter

Chief Financial Officer

**Certification Pursuant To
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 Of The Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Hexion Specialty Chemicals, Inc. (the "Company") on Form 10-K for the period ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Craig O. Morrison

Craig O. Morrison
Chief Executive Officer

March 11, 2009

/s/ William H. Carter

William H. Carter
Chief Financial Officer

March 11, 2009

A signed original of this statement required by Section 906 has been provided to Hexion Specialty Chemicals, Inc. and will be retained by Hexion Specialty Chemicals, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.