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

FORM 10-K

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from to &nbs p;

Commission File Number 1-71

MOMENTIVE SPECIALTY CHEMICALS INC.

(Exact name of registrant as specified in its charter)

New Jersey	**13-0511250**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
180 East Broad St., Columbus, OH 43215	**614-225-4000**
(Address of principal executive offices)	**(Registrant's telephone number)**

Hexion Specialty Chemicals, Inc.

(Former name, former address and fiscal year, if changed since last report)

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 o No x.

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 x No £.

Indicate by check mark whether the registrant (1) has filed all repo rts 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 x No £.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 mon ths (or for such shorter period that the registrant was required to submit and post such files). 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. x

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 x 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 x.

At December 31, 2010, the aggregate market value of voting and non-voting common equity of the Registrant held by non-a ffiliates was zero.

Number of shares of common stock, par value $0.01 per share, outstanding as of the close of business on February 1, 2011: 82,556,847

Documents incorporated by reference. None

MOMENTIVE SPECIALTY CHEMICALS INC.

INDEX

PART I

(dollars in millions)

ITEM 1 - BUSINESS

Overview

Momentive Specialty Chemicals Inc., (formerly known as Hexion Specialty Chemicals, Inc.), a New Jersey corporation with predecessors dating from 1899 (which we may refer to as “we,” “us,” “our,” “MSC” or the “ Company”), is the world’s largest producer of thermosetting resins, or thermosets, and a leading producer of adhesive and structural resins and coatings. Thermosets are a critical ingredient in virtually all paints, coatings, glues and other adhesives produced for consumer or industrial uses. 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. Thermosetting resins include materials such as phenolic resins, epoxy resins, polyester resins, acrylic resins, alkyd resins and urethane resins.

Hexion Formation

The Company was formed on May 31, 2005 by combining three Apollo Management, L.P. 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.” Since the Hexion Formation, we have expanded our specialty chemicals businesses through several strategic acquisitions.

Momentive Combination

On October 1, 2010, our parent, Momentive Specialty Chemicals Holdings LLC (“MSC Holdings”, formerly known as Hexion LLC) and Momentive Perform ance Materials Holdings Inc. ("MPM Holdings"), the parent company of Momentive Performance Materials Inc. ("MPM"), became subsidiaries of a newly formed holding company, Momentive Performance Materials Holdings LLC ("Momentive Holdco"). We refer to this transaction as the "Momentive Combination".

At the time of the Momentive Combination, Hexion LLC changed its name to Momentive Specialty Chemicals Holdings LLC and Hexion Specialty Chemicals, Inc. changed its name to Momentive Specialty Chemicals Inc. As a result of the Momentive Combination, Momentive Holdco became the ultimate parent entity of MPM and MSC. Momentive Holdco is controlled by investment funds (the “Apollo Funds”) managed by affiliates of Apollo Management Holdings, L.P. (together with Apollo Global Management, LLC and its subsidiaries, “Apollo”). Apollo may al so be referred to as the Company’s owner.

Our business is organized based on the products that we offer and the markets that we serve. At December 31, 2010, we had three reportable segments: Epoxy and Phenolic Resins, Formaldehyde and Forest Products Resins and Coatings.

Products and Markets

We have a broad range of thermoset resin technologies, with high quality research, applications development and technical service capabilities. 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 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 and electrical components. 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 i ntroducing new products to new markets, as evidenced by more than 1,600 patents, the majority of which relate to the development of new products and processes for manufacturing.

As of December 31, 2010, we have 80 active production sites around the world. Through our worldwide network of strategically located production facilities, we serve more than 7,800 customers in over 100 countries. 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 rel ationships. 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, Valspar and Weyerhaeuser.

Growth and Strategy

We believe that we have opportunities for growth 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. 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 innova tion, joint research and development initiatives with our customers and research partnership formations.
- *Expand Our Global Reach In Faster Growing Regions.* We have opportunities 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.
- *Pursue Further Development of "Green Products".* We will continue to develop products that are environmentally advanced and support our customers' overall sustainability initiatives as they increasingly require products that meet changing environmental standards.
- *Accelerate Growth and Improve Cost Structure through Relationship with MPM.* As a result of the Momentive Combination, we are working closely with MPM to benefit from shared services and our complementary technologies, product offerings and global footprint. We believe that our relationship with MPM will enable us to achieve results that otherwise would not be attainable.

Industry & Competitors

We are a large participant in the specialty chemicals industry. Thermoset ting resins are generally considered specialty chemical products because they are sold primarily on the basis of performance, technical support, product innovation and customer service. However, as a result of the impact of the recent global economic downturn and overcapacity in certain markets, chemical companies have focused more on price to retain business and market share.

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 th e economy as a whole. As a result, our competitors may have more resources and better access to capital markets for continued expansion than we do. Further, some of our competitors also have a greater product range and may be more vertically integrated than we are within specific product lines or geographies.

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 on-site, value-added technical service for our customers. In addition, our size and scale provide efficiencies in our cost structure. To maintain our position in the markets we serve, we believe that 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)&n bsp;the ability to provide value to customers through both product attributes and strong technical service and (4) a presence in growing and developing markets.

No single company competes with us across all of our segments and existing product lines.

Our Businesses

The following paragraphs discuss our reportable segments and corresponding key product lines and primary end-use applications of our key products.

Epoxy & Phenolic Resins Segment
2010 Net Sales: $2,530

Epoxy Specialty Resins

We are a leading producer of epoxy specialty resins, modifiers and curing agents in Europe and the United States. Epoxy resins are the fundamental component of many types of materia ls and are often used in the automotive, construction, aerospace and electronics industries due to their superior adhesion, strength and durability. We internally consume approximately 30% of our liquid epoxy resin ("LER") production in specialty composite, coating and adhesive applications, giving us a competitive advantage versus our non-integrated competitors. Our position in basic epoxy resins, along with our technology and service expertise, has enabled us to offer formulated specialty products in certain markets. In composites our specialty epoxy products are used either as replacements for traditional materials such as metal, wood, and ceramics, or in applications where traditional materials do not meet demanding engineering specifications.

We are a leading producer of resins that are used in fiber reinforced composites. Composites are a fast-growing c lass of materials that are used in a wide variety of applications ranging from aircraft components and wind turbine blades to sports equipment. We supply epoxy resin systems to composite fabricators in the wind energy, aerospace, sporting goods and pipe markets.

Epoxy specialty resins are also used for a variety of high-end coating applications that require the superior adhesion, corrosion resistance and durability of epoxy, such as protective coatings for industrial flooring, pipe, marine and construction applications and automotive coatings. Epoxy-based surface coatings are among the most widely used industrial coatings due to their long service life 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.

Table of Contents

Products	Key Applications
Adhesive applications	
Civil Engineering	Building and bridge construction, concrete enhancement and corrosion protection
Adhesives	*Automotive*: hem flange adhesives and panel reinforcements
& nbsp;	*Construction*: ceramic tiles, chemical dowels and marble
	Aerospace: metal and composite laminates
	Electronics: ch ip adhesives, solder masks
Electrical applications	
Electronic Resins	Unclad sheets, paper impregnation and electrical laminates for printed circuit boards
Electrical Castings	Generators and bushings, transformers, medium and high-voltage switch gear components, post insulators, capacitors and automotive ignition coils< /div>

Principal Competitors: Dow Chemical, Nan Ya, Huntsman, Spolchemie, Leuna and Aditya Birla (Thai Epoxy)

Composites	
Composite Epoxy Resins	Pipes and tanks, automotive, sports (ski, snowboard, golf), boats, construction, aerospace, wind energy and industrial applications

Principal Competitors: Dow Chemical, BASF, Aditya Birla (Thai Epoxy), Gurit, Leuna and Huntsman

< td style="vertical-align:top;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

Coating applications

Floor Coatings (LER, Solutions, Performance Products)	Chemically resistant, antistatic and heavy duty flooring used in hospitals, the chemical industry, electronics workshops, retail areas and warehouses
Ambient Cured Coatings (LER, Solid Epoxy Resin ("SER"), Solutions, Performance Products)	Marine (manufacturing and maintenance), shipping containers and large steel structures (such as bridges, pipes, plants and offshore equipment)
Waterborne Coatings (EPI-REZ^{TM} Epoxy Waterborne Resins)	Substitutes of solvent-borne products in both heat cured and ambient cured applications

Principal Competitors: Dow Chemical, Huntsman, Nan Ya, Air Products, Cytec Industries

Basic Epoxy Resins and Intermediates

We are one of the world's largest suppliers of basic epoxy resins, such as solid epoxy resin SER and LER. These base epoxies are used in a wide variety of industrial coatings applications. In addition, we are a major producer of bisphenol-A (“BPA”) and epichlorohydrin (“ECH”), key precursors in the downstream manufacture of basic epoxy resins and epoxy specialty resins. We internally consume the majority of our BPA, and virtually all of our ECH, giving us a competitive advantage versus non-integrated competitors.

Products	Key Applications
Electroco at (LER, SER, BPA)	Automotive, general industry and white goods (such as appliances)
Powder Coatings (SER, Performance Products)	White goods, pipes for oil and gas transportation, general industry (such as heating radiators) and automotive (interior parts and small components)
Heat Cured Coatings (LER, SER)	Metal packaging and coil-coated steel for construction and general industry

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

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, hydrolytic stability, water resistance and appearance and ease of application. Our products include basic versatic acids and derivatives sold under the Versatic™, VEOVA® and CARDURA® names. Applications for these specialty monomers 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	**Key Applications**
CARDURA®	Automotive repair/refinishing, automotive original equipment manufacturing ("OEM") and industrial coatings < /td>
Versatic Acids and Derivatives	Chemical building blocks, peroxides, pharmaceuticals and agrochemicals
VEOVA®	Architectural coatings and construction

Principal Competitors: ExxonMobil, Tianjin Shield and Hebei Huaxu

Phenolic Sp ecialty Resins and Molding Compounds

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 after-market automotive and OEM truck brake pads, filtration, aircraft components, foundry resins and electrical laminates. These products are sold under globally recognized brand names such as BORDEN, BAKELITE, DURITE and CELLOBOND. Our phenolic specialty resins are also known for their binding qualities and used widely in the production of mineral wool and glass wool used for commercial and domestic insulation applications.

Products

Key Applications
Phenolic Specialty Resins

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, foundry binders

Construction Phenol Formaldehyde Resins, Urea Formaldehyde Resins and Ketone Formaldehyde

Fiberglass insulation, floral foam, insulating foam, lamp cement for light bulbs, molded appliance and electrical parts, molding compounds, sandpaper, fiberglass mat, electrical laminates and coatings,

Molding Com pounds

Phenolic, Epoxy, unsaturated polyesters

High performance automotive transmissions and under-hood components, heat resistant knobs and bases, switches and breaker components, pot handles and ashtrays
Glass

High load, dimensionally stable automot ive underhood parts and commutators

Principal Competitors: Dynea International, Arclin, Georgia-Pacific (a subsidiary of Koch Industries), Sumitomo (Durez), SI Group, Ashland, Huttenes-Albertus and Plenco

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 perfo rm 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.

Through our unconsolidated HA-International, Inc. joint venture, 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 encapsulates substrates, in the foundry industry, we also provide phenolic resin systems and ancillary products used to produce finished metal castings.

Products	Key Applications
Oil & Gas Stimulation Services Applications	
Resin Encapsulated Proppants	Oil and gas fracturing
Foundry Applications	&n bsp;
Refractory Coatings	Thermal resistant coatings for ferrous and nonferrous applications
Resin Coated Sands and Binders	Sand cores and molds

Principal Competitors: Ashland, Carbo Cermaics, Santrol and Atlas Resins

Formaldehyde and Forest Product Resins Segment
2010 Net Sales: $1,607

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. Formaldehyde-based resins, also known as forest product resins, are a key adhesive and binding ingredient used in the production of a wide variety of engineered lumber products, including medium-density fiberboard ("MDF"), oriented strand board ("OSB"), oriented strand lumber ("OSL") and various types of plywood and laminated veneer lumber ("LVL"). These products are used in a wide range of applications in the construction, remodeling and furniture industries. Forest product resins have relatively short shelf lives and as such, our manufacturing facilities are strategically located in close proximity to our customers.

In addition, we are the world's largest producer of formaldehyde, a key raw material used to manufacture thousands of other chemicals and products, including the manufacture of methylene diphenyl diisocyanate ("MDI"). We internally consume the majority of our formaldehyde production in the production of forest product resins, giving us a competitive advantage versus our non-integrated competitors.

We have recently expanded our formaldehyde and forest products resins businesses in select regions where we believe there are prospects for growth. We completed the construction of a new manufacturing facility in Montenegro, Brazil, which began operations in 2010, and will serve the southern Brazil formaldehyde and forest products markets. In add ition, our forest products joint venture in Russia, which began operations in 2010, is ramping up production to capitalize on growth opportunities in both Russia and Eastern Europe.

Products	Key Applications
Forest Products Resins	
Engineered Wood Resins	Softwood and hardwood plywood, OSB, LVL, strand lumber and wood fiber resins (such as particleboard), MDF and finished veneer lumber, decorative laminates
Specialty Wood Adhesives	Laminated beams, structural and nonstructural fingerjoints, wood composite I-beams, cabinets, doors, windows, furniture, molding and millwork and paper laminations
Wax Emulsions < /td>	Moisture resistance for panel boards and other specialty applications

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

Products	Key Applications
Formaldehyde Applications	
Formaldehyde	Herbicides and fungicides, scavengers for oil and gas production, fabric softeners, Urea Formaldehyde, Melamine Formaldehyde, Phenol Formaldehyde, MDI, hexamine and other catalysts

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

Coatings Segment
2010 Net Sales: $681

Polyester Resins

We are a leading supplier of polyester resins in North America and are also one of the major producers 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 building construction, transportation, automotive, machinery, appliances and metal office furniture.

Products	**Key Applications**
Powder Polyesters	Outdoor durable systems for architectural window frames, facades and transport and agricultural machinery; indoor systems for domestic appliances and general industrial applications
Liquid Polyesters and Polyester Dispersions	Automotive, coil and exterior can coating applications

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

Composite Resins

We manufacture unsaturated polyester resins (“UPR”) and vinyl ester resins , which are generally combined with fiberglass to produce cost-effective finished structural parts fo r composites applications ranging from boat hulls and recreational vehicles to bathroom fixtures.

Products	< font style="font-family:inherit;font-size:8pt;">	**Key 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

Principal Competitors: Ashland, AOC, Reichold, Interplastic,CCP

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-striping 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	**Key Applications**
Alkyd and Alkyd Emulsions	*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

Principal Competitors: Reichhold, CCP, Nuplex and EPS (owned by Valspar)

Acrylic Resins

We are a significant supplier of water-based and solvent-based acrylic resins in Europe and North America. Acrylic resins are supplied as either acrylic homopolymers or as resins incorporating various comonomers that modify performance or cost. Water based acrylic homopolymer s 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 producer of acrylic monomer in Europe, 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	Key Applications
Acrylic Dispersions	*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 matte 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 and textiles
Solution Acrylics	*Architectural markets:* Aerosols, masonry and tile sealers
	Industrial Markets: Transportation, packaging, aerosols, automotive OEM, appliance, industrial maintenance, marine and road marking

Principal Competitors: BASF, DSM, Dow Chemical, UES and Polymer Latex

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	**Key Applications**
Vinyl Acetate Homopolymer Dispersions	Packaging, paper and wood adhesives and textiles
Vinyl Acetate Copolymers	Packaging, wood and paper adhesives and textiles
Vinyl Acrylic Dispersion	Architectural applications
Redispersible Powders	Tile adhesives, external thermal insulation and finishing systems, self leveling underlayments, repair mortars, gypsum compounds, membranes and grouts

Principal Competitors: Celanese, Wacker, Vinavil, Elotex, Dairen, Dow Chemical and UES

For additional information about our segments, see Note 17 in Item 8 of Part II of this Annual Report on Form 10-K.

Discontinued Operations

On January 31, 2011, we sold our Inks and Adhesive Resins (“IAR”) business to Harima Chemicals Inc for a purchase price of approximately $120. The IAR business is engaged in the production of naturally derived resins and related products primarily used for the manufacture of printing inks, adhesives, synthetic rubber, specialty coatings and aroma chemicals.

The IAR business generated 2010 net sales of approximately $356 and includes 11 manufacturing facilities in Europe, the United States and the Asia-Pacific region. The IAR business was previously reported within our Coatings and Inks segment and is reported as a discontinued operation for the year ended December 31, 2010 and all prior periods presented.

Marketing, Customers and Seasonality

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 2010, our largest customer accounted for less than 3% of our sales and our top ten customers acco unted for approximately 17% of our sales. However, neither our overall business nor any of our 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 seasonal in certain of our businesses, with the highest demand in the summer months and lowest in winter months. Therefore, the dollar amount of our backlog orders is not significant as of December 31, 2010. Demand for our products can also be cyclical as general economic health, industrial and commercial production levels are key drivers for our business.

International Operations

Our international operations accounted for 57%, 58% and 57% of our sales in 2010, 2009 and 2008, respectively. 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 significantly greater risk than our operations in the United States. We plan to grow our business in the Asian-Pacific, Eastern European and Latin American markets, where the use of our products is increasing. In 2010, we began operations of our formaldehyde and forest products resins plant in Brazil and a forest products resins manufacturing plant in Russia that is owned 50% through a joint venture. In addition we are constructing a new plant in Korea to manufacture versatic acids. Information about s ales 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 17 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 70% of our cost of sales. In 2010, we purchased approximately $2.9 billion of raw materials. The three largest raw materials that we use a re phenol, methanol and urea, which represented 44% 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.

Research and Development

Our research and development activities are geared to developing and enhancing products, processes and application 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.

We have over 460 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.

More recently, we have focused additional research and development resources on "green product" initiatives to remain competitive and to address our customers' demands for more environmentally sensitive product solutions. Our efforts have focused on developing resin technologies that eliminate emissions, maximize the efficiency and renewability of bio-based natural resources and promote safe, environmentally-friendly manufacturing processes. A few examples of meaningful results of our investment in development of "green products" include:

- EcoBind™ Resin Technology, an ultra low-emitting binder resin used to produce engineered wood products;
- Albecor-Bio™ Powder Coating Resins which use a bio-based material for low-heat cure resulting in less energy and CO_2 emissions
- Hexitherm™ which enables small lengths of lumber to be assembled into finger-jointed studs with the same durability and strength as dimensional lumber, with resistance to heat
- Epi-Rez™ Epoxy Waterborne Resins which provide for low or zero volatile organic compounds, reducing air emissions
- PropTrac™ Fracture Diagnostics Service which enables oil & gas producers to eliminate use of radioactive tracers in well diagnostics
< /td>

In 2010, 2009 and 2008, our research and development and technical services expense was $58, $57 and $68, 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 b ecome 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.

Intellectual Property

We own, license or have rights to over 1,600 patents, over 1,800 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 2011 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, the United States (Toxic Substances Control Act) and China are the most significant to our business. Chemicals that are missing from one or more of these or any other country che mical inventory lists can usually be registered and imported but may first require additional testing or submission of additional administrative information.

The European Commission enacted a 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. Other countries may enact similar regulations.

Environmental Regulations

Our policy is to operate our plants in a manner that protects the environment and health and safety of our employees, customers and communities. Health, safety and environmental considerations are a priority in our planning for all existing and new products and processes. We have implemented company-wide environmental, health and safety policies managed by our Environmental, Health and Safety ("EH&S") department and overseen by the EH&S Committee of the Momentive Holdco 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.

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 2010, we incurred related capital expenditures of $22. We estimate that capital expenditures in 2011 for environmental controls at our facilities will be between $20 and $25. 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 t hese regulations or other requirements change.

Employees

At December 31, 2010, we had approximately 6,000 employees. Approximately 40% of our employees are members of a labor union or are represented by workers' councils that have collective bargaining agreements, including most of our European employees. We believe that relations with our union and non-union employees are good.

Our Boar d of Directors and Shareholders expect honest and ethical conduct from every employee. We strive to adhere to the highest ethical standards in the conduct of our business and to comply with all laws and regulations that are applicable to the business. Each employee has a responsibility to maintain and advance the ethical values of the Company. In support of this, our employees receive training to emphasize the importance of compliance with our Code of Business Ethics.

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.momentive.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.

If the global economic conditions weaken again, it will continue to negatively impact our business operations, results of operations and financial condition.

Global economic and financial market conditions, including severe disruptions in the credit markets and the potential for a significant and prolo nged global economic downturn, have impacted our business operations since 2008. If the global economic environment begins to weaken again or remains slow for an extended period of time, we could experience further reduced demand for our products 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 funding to borrowers. The lack of available or increased cost of credit, along with decreased demand due to a variety of factors, has led to decreased construction which has resulted in a reduction in demand for our products. A prolon ged or further drop in consumer confidence, continued restrictions in the credit market or an increase in mortgage rates, credit standards or sustained high 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.

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 and reduce the volume of products they purchase from us in the future. This situation could further impact their ability to pay our receivables, requiring us to assume additional credit risk related to these receivables or limit our ability to collect receivables from that customer. 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 condition s 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 be able to generate sufficient cash flows from operations to meet our debt service payments. In addition, our interest expense could increase if interest rates increase.

We are a highly leveraged company. As of December 31, 2010, we have $3,672 of outstanding indebtedness.

In 2011, based on the amount of indebtedness outstanding at December 31, 2010, our cash debt service is expected to be approximately $320 (including $82 of short term debt maturities) based on interest rates at January 27, 2011 of which $221 represents debt service on fixed-rate obligations (including variable rate debt subject to interest rate swap agreements). Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt depends on a range of economic, competitive and business factors, many of which are outside our control, and we may not generate sufficient cash flow from operations to meet our debt serv ice 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. Any 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 senior secured credit facilities, including the terms governing our indebtedness, limit our ability to sell assets and also restrict the use of proceeds from that sale. We may not b e able to sell assets quickly enough or for sufficient amounts to enable us to meet our obligations. Furthermore, a substantial portion of our assets are, and may continue to be, intangible assets. Therefore, it may be difficult for us to pay our debt obligations in the event of an acceleration of any of our indebtedness.

In addition to our debt service needs, our parent company, MSC Holdings, will likely need to rely upon distributions from us to service its outstanding term loans, $208 aggregate principal amount of which are outstanding as of December 31, 2010, including for the payment of interest, to the extent that our parent elects to pay interest in cash, and for the payment of principal at matur ity in December 2014. We may not generate sufficient cash flow from operations to pay dividends or distributions to our parent in amounts sufficient to allow it to pay principal or cash interest on its debt. In addition, our ability to make distributions to our parent is subject to restrictions in our various debt instruments. If MSC Holdings is unable to meet its debt service obligations, it could attempt to restructure or refinance its indebtedness or seek additional equity capital. We cannot assure you that our parent will be able to accomplish these actions on satisfactory terms, if at all. A default under the MSC Holdings term loans could result in a change of control under our other debt instruments and lead to an acceleration of all outstanding loans under our senior secured credit facilities and our other indebtedness.

Our interest expense coul d increase if interest rates increase because approximately 29% of our outstanding borrowings at December 31, 2010, 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 2011 estimated debt service requirements by approximately $14.

Repayment of our debt, including required principal and interest payments on our indebtedness, is dependent on cash flow generated by our foreign subsidiaries, which may be subject to limitations beyond our control.

Our foreign subsidiaries own a significant portion of our assets and conduct a significant portion of our operations. Accordingly, repayment of our indebtedness is dependent, to a significant extent, on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness. Each subsidiary is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While there are limitations on the ability of our subsidiaries to incur consen sual restrictions on their ability to pay dividends or make intercompany payments to us, these limitations are subject to certain qualifications and exceptions. In the event that we are unable to receive distributions from our subsidiaries we may be unable to make required principal and interest payments on our indebtedness.

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.

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;
- it may make us more vulnerable to downturns in our business or in the economy;
- it may make it more difficult for us to satisfy our obligations with respect to our existing indebtedness;
- it may limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow addit ional funds (which may already be severely limited by availability and increased cost of credit in the current market) or dispose of assets;
- it would cause a material adverse effect on our business and financial condition if we were unable to service our indebtedness or obtain additional financing, as needed;
- it may cause a substantial portion of our cash flow from operations to be dedicated to the repayment of our indebtedness and not be available for other purposes;

< tr>

- it may limit our ability to fully achieve cost savings from the Momentive Combination; and
- it may restrict us from making strategic acquisitions, introducing new technologies or exploiting business opportunities.

We may fail to achieve all expected cost savings, which could impact our business operations, results of operations and financial conditions.

A significant element of our business strategy is to improve our operating efficiencies and reduce our operating costs. As of December 31, 2010, we are currently targeting $24 in productivity savings. We anticipate the actions to achieve these savings will be completed over the next 6 months. The Company expects to incur $3 in one-time costs to achieve these savings, including restructuring costs and expected capital expenditures related to productivity programs. A variety of factors could cause us not to achieve the remaining $24 in productivity savings, including not being able to fund the $3 in one-time costs. As a result, our future results of operations and profitability would be negatively impacted. In addition, while we have been successful in reducing costs and generating savings, factors may arise that may not allow us to sustain our current cost structure in the future. As market and economic conditions change, we may also make changes to our operating cost structure.

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, and any future indebtedness we incur would likely contain, a number of restrictive covenants that can impose significant operating and financial restrictions on our ability to, among other things:

- incur or guarant ee additional debt;
- pay dividends and make other distributions to our shareholders;
- create or incur certain liens;
- make certain loans, acquis itions, capital expenditures or investments;
- engage in sales of assets and subsidiary stock;

< td style="width:96px;">

- enter into sale/leaseback transactions;

•&nbs p; 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 downturn in our business and our results of operations and profitability could cause us to fail to comply with the covenants in our senior secured credit facilities. In addition, our senior secured credit facilities contain cross-acceleration and cross default provisions. Accordingly, certain foreign borrowing defaults under our debt agreements could result in our outstanding debt becoming immediately due and payable.

A failure to comply with the covenants contained in our senior secured credit facilities or our other debt could result in a 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:

- could 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 become immediately due and payable;
- could require us to apply all of our available cash to repay these borrowings; or
- could prevent us from making debt service payments on our other indebtedness, which could result in an event of default.

If the indebtedness under our senior secured credit facilities or our other indebtedness were to be accelerated, our assets may not be sufficient to repay such indebtedness in full.

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 MSC Holdings. The cure amount cannot exceed the amount required for purposes of complying with the covenant related to that particular quarter. In addition, in each four quarter period, there must be one quarter in which the cure right is not exercised.

Despite our substantial indebtedness we may still be able to incur significantly more debt. This could intensify the risks described above.

The terms of the instruments governing our indebtedness contain restrictions on our ability to incur additional indebtedness. These restrictions are subject to a number of important qualifications and exceptions and the indebtedness incurred in compliance with these restrictions could be substantial. Accordingly, we could incur significant additional indebtedness in the future, much of which could constitute First-Priority Obligations and all of which could constitute pari passu or junior-priority secured obligations. As of December 31, 2010, we would have had $260 of unutilized capacity under our senior secured revolving credit facility, including the subfacility for letters of credit, and our liquidity facility provided by affiliates of Apo llo, and the covenants under our debt agreements would allow us to borrow a significant amount of additional indebtedness. The more we become leveraged, the more we, and in turn our security holders, become exposed to the risks described above under "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" and "We may not be able to generate sufficient cash flows from operations to meet our debt service payments. In addition, our interest expense could increase if interest rates increase."

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 c apital 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 or put us on negative watch 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 companie s 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. We may be forced to lower our selling price based on our competitors' pricing decisions, which would reduce our profitability. In fact, certain markets that we serve have become commoditized in recent years and have given rise to several industry players resulting in fierce price competition in these markets. This has been further magnified through the im pact of the recent global economic downturn as chemical companies have focused more on price to retain business and market share. In addition, we face competition from a number of products that are potential substitutes for our products, such as formaldehyde resins. Growth in substitute products could adversely affect our market share, net sales and profit margins.

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. Furthermore, there has been an increase in new competitors based in these regions.

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. Furthermore, if we do not have adequate capital to invest in technology, including expenditures for research and development, our technology could be rendered uneconomical or obsolete thus affecting our ability to remain competitive.

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 70% 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 26%, 47% and 16%, respectively, in 2010 compared to 2009, and decreased by approximately 20%, 53% and 46%, respectively, in 2009 compared to 2008.

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 ta ke 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. Future raw material prices may be impacted by new laws or regulations, suppliers’ allocations to other purchasers, changes in our supplier manufacturing processes as some of our products are byproducts of these processes, interruptions in production by suppliers, natural disasters, volatility in the price of crude oil and related petr ochemical 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. 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. Shoul d 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 which could adversely affect our volumes, or may not be able to purchase them at prices that would allow us to remain competitive. During the past several 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.

Our largest supplier provides 9% of our raw materials 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 2010, we incurred related capital expenditures of $22 to comply with environmental laws and regulations, and other environmental improvements. Violations of environmental laws or permits may re sult 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, mea ning 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 mate rials in connection with our operations, properties or products. Sites sold by us in past years may have significant site closure or remediation costs and our share, if any, may be 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, bans on product sales or use, seizures, confiscation, recall or monetary fines, any of which could prevent or inhibit the development, distribution or sale of our products and could increase our customers' efforts to find less hazardous substitutes for our products. We are subject to ongoing reviews of our products and manufacturing processes.

Formaldehyde is extensively regulated, and various public health agencies continue to evaluate it. In 2004, the International Agency for Research on Cancer (“IARC”) reclassified formaldehyde as “carcinogenic to humans,” a higher classification than previous IARC evaluations. In 2009, the IARC determined that there is sufficient evidence in human beings of a causal associati on of formaldehyde with leukemia. Soon thereafter, in a separate and unrelated U.S. government review process, an Expert Panel of the National Toxicology Program (“NTP”) recommended that formaldehyde should be listed as “known to be a human carcinogen” in a pending 12thReport on Carcinogens (“RoC”) based on their finding of sufficient evidence in human epidemiology studies. The 12th RoC has not been issued yet as of December 31, 2010. The Environmental Protection Agency (“EPA”) continues to investigate the potential risks associated with formaldehyde emissions from composite wood products. The EPA, under its Integrated Risk Information System (“IRIS”), has also recently released for public comment an external draft of its toxicological review of formaldehyde finding that formaldehyde fulfills the criteria to be described as “carcinog enic to humans” by the inhalation route of exposure. The National Academy of Sciences (“NAS”) has been charged by the EPA to serve as the external peer review body for the draft assessment. We expect the NAS to apply a rigorous scientific “weight-of-evidence” review process to the EPA's draft risk assessment to ensure that any determinations ultimately made by the EPA are fact-based and reflect the best available science. A NAS report to the EPA is due in the first quarter of 2011. It is possible that as a result of further governmental reviews, substantial additional costs to meet any new regulatory requirements may result and could reduce demand for these chemicals and products that contain them which could have a material adverse effect on our operations and profitability. The aforementioned subject matter could become the basis of product liability litigation.

Plaintiffs' attorneys are also focusing on alleged harm caused by other products we have made or used, including silica-containing resin coated sands and discontinued products, some of which may have contained some asbestos fines. While we cannot predict the outcome of pending suits and claims, we believe that we maintain adequate reserves, in accordance with our policy, to address currently pending litigation and are adequately insured to cover currently pending and foreseeable future claims. However, an unfavorable outcome in these litigation matters may cause our profitability, business, financial condition and reputation to decline.

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 e valuation 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. BPA continues to be subject to scientific, regulatory and legislative review and negative publicity. We do not believe it is possible to predict the outcome of regulatory and legislative initiatives. In the event that BPA is further regulated or banned for use in certain products, substantial additional operating costs would be likely in order to meet more stringent regulation of this chemical and could reduce demand for the chemical and have a material adverse effect on our operations and profitability.

We manufacture resin-encapsulated sand. Because sand consists primarily of crystalline silica, potential exposure to silica particulate exis ts. 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 few years. We may incur substantial additional costs to comply with any new OSHA regulations.

In addition, we sell resin-encapsulated sand to natural gas drilling operators for use in extracting natural gas from wells that were drilled by a method called hydraulic or horizontal fracturing. “Fracking,” as it is also called, has been under public and legislative scrutiny recently for possibly contaminating groundwater and drinking water. Currently, studies are underway by the EPA with oversight provided by a congressional committee and legis lation is being considered in Congress, as well as in some states, to regulate fracking. New laws and regulations could affect the number of wells drilled by operators, decrease demand for our resin-coated sands, and cause a decline in our operations and financial performance. Such a decline in demand could also increase competition and decrease pricing of our products which could also have a negative impact on our profitability and financial performance.

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 da mage awards against us, which in turn could encourage additional lawsuits and could cause us to incur significant legal fees to defend such lawsuits, either of which could have a material adverse effect on our financial condition and profitability. 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 ad verse 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. Our business interruption insurance may not be sufficient to cover all of our losses from a disaster, in which case our unreimbursed losses could be substantial.

We may be require d to expend greater time and expense than other companies in dealing with our employees, some of whom are unionized, represented by works councils or subject to local laws that are less favorable to employers than the laws of the United States.

As of December 31, 2010, approximately 40% of our employees were unionized or represented by works councils that have collective bargaining agreements. In addition, some of our employees reside in countries in which employment laws provide greater bargaining or other rights to employees than the laws of the United States. These employment rights may require us to expend more time and money altering or amending employees' terms of employment or making staff reductions. For example, most of our employees in Europe are represented by works councils, which generally must approve changes in conditions of employ ment, including restructuring initiatives and changes in salaries and benefits. While we believe that we maintain good relationships with our employees and their representatives, a significant dispute could divert management's attention and otherwise hinder our ability to conduct our business or to achieve planned cost savings.

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 t he 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.

As a global business, our results of operations may be adversely affected by international business risks.

We conduct our business and incur costs in the local currency of most of the countries in which we operate. In 2010 , our sales outside the United States represented approximately 57% 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 foreign currency translation risks, we have currency transaction risk whenever one of our operating subsidiaries enters into either a purchase or sale transaction using a different currency from the currency in which it receives revenues. Any hedging transactions we enter into to mitigate the impact of specific exchange rate fluctuations 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 foreign 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 and Malaysia. 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 U.S. and foreign laws, including import/export control laws and 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.

Our future success will depend, in part, on our ability to protect our intellectual property rights. Our inability to protect and enforce these intellectual property rights could adversely affect our competitive position, performance and growth.

Protection of our proprietary processes, methods and compounds and other technology is important to our business. Our inability to protect our existing intellectual property rights may re sult 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 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 2011 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 co untries. 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 to protect our processes, apparatuses, technology, trade secrets and proprietary manufacturing expertise, methods and compounds could have an adverse effect on our business by jeopa rdizing critical intellectual property.

Our global 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, our pension expense and funding requirements would increase and, as a result, could have a material adverse affect on our business.

Our funded and unfunded employee benefit plans are under-funded on a U.S. Generally Accepted Accounting Principles ("GAAP") basis by $178. 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.

Our and MPM's majority shareholder's interests may conflict with or differ from our interests.

Apollo controls our ultimate parent company, Momentive Holdco, which indirectly owns 100% of our common equity. In addition, representatives of Apollo comprise a majority of our directors. As a result, Apollo can control our ability to enter into 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.

Our ultimate parent company, Momentive Holdco, is also the ultimate parent company of our affiliate, MPM. Therefore, in addition to controlling our activities through its control of Momentive Holdco, Apollo can also control the activities of MPM through this same ownership and control structure. There can be no assurance that Apollo (and our senior management team, many of whom hold the same position with, or also provide services to, MPM) will not decide to focus its attention and resources on matters relating to MPM or Momentive Holdco that otherwise could be directed to our business and operations. If Apollo determines to focus attention and resources on MPM or any new business lines of MPM instead of us, it could adversely affect our ability to expand our existing business or develop new business.

Additionally, Apollo is in the business of making investments in companies and may, from time to time, acquire and hold interests in businesses that compete, directly or indirectly with 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. Additionally, even if Apollo invests in competing businesses through Momentive Holdco, such investments may be made through MPM or a newly-formed subsidiary of Momentive Holdco. Any such investment may increase the potential for the conflicts of interest discussed in this risk factor.

So long as Apollo continues to indirectly own a significant amount of the equity of Momentive Holdco, even if such amount is less than 50%, they will continue to be able to substantially influence or effectively control our ability to enter into any corporate transactions.

Because our equity securities are not and will not be registered under the securities laws of the United States or in any other jurisdiction and are not listed on any U.S. securities exchange, we are not subject to certain of the corporate governance requireme nts of U.S. securities authorities or to any corporate governance requirements of any U.S. securities exchanges.

We may not realize all of the intended benefits of our shared services agreement with MPM.

Although the Company expects to achieve approximately $50 of savings in connection with the shared services agreement with MPM entered into in connection with the Momentive Combination, we may not realize all of the intended benefits. We cannot assure you that the shared services agreement with MPM will be viewed positively by vendors, customers or financing sources. Our ability to realize the intended benefits of the shared services agreement will depend, in part, on our abilit y to integrate shared services with our business. However, the coordination of shared services is a complex, costly and time consuming process, and there can be no assurance that we will be able to coordinate such services successfully. In the short-term, our ability to realize the intended savings also may be limited by existing contracts to which we are a party, the need for consents with respect to agreements with third parties and other logistical difficulties associated with integration. The shared services agreement expires October 2015 (subject to one-year renewals every year thereafter, absent contrary notice from either party). Moreover, the shared services agreement is also subject to termination by either us or MPM, without cause, on not less than thirty days prior written notice, with a one-year transition assistance period. If the shared services agreement is terminated, it could have a negative effect on our business operations, results of operations and financial condition, as we would need to replace the services that were being provided by MPM, and would lose the benefits we were generating under the agreement at the time.

The diversion of our key personnel's attention to other businesses could adversely affect our business and results of operations.

Certain members of our senior management team, including Mr. Morrison, our CEO and Mr. Carter, our CFO, and certain of our other employees, who provide substantial services to our businesses, also act in such capacities and provide services with respect to our sister company, MPM. Certain individuals employed by MPM also provide services to our business. The services of such individuals are provided by us to MPM, or b y MPM to us, pursuant to a shared services agreement that we recently entered into with MPM. Any or all of these individuals may be required to focus their time and energies on matters relating to MPM that otherwise could be directed to our business and operations. If the attention of our senior management team, and/or such other individuals providing substantial services to our business, is significantly diverted from their responsibilities to us, it could affect our ability to service our existing business and develop new business, which could have a material adverse effect on our business and results of operations. Mr. Morrison and Mr. Carter and certain other key personnel became members of the management team of MPM in early October 2010. We cannot assure you that the transition by members of our management team to their additional roles on the management team of MPM, the transition of other employees to their additional roles with MPM or us, or the implementation of the shared services arrangement with MPM, will not be disruptive to our business.

ITEM 1B - UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

Our headquarters are in Columbus, Ohio and we have European executive offices in Seattleweg, Netherlands. Our major manufacturing facilities are primarily located in North Ame rica and Europe. As of December 31, 2010, we operated 34 domestic production and manufacturing facilities in 19 states and 46 foreign production and manufacturing facilities primarily in Australia, Brazil, Canada, China, Colombia, the Czech Republic, Finland, France, Germany, Italy, Korea, Malaysia, Netherlands, New Zealand, Spain, Thailand, the United Kingdom and Uruguay.

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 do zens 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 and acrylic acid. This backward integration provides us with cost advantages 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:

Location	Nature of Ownership	Reporting Segment
Argo, IL*	Owned	Epoxy and Phenolic Resins
Barry, UK*	Owned	Epoxy and Phenolic Resins
Brady, TX	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*	< div style="text-align:left;font-size:8pt;"> Owned	Epoxy and Phenolic Resins
Pernis, N etherlands*	Owned	Epoxy and Phenolic Resins
Wesseling, Germany	Leased	Epoxy and Phenolic Resins
Onsan, South Korea	Owned	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 an d Forest Products
Hope, AR	Owned	Formaldehyde and Forest Products
Kitee, Finland	Owned	Formaldehyde and Forest Products
Leuna, Germany	Owned	Formaldehyde and Forest Products
Montenegro, Brazil	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
Forest Park, GA	Owned	Coatings
Ribecourt, France	Owned	Coatings
Sokolov, Czech Republic	Owned	Coatings
Columbus, OH†	Leased	Corporate and Other
Seattleweg, Netherlands†	Leased	Corporate and Other
Shanghai, China†	Leased	Corporate and Other

***** **We own all of the assets at this location. The land is leased.**
† **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 outstanding 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 Paranag ua, Brazil

On August 10, 2005, Governo Do Paraná 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 $11 million in connection with alleged environmental damages to the Port of Paranagua caused in November 2004 by an oil spill from a shipping vessel carrying methanol purchased by the Company. The investigations have been concluded with no findings against the Company that the methanol damaged the environment. In October 2009, the Court granted our request for an injunction precluding the imposition of any fines or penalties by the Paraná IAP. The Court lifted its injunction on November 2010; however, we subsequently appealed in order to preclude the IAP from levying any fines o r penalties. At December 31, 2010, the amount of the assessment, including tax, penalties, monetary correction and interest, is 22 Brazilian reais, or approximately $13.

EPA Hazardous Waste Notice of Violation

The US Environmental Protection Agency (USEPA) has issued a notice of violation alleging that we potentially failed to comply with certain state requirements for storage of hazardous waste at one of our U.S. manufacturing facilities. We have corrected the alleged violations set forth in the notice of violation and are discussing with the USEPA payment of an administrative penalty to resolve the matter.

Other Litigation

For a discussion of certain other legal contingencies, refer to the Commitments and Contingencies Note 12 in Item 8 of Part II of this Annual Report on Form 10-K.

ITEM 4 - RESERVED

PART II

(dollars in millions, except per share data, or otherwise as noted)

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 February 1, 2011, 82,556,847 common shares were held by our parent, MSC Holdings.

In January 2011, we declared a dividend of $805 thousand to be paid as and when needed to fund the compensation for the Board of Managers of Momentive Holdco. Other than dividends that we may declare from time to time to fund expenses as permitted under our senior secured credit facilities and the indentures that govern our notes, we do not currently intend to declare 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 sen ior 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 and our direct and indirect parent companies have in the past issued and may issue from time to time equity awards to our employees and directors that are denominated in or based upon the common units of our direct or ultimate parent. 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 15 in Item 8 and Item 11 of Part II and Part III, respectively, of this Annual Report on Form 10-K.

ITEM 6 - SELECTED FINANCIAL DATA

The following table presents our selected historical consolidated and combined financial data. The following information should be read in conjunction with, and is qualified by reference to, our "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated audited fi nancial statements, as well as the other financial information included elsewhere herein.

The consolidated statement of operations data for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 and the consolidated balance sheet data as of December 31, 2010, 2009, 2008, 2007 and 2006 have been derived from our audited consolidated financial statements.

	Year ended December 31,				
	2010	2009	2008	2007[(1)]	2006[(2)]
	(dollars in millions, except per share data)				
Statements of Operations:					
Net sales	$ 4,818	$ 3,751	$ 5,690	$ 5,420	$ 4,874
Cost of sales	4,074	3,260	5,091	4,663	4,184
Gross profit	744	491	599	757	690
Selling, general and administrative expense	344	320	360	364	363
Terminated merger and settlement (income) expense, net[(3)]	(171)	(62)	1,027	—	19
Integration and transaction costs	—	—	27	35	56
Asset impairments	—	49	15	21	12
Business realignment costs	22	41	32	17	(3)
Other operating expense (income), net[(3)]	5	10	9	7	(34)
Operating income (loss)	544	133	(871)	313	277
Interest expense, net	276	223	303	309	242
Loss (gain) on extinguishment of debt	30	(224)	—	—	—
Other non-operating (income) expense, net	(5)	—	6	15	120
Income (loss) from continuing operations before income tax and earnings from unconsolidated entities	243	134	(1,180)	(11)	(85)
Income tax expense (benefit)	35	(8)	(16)	46	13
Income (loss) from continuing operations before earnings from unconsolidated entities	208	142	(1,164)	(57)	(98)
Earnings from unconsolidated entities, net of taxes	8	2	2	4	3
Income (loss) from continuing operations	216	144	(1,162)	(53)	(95)
Net loss from discontinued operations, net of taxes[(5)]	(2)	(27)	(23)	(10)	(10)
Net income (loss)	214	117	(1,185)	(63)	(105)
Net income attributable to noncontrolling interest	—	(3)	(5)	(2)	(4)
Net income (loss) attributable to Momentive Specialty Chemicals Inc.	214	114	(1,190)	(65)	(109)
Accretion of redeemable preferred stock	—	—	—	—	33
Net income (loss) available to common shareholders	$ 214	$ 114	$ (1,190)	$ (65)	$ (142)
Dividends declared per common share	$ —	$ —	$ —	$ 0.01	$ 6.12
Cash Flows provided by (used in):					
Operating activities	$ 45	$ 355	$ (632)	$ 174	$ 21
Investing activities	(99)	< div style="text-align:right;font-size:8pt;">(132)	(134)	(335)	(277)
Financing activities	97	(222)	706	288	128
Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 186	$ 142	$ 127	$ 199	$ 64
Short-term investments	6	10	7	—	—
Working capital[(6)]	530	205	390	508	367
Total assets	3,137	2,973	3,180	4,006	3,508
Total long-term debt	3,588	3,424	3,743	3,632	3,324
Total net debt[(7)]	3,480	3,354	3,729	3,522	3,330
Total liabilities	5,156	5,022	5,359	5,380	4,909
Total deficit	(2,019)	< div style="text-align:right;font-size:8pt;">(2,049)	(2,179)	(1,374)	(1,401)

(1) Includes data for the adhesive and resins business of Orica Limited and the forest products resins and the formaldehyde business of Arkema Gmbh since February 1, 2007 and November 1, 2007, their respective dates of acquisition.

(2) Includes data for the decorative coatings and adhesives business unit of The Rhodia Group from January 31, 2006 its date of acquisition.

(3) Terminated merger and settlement (income) expense, net for the years ended December 31, 2010 and 2009 includes the non-cash push-down of insurance recoveries by the Company's owner related to the settlement payment made by the Company's owner that had been treated as an expense of the Company for the year ended December 31, 2008 associated with the terminated merger with Huntsman corporation, as well as reductions on certain of the Company's merger related service provider liabilities. Amount for the year ended December 31, 2008 also represents termination fees, settlement payments, accounting and legal costs paid by the Company as well as the write-off of previously deferred acquisition costs.

(4) Other operating income for the year ended December 31, 2006 includes net gains of $39 recognized on the divestiture of our branded consumer adhesives company based in Boituva, Brazil.

(5) Loss from discontinued operations reflects the results on our IAR business. Loss from discontinued operations for the year ended December 31, 2006 also reflects the losses on our Italian-based engineering thermoplastics business, Taro Plast, S.p.a.

(6) Working capital is defined as current assets less current liabilities. As of December 31, 2010, the assets and liabilities of the IAR business have been classified as current.

(7) 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

You should read the following discussion and analysis of our results of operations and financial condition for the years ended December 31, 2010, 2009 and 2008 with the audited consolidated financial statements and related notes included elsewhere herein. The following discussion and analysis contains forward-looking statements that reflect our plans, estimates and beliefs, and which involve numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Item&nb sp;1A, "Risk Factors." Actual results may differ materially from those contained in any forward-looking statements.

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," and especially those contained in the "2011 Outlook" section, 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 Momentive Specialty Chemicals Inc. (which may be referred to as "MSC," "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 expectations and assumptions regarding our business, the economy and other future conditions and are based on third party data sources as well as internal studies and market intelligence. Because forward-looking statements relate to the future, they are inherently uncertain and subject to changes in circumstances that are difficult to predict. Actual results could vary materially depending on risks and uncertainties that may affect our markets, services, prices and other factors as discussed in the Risk Factors section of this Annual Report on Form 10-K and our other fil ings with the SEC. We caution you against relying on any forward-looking statements as they are neither statements of historical fact nor guarantees of future performance.

Important factors that could cause actual results to differ materially from those contained in our forward-looking statements include regional or global economic, competitive and regulatory factors including, but not limited to, the recent global economic downturn, interruptions in the supply of or increased pricing of raw materials due to natural disasters, pricing actions by our competitors that could affect our operating margins, changes in governmental regulations involving our products, and the following:

- our inability to achieve expected cost savings,
- the outcome of litigation described in footnote 12 to our financial statements on Commitments and Contingencies,
- our failure to comply with financial covenants under our credit facilities or other debt,
- the other factors described in the Risk Factors section of this report and in our other SEC filings.

Any forward-looking statement made by us in this document speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time.

Overview and Outlook

We are a large participant in the specialty chemicals industry, and a leading producer of adhesive and structural resins and coatings. 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 significant 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 composites. 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. In addition, due to the nature of our products and the markets we ser ve, competitor capacity constraints and the availability of similar products in the market may impact our results. 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 7,800 customers in over 100 countries. Our global customers include large companies in their respective industries, such as 3M, Ashland Chemical, BASF, Bayer, DuPont, GE, Halliburton, Honeywell, Huntsman, Louisiana Pacific, Owens Corning, PPG Industries, Sumitomo, Valspar an d Weyerhaeuser.

We believe that we have opportunities for growth 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 have opportunities 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.**

•

- *Pursue Further Development of "Green Products"*. We will continue to develop products that are environmentally advanced and support our customers' overall sustainability initiatives as they increasingly require thermoset resins that meet changing environmental standards.

Reportable Segments

Effective January 1, 2010, we made certain changes to our internal reporting structure. Additionally, on January 1, 2010, upon the adoption of new accounting guidance related to the consolidation of variable interest entities, we deconsolidated HAI, our foundry applications joint venture between the Company and Delta-HA, Inc., from our Consolidated Financial Statements. These changes caused us to re-evaluate our reportable segments. Effective in the first quarter of 2010, the results of our oil field product applications and the equity earnings in our HAI joint venture are included within our Epoxy and Phenolic Resins segment. Previously the results of these businesses were reported in our Performance Products segment.

On January 31, 2011, we sold our Inks and Adhesive Resins ("IAR") business to Harima Chemicals, Inc. for a purchase price of approximately $120. The IAR business was previously reported within the Coatings and Inks segment and effective in the fourth quarter of 2010, is reported as a discontinued operation as of December 31, 2010, for the year ended December 31, 2010 and for all periods presented. The presentation of the IAR business as a discontinued operation also caused us to re-evaluate our reportable segments. After removing the IAR business from the Coatings and Inks segment results, the remaining coatings operating segment continues to qualify as a reportable segment, and is now reported as the Coatings segment.

Our business divisions are based on the products that we offer and the markets that we serve. Our reportable segments are based upon these business divisions. At December 31, 2010, we had three reportable segments: Epoxy and Phenolic Resins, Formaldehyde and Forest Products Resins and Coatings. The major products of our reportable segments are as follows:

- *Accelerate Growth and Improve Cost Structure through Relationship with MPM.* As a result of the Momentive Combination, we are working closely with MPM to benefit from shared services and our complementary technologies, product offerings and global footprint. We believe that our relationship with MPM will enable us to achieve results that otherwise would not be attainable. We also expect that the Momentive Combination, including the shared services agreement, will result in significant synergies for us, including shared services and logistics optimization, best-of-source contractual terms, procurement savings, regional site rationalization, and administrative and overhead savings.
- Epoxy and Phenolic Resins: epoxy specialty resins, oil field product applications, versatic acids and derivatives, basic epoxy resins and intermediates, molding compounds and phenolic specialty resins
- Formaldehyde and Forest Products Resins: forest products resins and formaldehyde applications
- Coatings: polyester resins, alkyd resins and acrylic resins

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

2010 Overview

- Net sales increased 28% in 2010, as compared to 2009 due primarily to higher demand as the global economy experienced modest recovery. The increase was driven by stabilizing and slightly increasing demand in the automotive, housing and durable goods markets, and also due to short-term capacity constraints in certain of our markets. Net sales also increased due to raw material-driven price increases to our customers compared to 2009.
- As a percent of sales, gross profit increased by 2% in 2010 as compared to 2009. Gross profit percentage increased due to the positive impact of pricing initiatives, favorable product mix, the positive impact of productivity project initiatives and the impact of increased product volumes that outpaced the increase in fixed processing costs.
- We experienced significantly higher profitability during 2010, as segment EBITDA increased $236, or 64% in 2010 as compared to 2009. This increase was primarily due to the modest recovery in volumes across most of our businesses, the favorable impact of pricing and cost savings initiatives, the favorable impact of product mix, and short-term capacity constraints in certain of our markets.
- In January 2010, we amended our senior secured credit facilities. Under the amendment and restatement, we extended the maturity of approximately $959 of our Senior Secured Credit Facility term loans from May 5, 2013 to May 5, 2015 and increased the interest rate with respect to such term loans from LIBOR plus 2.25% to LIBOR plus 3.75%. In addition to, and in connection with, this amendment agreement, we issued $1,000 aggregate principal amount of 8.875% senior secured notes due 2018. We used the net proceeds of $993 ($1,000 less original issue discount of $7) from the issuance to repay $800 of our U.S. term loans under the Senior Secured Credit Facility, pay certain related transaction costs and expenses and provide incremental li quidity ("January Refinancing Transaction").

- In November 2010 we refinanced $533 in outstanding principal amount of our 9.75% Second-Priority Senior Secured Notes due 2014 through the issuance of $574 aggregate principal amount of 9.00% second-priority senior secured notes due 2020. As a result, we effectively extended our total weighted average debt maturities by one year ("November Refinancing Transaction").

- We are expanding in markets in which we expect opportunities for growth:

Recently completed efforts in 2010 include:

- Completion of a formaldehyde and forest products resins manufacturing complex to serve the engineered wood products market in southern Brazil.
- A joint venture to construct a forest products resins manufacturing facility in Russia, which began operations in 2010.
- The relocation of a specialty epoxy facility to a larger facility in Esslingen, Germany to support the growing wind energy market.
- The completion of a new oil field manufacturing plant and the opening of additional transload facilities to provide resin-encapsulated proppants to fracturing service companies and operators in the oil & gas industry.
- Construction of a versatics manufacturing facility in Korea, which began limited operations at the end of 2010. The new facility wi ll produce Cardura® monomers, a versatic acid derivative, used as a key raw material in environmentally advanced paints and coatings. The facility is expected to be fully operational in the second quarter of 2011.

Future growth initiatives include:

- A joint venture to construct a versatics manufacturing facility in China, which is expected to be complete by the second half of 2011. The new facility will produce VeoVa® monomers, a versatic acid derivative, used as a key raw material in environmentally advanced paints and coatings. The facility is expected to be fully operational in the first half of 2012.

Momentive Combination and Shared Services Agreement

In October 2010, our parent, MSC Holdings LLC (formerly known as Hexion LLC) and MPM Holdings, the parent company of MPM, became subsidiaries of a newly formed holding company, Momentive Holdco. In connection with the closing of the Momentive Combination, we entered into a shared services agreement with MPM, pursuant to which we will provide to MPM, and MPM will provide to us, certain services, including, but not limited to, executive and senior management, administrative support, human resources, information technology support, accounting, finance, legal and procurement services. The shared services agreement establishes certain criteria upon which the costs of such services are allocated between us and MPM.

We expect that the Momentive Combination, including the shared services agreement, will result in significant synergies for us, including shared services and logistics optimization, best-of-source contractual terms, procurement savings, regional site rationalization, and administrative and overhead savings. As of December 31, 2010, we have approximately $50 of in-process cost savings and synergies that we expect to achieve over the next eighteen to twenty-four months in connection with the Shared Services Agreement.

2011 Outlook

Our business is impacted by general economic and industrial conditions, including housing starts, automotive builds, oil and natural gas drilling activity and gener al industrial production. Our business has both geographic and end market diversity which often reduces the impact of any one of these factors on our overall performance. During 2010, we experienced significant increases in volumes in virtually all businesses compared to 2009 due to the modest recovery in markets from its low point in early 2009. U.S. housing starts improved modestly in 2010 compared to the low point in early 2009; however, they remain at historically low levels. We anticipate U.S. housing starts to remain relatively flat in 2011 compared to 2010 as the U.S. housing market continues a gradual, multi-year recovery. We also anticipate moderate increases in U.S. durable goods and industrial production, wh ich will positively impact our formaldehyde business during 2011, and we expect moderate increases in U.S. automobile production, which will positively impact our Epoxy and Phenolic Resins segment. However, European production in both of these markets is expected to remain flat versus 2010 due to continued economic concerns in these regions.

Overall, these factors should continue to lead to modest volume increases throughout 2011 as compared to 2010 for all of our reportable segments. However, we do not expect growth in volumes to be consistent among our various product lines as certain industries appear to be recovering more rapidly than others.

After significant shortages in the market place within our monomers and base epoxies businesses, we expect worldwide capacity to return to normal levels in 2011. We anticipate continued strength in volumes in our epoxy specialty resins business, driven primarily by the growth in the wind and alternative energy markets. However, the growth in these businesses may be slowed temporarily by restrictions on government subsidies to these industries. In addition, we anticipate the continued growth of horizontal fracturing and drilling activities within the oil and gas industry to positively impact demand for products within our oil field business. Overall, these trends should have positive impacts on volumes in our Epoxy and Phenolic Resins segment. However, we expect competitive pricing pressures in these markets to continue for the foreseeable future.

We also anticipate continued growth in the Latin American market for our Formaldehyde and Forest Products Resins segment, and believe we are well positioned to serve customers through the additional production capacity at our new manufacturing facility in southern Brazil.

As evidenced by the increases in raw material costs throughout 2010, we expect long-term raw material cost volatility to continue because of price movements of key feedst ocks and increasing global demand. 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.If the global economic environment begins to weaken again 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 October 1, 2010. This could result in additional goodwill or other asset impairments.

Matters Impacting Comparability of Results

Our 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 we have a controlling financial interest. Intercompany accounts and transactions are eliminated in consolidation. However, the deconsolidation of HAI did not have a material impact on our Segment EBITDA as compared to the year ended December 31, 2009 and 2008, as equity earnings from HAI are included in our Segment EBITDA.

Raw materials com prise approximately 70% of our cost of sales. The three largest raw materials used in our production processes are phenol, methanol and urea. These materials represent 44% 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. In 2010 the average prices of phenol, methanol and urea increased by approximately 26%, 47% and 16%, respectively, as compared to 2009. In 2009 the average prices of phenol, methanol and urea decreased by approximately 20%, 53% and 46%, respectively, as compared to 2008. Passing through raw materia l price changes can result in significant variances in sales comparisons from year to year.

Results of Operations

CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in millions)

	2010	2009	2008
Net sales	$ 4,818	$ 3,751	5,690
Cost of sales	4,074	3,260	5,091
Gross profit	744	491	599
Gross profit as a percentage of net sales	*15 %*	*13 %*	*11 %*
Selling, general and administrative expense	344	320	360
Terminated merger and settlement (income) expense, net	(171)	(62)	1,027
Integration costs	—	—	27
Asset impairments	—	49	15
Business realignment costs	22	41	32
Other operating expense, net	5	10	9
Operating income (loss)	1534		(871)
Operating income (loss) as a percentage of net sales	*11 %*	*4 %*	*(15)%*
Interest expense, net	276	223	303
Loss (gain) on extinguishment of debt	30	(224)	—
Other non-operating (income) expense, net	(5)	—	6
Total non-operating expense (income)	301	(1)	309
Income (loss) before income tax and earnings from unconsolidated entities	1243		(1,180)
Income tax expense (benefit)	35	(8)	(16)
Income (loss) before earnings from unconsolidated entities	208	142	(1,164)
Earnings from unconsolidated entities, net of taxes	8	2	2
Income (loss) from continuing operations	216	144	(1,162)
Net loss from discontinued operations, net of taxes	(2)	(27)	(23)
Net income (loss)	214	117	(1,185)
Net income attributable to noncontrolling interest	—	(3)	(5)
Net income (loss) attributable to Momentive Specialty Chemicals Inc.	$ 214	$ 114	(1,190)

Net Sales

In 2010, net sales increased by $1,067, or 28%, compared with 2009. Volume increases across substantially all of our product lines positively impacted sales by $588. These increases were primarily a result of the modest increases in U.S. housing starts and automotive builds, increased demand in the wind energy and alternative energy markets and increases in oil and natura l gas drilling activity. The pass through of raw material driven price increases primarily in our North American and European formaldehyde and forest products resins, phenolic specialty resins, and dispersions product lines, as well as short-term capacity shortages in the market for base epoxies and monomers, positively impacted sales by $490. In addition, foreign currency translation negatively impacted sales by $11 primarily as a result of the strengthening of the U.S. dollar against the euro compared to 2009.

In 2009, net sales decreased by $1,939, or 34%, compared with 2008. Volume declines across all of our product lines negatively impacted sales by $995. These declines were primarily a result of the co ntinued weakness in the housing, construction and automotive markets as a result of the global economic downturn. The pass through of raw material driven price decreases primarily in our forest products resins and formaldehyde, phenolic specialty resins and base epoxies and intermediates product lines, negatively impacted sales by $792. In addition, foreign currency translation negatively impacted sales by $152 primarily as a result of the strengthening of the U.S. dollar against the euro compared to 2009.

Gross Profit

In 2010, gross profit increased by $253, compared with 2009 primarily as a result of the increase in sales. As a percentage of sales, gross profit increased 2% as a result of the positive impact of pricing initiatives, favorable product mix, the positive impact of productivity project initiatives and the impact of increased product volumes that outpaced the increase in fixed processing costs.

In 2009, gross profit decreased by $108, compared with 2008 primarily as a result of the decrease in sales, offset by lower raw material and processing costs, as discussed above. The impact of lower sales was partially offset by favorable impacts of productivity savings programs on manufacturing and processing costs of approximately $95. This resulted in an increase of 2% in gross profit as a percentage of sales as the positive impact of lower processing costs and productivity projects more than offset the impact of lower volumes on fixed manufacturing costs during 2009.

Operating Income (Loss)

In 2010, operating income increased by $411, compared with 2009. The primary drivers of the increase were the increase in gross profit, as discussed above, and an increase in Terminated merger and settlement income, net.

We recognized Terminated merger and settlement income, net of $171 in 2010, which was primarily related to the non-cash pushdown of $163 of insurance recoveries by our owner related to the $200 settlement payment made by our owner that was previously treated as a pushdown of owner expense in the fourth quarter of 2008. Furthermore, Business realignment costs decreased $19 due to the reduction in productivity program costs in 2010, but was offset by an increase in Selling, general and administrative expense of $24 due primarily to higher compensation costs. As a percentage of sales, Selling, general and administrative expense decreased due to the positive impacts of productivity initiatives. In addition, 2009 was impacted by Asset impairments of $49, which did not occur in 2010.

In 2009, operating income increased by $1,004, compared with 2008. The primary drivers of the increase was the reduction in Terminated merger and settlement expense, net and the positive impacts of productivity program and cost reduction initiatives. In 2008, Terminated merger and settlement expense, net of $1,027 consisted of the write-off of previously deferred acquisi tion costs, legal fees and $750 in litigation settlement costs related to the terminated Huntsman merger, of which $200 represents the non-cash push-down of settlement costs paid by Apollo. In 2009, we recognized Terminated merger and settlement income, net of $62, which was comprised of reductions on certain of our merger related service provider liabilities and the $37 pushdown of insurance recoveries by Apollo, offset by $18 in legal contingency accruals. Selling, general and administrative expenses decreased due primarily to the positive impacts of productivity savings programs and other cost savings initiatives. Further, Integration costs decreased by $27. In 2008, we incurred costs related to the Hexion Formation and the implementation of a company-wide management information and accounting system.

These favorable impacts were partially offset by increases in Asset impairments and Business realignment costs incurred to implement productivity and cost savings initiatives. In 2009, we recorded impairments of $44 in our Epoxy and Phenolic Resins and $2 in our Coatings segments as a result of our decision to indefinitely idle certain production lines. In addition, we recorded miscellaneous impairments of $3 related to the closure of R&D facilities in our Formaldehyde and Forest Products Resins and our Epoxy and Phenolic Resins segments. Business realignment costs increased by $9 due to increased costs related to headcount reduction and plant rationalization programs associated with our productivity initiatives in 2009. Furthermore, Operating income was also impacted by the decline in Gross profit discussed above.

Non-Operating Expense (Income)

In 2010, total non-operating income decreased by $302 due to the gain of $224 recognized on the extinguishment of debt securities in 2009 that did not recur in 2010. In addition, a loss on extinguishment of debt of $30 was recognized in 2010 as a result of the November Refinancing. Other non-operating income, net increased by $5, due to higher foreign exchange transaction gains in 2010, compared to 2009. Interest expense, net increased by $53 as a result of the January Refinancing Transaction and higher interest rates in 2010.

In 2009, total non-operating expense decreased by $310 t o income of $1, compared with 2008. We recognized a gain of $224 on the extinguishment of $298 in face value of the Company's outstanding debt securities in 2009. Other non-operating expense, net decreased by $6, due to higher foreign exchange transaction losses in 2008, compared to 2009. Interest expense, net decreased by $80 as a result of lower interest rates and due to lower debt levels as a result of debt repurchases in 2009.

Income Tax Expense (Benefit)

In 2010, income tax benefit decreased by $43 to an expense of $35, compared with 2009. This change is primarily due to an increase in pre-tax income in certain foreign jurisdictions. The tax expense on the profits in the U.S. has been offset by a release of valuation allowance on our deferred tax assets expected to be utilized.

In 2009, income tax benefit decreased by $8, compared with 2008. This change is primarily due to income being earned in the US from extinguishment of debt and continued earnings from foreign operations. This expense has been offset by a release of valuation allowance on our deferred tax assets in the US and foreign losses for which we are receiving a benefit.

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, certain non-recurring expenses, and discontinued operations. 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 resul ts 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,		
	2010	**2009**	**2008**
Net Sales to Unaffiliated Customers[(1)(2)]:			
Epoxy and Phenolic Resins	$ 2,530	$ 1,944	2,795
Formaldehyde and Forest Products Resins	1,607	1,198	2,049
Coatings	681	609	846
	4,818	3,751	5,690
Segment EBITDA[(2)]:			
Epoxy and Phenolic Resins	$ 431 $	$ 267	278
Formaldehyde and Forest Products Resins	177	111	198
Coatings	63	46	23
Corporate and Other	) (62	) (51	) (50

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

(2) 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.

2010 vs. 2009 Segment Results

The table below provides additional detail of the percentage change in sales by segment from 2009 to 2010.

	Volume	**Price/Mix**	**Currency** < div style="font-size:9pt;text-align:center;font-size:9pt;">**Translation**	**Total**
Epoxy and Phenolic Resins	% 18	% 14	)% (2	% 30
Formaldehyde and Forest Product Resins	% 18	% 4 12	%	% 34
Coatings	% 3	% 12	)% (3	% 12

Epoxy and Phenolic Resins

Net sales in 2010 increased by $586, or 30%, when compared to 2009. Volume increases positively impacted sales by $352 as the global economy stabilized. Volumes increased in virtually all businesses, but most significantly in our oil field, versatics, epoxy specialty and base epoxy businesses. The volume increases in our base epoxy business were attributable to the stabilization of the automotive and durable goods markets relative to the low point of the economic downturn, which began in late 2008 and continued into 2009, and were also impacted by short-term capacity constraints. The pass through of higher raw material costs in most businesses, the favorable product mix in our phenolics business and short-term capac ity shortages in the market for base epoxies resulted in positive pricing impacts of $278. However, sales were negatively impacted by competitive pricing pressures in our oil field and epoxy specialty businesses. Foreign currency translation had a negative impact of $44, primarily due to the strengthening of the U.S. dollar against the euro in 2010 compared to 2009.

Segment EBITDA in 2010 increased by $164 to $431 com pared to 2009. Segment EBITDA increased primarily due to the increased growth in demand discussed above due to a modest economic recovery and due to short term capacity constraints in certain markets. The remaining overall increase was primarily attributable to the accelerated recognition of unabsorbed processing costs that occurred in 2009 compared to 2010 and the favorable impact of productivity driven cost savings. This increase was partially offset by additional maintenance and turnaround costs in 2010 compared to 2009.

Formaldehyde and Forest Products Resins

Net sales in 2010 increased by $409, or 34% when compared to 2009. Higher volumes positively impacted sales by $218, with increases across all businesses and regions. The strongest increase in volumes were in our Latin American markets, where we served the growing southern Brazil markets through the opening of our Montenegro plant in 2010, and our North American formaldehyde business, due to modest market recoveries in the demand for durable goods. In addition, we experienced strong volume increases in our North American forest products resins business, primarily driven by the restocking of inventory by our customers, compared to the de-stocking of inventory that occurred in 2009, coupled with the modest increase in U.S. housing starts and household remodeling compared to the same period of 2009. Higher raw material prices passed through to customers in most regions, combined with positive product mix within our North American formaldehyde business, led to a sales increase of $141 due to pricing. Although raw material pri ces generally increased during 2010 and we passed through to customers as allowed under our contracts, the significant strengthening of the Brazilian real, Australian dollar and New Zealand dollar against the US dollar

resulted in lower raw material prices in these local currencies, which were passed through to customers in these regions. In addition, we experienced favorable currency translation of $50 due to the weakening of the U.S. dollar against the Brazilian real, Australian dollar and Canadian dollar in 2010 compared to 2009.

Segment EBITDA in 2010 increased by $66 to $177 compared to 2009. The increase was primarily attributable to the impact of the volume increases discussed above and recent product development initiatives, as well as the favorable impact of productivity driven cost savings.

Coatings

Net sales in 2010 increased by $72, or 12%, when compared to 2009. Volume increases positively impacted sales by $18, with increase s across virtually all businesses. The most significant increases were in our U.S. based dispersions and U.S. coatings businesses, which were negatively impacted by the global economic downturn during 2009. The pass through of higher raw material costs and favorable pricing resulted in pricing increases of $71, reflecting short-term capacity constraints in the market for our monomers business. Unfavorable currency translation of $17 contributed to lower sales, as the U.S. dollar strengthened against the euro in 2010 compared to 2009.

Segment EBITDA in 2010 increased by $17 to $63 compared to 2009. The increase was primarily attributable to the global shortage of monomers and volume increases as discussed above.

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, unallocated foreign exchange gains and losses and legacy company costs not allocated to continuing segments. Corporate and Other charges increased by $11 to $62 compared to 2009, primarily due to increased compensation costs. These increases were partially offset by higher unallocated foreign currency transaction gains and the impact of productivity-driven cost savings

2009 v s. 2008 Segment Results

The table below provides additional detail of the percentage change in sales by segment from 2008 to 2009.

< table cellpadding="0" cellspacing="0" style="font-family:Times New Roman;font-size:10pt;margin-left:auto;margin-right:auto;width:97.0703125%;border-collapse:collapse;">

	Volume	Price/Mix	Currency Translation	Total
Epoxy and Phenolic Resins	(18)%	(9)%	(3)%	(30)%
Formaldehyde and Forest Product Resins	(16)%	(23)%	(3)%	(42)%
Coatings	(19)%	(6)%	(3)%	(28)%

Epoxy and Phenolic Resins

Net sales in 2009 decreased by $851, or 30%, compared to 2008. Volume declines negatively impacted sales by $504 as the global economic downturn had an adverse impact on our volumes. Volumes declined across all businesses, with our precursors business showing the largest decline over the prior year and our specialty epoxy and versatics businesses experiencing relatively lesser amounts of volume decline during 2009 compared to 2008. These declines were primarily attributable to the decrease in the automotive, construction, housing, foundry, oilfield and durable goods markets, as well as increased worldwide capacity in base epoxies. The lower volume decline in versatics is due to the absence of the shortage of certain raw materials that occurred in 2008. The pass through of lower raw material costs and competitive pricing pressures, primarily in our major resins and specialty phenolics businesses, resulted in pricing decreases of $277. Foreign currency translation had a negative impact of $70 as the U.S. dollar strengthened against the euro and the Canadian dollar in 2009 compared to 2008.

Segment EBITDA in 2009 decreased by $11 to $267 compared to 2008. The decrease was primarily due to volume and pricing declines, as discussed above. These declines were largely offset by decreases in raw material prices, freight costs and the impact of productivity driven cost savings impacting processing costs. The base epoxies and specialty phenolics businesses experienced the largest declines during the year with these declines being offset by increases in the specialty epoxy and versatics businesses.

Formaldehyde and Forest Products Resins

Net sales in 2009 decreased by $851, or 42%, compared to 2008. Lower volumes negatively impacted sales by $333. The volume decrease occurred in most of our businesses, including our European and North American forest products resins business, due to the continued decline in the worldwide housing and construction markets, as well as in our North American formaldehyde business due to decreased demand in the durable goods marke t resulting from the adverse impacts of the global economic downturn. We realized modest increases in volumes in the Latin American market due to lesser impacts of the worldwide economic downturn in this region. Lower prices resulted in a sales decrease of $464 as we passed through raw material price decreases to our customers primarily in North America and Europe. Unfavorable currency translation of $54 contributed to lower sales as the U.S. dollar strengthened against the euro in 2009 compared to 2008.

Segment EBITDA in 2009 decreased by $87 to $111 compared to 2008. The decrease was primarily attributable to the loss of volume and pricing impacts, as discussed above, partially offset by the impact of productivity driven cost savings. In addition, the prior year was impacted by favorable raw material purchase contracts in certain of our international forest products and resins businesses of $32.

Coatings

Net sales in 2009 decreased by $237, or 28%, compared to 2008. Volume declines negatively impacted sales by $158. Worldwide coatings volume declines were primarily attributable to the downturn in the international housing, construction and automotive markets due to th e impact of the global economic downturn. These declines were experienced throughout the business with our global dispersions business experiencing relatively lower volume declines. The pass through of lower raw material costs and competitive pricing pressures resulted in pricing decreases of $51. Unfavorable currency translation of $28 contributed to lower sales, as the U.S. dollar strengthened against the euro in 2009 compared to 2008.

Segment EBITDA in 2009 increased by $23 to $46 compared to 2008, with the dispersions business providing half of the increase over the prior year. The overall increase was the result of the impact of productivity driven cost savings and lower raw material costs, which was partially offset by volume declines and competitive market pressures, as discussed above.

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 f unctions, unallocated foreign exchange gains and losses and legacy company costs not allocated to continuing segments. Corporate and Other charges remained relatively flat as compared to 2008. The impact of foreign currency transaction losses and additional compensation costs were offset by the positive impact of productivity driven cost savings.

Reconciliation of Segment EBITDA to Net Income (Loss)

	Year Ended December 31,		
	2010	2009	2008
Segment EBITDA:			
Epoxy and Phenolic Resins	$ 431	$ 267	$ 278
Formaldehyde and Forest Products Resins	177	111	198
Coatings	63	46	23
Corporate and Other	(62)	(51)	(50)
			< /td>
Reconciliation:			
Items not included in Segment EBITDA			
Terminated merger and settlement income (expense), net	171	62	(1,027)
Integration costs	—	—	(27)
Non-cash charges	(5)	4	(4)
Unusual items:			
(Loss) gain on divestiture of assets	(2)	(6)	5
Net loss from discontinued operations	(2)	(27)	(23)
Business realignments	(22)	(41)	(32)
Asset impairments	—	(49)	(15)
Other	(28)	(41)	(38)
Total unusual items	(54)	(164)	(103)
Total adjustments	112	(98)	(1,161)
Interest expense, net	(276)	(223)	(303)
(Loss) gain on extinguishment of debt	(30)	224	—
Income tax (expense) benefit	(35)	8	16
Depreciation and amortization	(166)	(170)	(191)
Net income (loss) attributable to Momentive Specialty Chemicals Inc.	214	114	(1,190)
Net income attributable to noncontrolling interest	—	3	5
Net income (loss)	$ 214	$ 117	$ (1,185)

Items not included in Segment EBITDA

In 2010, Terminated merger and settlement income, net primarily includes the pushdown of Apollo's 2010 recoveries of $163 in insurance proceeds in 2010 related to the $200 settlement payment made by Apollo that was treated as a pushdown of shareholder expense in 2008 and the $8 in insurance set tlements related to the New York Shareholder Action. In 2009, Terminated merger and settlement expense, net includes the pushdown of Apollo's recovery of $37 in insurance proceeds in 2009 related to the $200 settlement payment made by Apollo, as well as discounts on certain of the Company's merger related service provider liabilities. This income was partially offset by legal and consulting costs and legal contingency accruals related to the New York Shareholder Action. In 2008, Terminated merger and settlement expense, net 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.

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

Non-cash charges primarily represent stock-based compensation expense, accelerated depreciation on closing facilities and unrealized derivative and foreign exchange gains and losses. Loss from discontinued operations represents the results of the IAR business.

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 2010, these items consisted of business re alignment costs primarily related to expenses from the Company's productivity program, realized foreign exchange gains and losses and retention program costs. For 2009, these items consisted of business realignment costs primarily related to expense from the Company's productivity program, asset impairments, retention program costs and realized foreign exchange gains and losses. For 2008, these items consisted of asset impairments, a gain on the sale of a portion of the Company's ownership in HAI and a gain on the sale of certain assets of a non-core product line.

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, availability under our senior secured credit facilities and our financing commitment from Apollo. Our primary liquidity requirements are interest, working capital and capital expenditures.

At December 31, 2010, we had $3,570 of unaffiliated debt, including $82 of short-term debt and capital lease maturities (of which $26 is U.S. short-term debt and capital lease maturities). In addition, at December 31, 2010, we had $515 in liquidity including $180 of unrestricted cash and cash equivalents, $220 of borrowings available under our senior secured revolving credit facilities and $115 of borrowings available under credit facilities at certain international subsidiaries with various expiration dates in 2011 and 2012, and the financing commitment from Apollo.

Our net working capital (defined as accounts receivable and inventories less accounts and drafts payable) at December 31, 2010 was $513, an increase of $207 from December 31, 2009. The increase was a result of higher volumes and production and increasing raw material costs. To minimize the impact of net working capital on cash flows, we continue to negotiate and contractually extend payment terms whenever possib le. We have also focused on receivable collections to offset a portion of the payment term pressure by offering incentives to customers to encourage early payment, or accelerate receipts through the sale of receivables. In the year ended December 31, 2010, we entered into accounts receivable sale agreements to sell a portion of our trade accounts receivable. As of December 31, 2010, through these agreements, we effectively accelerated the timing of cash receipts by $60. We may continue to accelerate cash receipts under these agreements, as appropriate, in order to offset these pressures. In 2011, we expect a slight increase in net working capital as a result of modest volume increases and higher raw material costs.

We regularly borrow from our revolving credit facility under our senior secured credit facilities to support our short-term liquidity requirements, particularly when net working capital requirements increase in response to seasonality of our volumes in the summer months. At December 31, 2010 the borrowings outstanding were $0. On a quarterly basis throughout 2010, we used a portion of the proceeds from our accounts receivable sales arrangements with affiliates of Apollo (which are further described below) to repay the outstanding balance.

Apo llo Financing Commitment

In 2008, certain affiliates of Apollo agreed to make a $200 investment in the Company. Certain affiliates of Apollo entered into a commitment letter with the Company and MSC Holdings pursuant to which they committed to purchase $200 in preferred units and warrants of MSC Holdings by December 31, 2011. Prior to the purchase of all the preferred shares and warrants, certain affiliates of Apollo had committed to provide liquidity facilities to MSC Holdings or the Company on an interim basis.

In connection therewith, in 2009, certain affiliates of Apollo extended a $100 term loan to the Company and an affiliate of the Company (the "Apollo Term Loan"). The T erm Loan will mature on December 31, 2011 with interest at adjusted LIBOR plus 2.25% per annum. In addition, periodically in 2010, the Company entered into accounts receivable purchase and sale agreements to sell trade accounts receivable to affiliates of Apollo on terms which management believes were more favorable to the Company than could have been obtained from an independent third party. See Note 8 to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K for additional information on our accounts receivable factoring.

On October 1, 2010, at the time of the closing of the Momentive Combination, the commitment by Apollo to purchase $200 in preferred units of MSC Holdings and warrants to purchase common units of MSC Holdings was amended to become a commitment to purchase preferred units and warrants to purchase common units of Momentive Holdco. Momentive Holdco has agreed to contribute any proceeds from the issuance of preferred or common units under this agreement as a capital contribution to MSC Holdings, and MSC Holdings has agreed to contribute such amounts as a capital contribution to the Company. Therefore, by the end of 2011, we expect the outstanding amounts under the Apollo Term Loan and any amounts outstanding under the accounts receivable factoring arrangements to be contributed to the Company prior to the end of 2011. This will provide the Company permanent access to the $200 in liquidity and will benefit the Company's cash position in to 2012.

Recent Refinancing Transactions

In late December 2009 and early January 2010, we extended $200 of our revolving line of credit facility commitments from lenders, which will take effect upon the May 31, 2011 maturity of the existing revolving facility commitments. The new commitments will extend the availability of the revolver to February 2013. The new revolving loans, which cannot be drawn until the existing revolving cr edit facility matures, will bear interest at a rate of LIBOR plus 4.50%. The extension also requires a 2.00% annual ticking fee to be paid quarterly on committed amounts until the extended revolver facility is effective.

In 2010, as part of the January Refinancing Transaction, we amended our senior secured credit facilities. Under the amendment and restatement, we extended the maturity of approximately $959 of our Senior Secured Credit Facility term loans from May 5, 2013 to May 5, 2015 and increased the interest rate with respect to such term loans from LIBOR plus 2.25% to LIBOR plus 3.75%. In addition to, and in connection with, this amendment agreement, we issued $1,000 aggregate principal amount of 8.875% senior secured notes due 2018. We used the net proceeds of $993 ($1,000 less original issue discount of $7) from the issuance to repay $800 of our U.S. term loans under the Senior Secured Credit Facility, pay certain related transaction costs and expenses and provide incremental liquidity of $162.

In 2010, as part of the November Refinancing Transaction, we refinanced $533 in outstanding principal amount of our 9.75% Second-Priority Senior Secured Notes due 2014 through the issuance of $574 aggregate principal amount of 9.00% second-priority senior secured notes due 2020. The net cash proceeds of the issuance were used to pay redemption premiums to redeem the existing Second-Priority Notes and pay transaction fees and expenses. As a result, we effectively extended our total weighted average debt maturities by one year.

Sale of the IAR Business

We intend to use the majority of the $120 proceeds from the sale of the IAR business received to further strengthen our liquidity in 2011. We plan to use the proceeds to fund any increases in net working capital and capital spending plan for 2011. Certain of our covenants that govern our senior secured credit facilities and indentures allow us to use the proceeds for capital projects rather than paying down debt. However, subject to an excess cash flow covenant in our senior secured credit facilities,we may be required to pay down debt in 2012.

We feel that we are favorably positioned to maintain adequate liquidity throughout 2011 and the foreseeable future to fund our ongo ing operations, cash debt service obligations and any additional investment in net working capital. Further, we expect that the extension of a portion of our senior credit facility, second priority senior secured notes and extension of the revolver will allow greater flexibility and liquidity for the Company in the longer term.

We continue to review possible sales of certain non-core assets, which would further increase our liquidity. Opportunities for these sales could depend to some degree on improvement in the credit markets. If the global economic environment begins to weaken again or remains slow for an extended period of time our liquidity, future results of operations and flexibility to execute liquidity enhancing actions could be negatively impacted.

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

	2010			2009	2008			
Sources (uses) of cash:								
Operating activities	$		$ 45		$355		)	(632
Investing activities		)	(199	)			)	(134
Financing activities			97	)	(222			706
Effect of exchange rates on cash flow			2		13		)	(18
Net change in cash and cash equivalents	$		$ 45		14	< div style="text-align:left;font-size:9pt;">$	)	(78

Operating Activities

In 2010, operations provided $45 of cash. Net income of $214 included $39 of net non-cash and non-operating income items, of which $163 was for the non-cash pushdown of the recovery of 2008 owner expense, offset by $172 for depreciation and amortization and $30 for the loss on extinguishment of debt. 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 $208 due primarily to increased accounts receivable and inventory, which resulted from the higher sales volumes and increased pricing.

In 2009, operations provided $355 of cash. Net income of $117 included $38 of net non-cash and non-operating income items, of which $224 was for the gain on extinguishment of debt and $37 was for the non-cash pushdown of the recovery of 2008 shareholder expense, offset by $178 for depreciation and amortization and $57 for impairments and accelerated depreciation of property and equipment. Net working capital and changes in other assets and liabilities and income taxes payable generated $276 due to decreased accounts receivable and inventories, which resulted from lower volumes and production, efforts to decrease inventory quantities, decreasing raw material costs and the sale of trade accounts receivable.

In 2008, operations used $632. The net loss of $1,185 included $557 of non-cash and non-operating items, of which $203 was for depreciation and amortization, $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. Net working capital and changes in other assets and liab ilities 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.

Investing Activities

In 2010, investing activities used $99. We spent $120 for capital expenditures (including capitalized interest). Of the $120 in capital expenditures, approximately $19 relates to our productivity savings initiatives while the remaining amount relates primarily to plant expansions and improvements. We generated cash of $4 from the sale of marketable securities and generated $14 from the sale of assets. In addition, we had a decrease in cash of $4 related to the deconsolidation of HAI as a result of the adoption of ASU 2009-17.

In 2009, investing activities used $132. We spent $136 for capit al expenditures (including capitalized interest). Of the $136 in capital expenditures, approximately $26 relates to our productivity savings initiatives while the remaining amount relates to maintenance and environmental related capital expenditures and plant expansions and improvements, including our new formaldehyde and forest products plant in Brazil.

In 2008, investing activities used $134. We spent $134 for capital expenditures, primarily for maintenance and environmental related capital expenditures, 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 o f short-term investments and $6 to fund a restricted cash requirement primarily for collateral for a subsidiary's debt.

Financing Activities

In 2010, financing activities provided $97. Net long-term debt borrowings of $179 primarily consisted of the $993 in proceeds offset by the pay-down of $800 of our U.S. term loans under the Senior Secured Credit Facility as part of the January Refinancing Transactions and pay-down of our revolving line of credit. $72 was used to pay for financing fees related to the January and November Refi nancing Transactions and the extension of the revolving line of credit facility.

In 2009, financing activities used $222. Net long-term debt repayments primarily consisted of the $144 pay-down on our senior revolving credit facility and $72 to purchase back debt on the open market. Net short-term debt repayments were $10 and affiliated debt borrowings were $104. We used $24 to purchase $180 in face value of outstanding debt of our parent. We paid $10 to fund dividends that were declared on common stock in prior years. The deconsolidation of a variable interest entity that purchased a portion of our trade accounts receivable in 2008 resulted in a financing outflow of $24.

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 receiva ble resulted in an inflow of $24.

Outstanding Debt

Following is a summary of our cash and cash equivalents and outstanding debt at December 31, 2010 and 2009:

	2010	2009
Cash and cash equivalents	$ 186	$ 142
Short-term investments	$ 6	$ 10
Non-affiliated debt:		
Senior Secured Credit Facilities:		
Revolving facility due 2011	$ —	$ 36
Floating rate term loans due 2013	463	2,234
Floating rate term loans due 2015	942	—
Senior Secured Notes:		
8.875% senior secured notes due 2018 (net of original issue discount of $6)	994	—
Floating rate second-priority senior secured notes due 2014	120	120
9.75% Second-priority senior secured notes due 2014	—	533
9.00% Second-priority senior secured notes due 2020	574	—
Debentures:		
9.2% debentures due 2021	74	74
7.875% debentures due 2023	189	189
8.375% sinking fund debentures due 2016	62	62
Other Bo rrowings:		
Australian Multi-Currency Term/Working Capital Facility due 2011	48	54
Brazilian bank loans	70	65
Capital Leases	10	11
Other	< div style="text-align:left;"> 24	24
Total non-affiliated debt	3,570	3,402
Affiliated debt:		
Affiliated borrowings due on demand	2	4
Affiliated term loan due 2011	100	100
Total affiliated debt	102	104
Total debt	$ 3,672	$ 3,506

Financial Instruments

Our vario us 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. As a result of the interest rate swaps, we pay a weighted average fixed rate equal to approximately 7.1% per year and receive a variable rate based on the terms of the underlying debt. See Item 7A – Quantitative and Qualitative Disclosures About Market Risk and Note 9 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 and deemed to be Level 2 inputs.

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, 2010, 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, 2010, to the future cash flows of the financial instruments. This did not result in a material reduction in 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 $7 change in fair value.

Covenant Compliance

The instruments that govern our indebtedness contain, among oth er provisions, restrictive covenants and incurrence tests 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, most covenant defaults, events of bankruptcy and a change of control. Certain covenants contained in the credit agreement that governs our senior secured credit facilities require us to have a senior secured debt to Adjusted EBITDA ratio less than 4.25:1. The indentures that govern certain of our notes contain an Adjusted EBITDA to Fixed Charges ratio incurrence test which restricts our ability to take certain actions such as incurring additional debt or making acquisitions if we are unable to meet this ratio (measured on a l ast twelve months, or LTM, basis) of at least 2.0:1.

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 non-recurring items and to reflect other permitted adjustments (including the expected future impact of announced acquisitions and in-process cost saving initiatives), in each case as determined under the governing debt agreement. As we are highly leveraged, we believe that including the supplemental adjustments that are made to calculate Adjusted EBITDA in the indentures governing certain of our notes provides additional information to investors to assess our future ability to incur additional debt or make future acquisitions. Adjusted EBITDA and Fixed Charges are not defined terms under GAAP. Adjusted EBI TDA 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.

As of December 31, 2010, we were in compliance with all financial covenants that govern our senior secured credit facilities, including our senior secured debt to Adjusted EBITDA ratio.

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 MSC Holdings, our parent company. Momentive Holdco has agreed to contribute any proceeds from the issuance of preferred or common units under the agreement with Apollo discussed above as a capital contribution to MSC Holdings, and MSC Hold ings has agreed to contribute such amounts as a capital contribution to the Company.

The cure amount cannot exceed 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. Due to the completion of the January Refinancing Transactions which resulted in a significant reduction in the amount of senior secured debt outstanding, the Company believes that a default under its senior secured bank leverage ratio covenant in our Senior Secured Credit Facility is not reasonably likely to occur.

Based on our projections of 2011 operating results, we expect to be in compliance with all of the financial covenants and tests that are contained in the indentures that govern our notes and our senior secured credit facilities throughout 2011.

Reconciliation of Last Twelve Month Net Income to Adjusted EBITDA

The following table reconciles net income to EBITDA and Adjusted EBITDA, as calculated under certain of the Company's indentures, for the period presented:

		Year Ended December 31, 2010
Net income	$	214
Income tax expense		35
Loss on extinguishment of debt		30
Interest expense, net		276
Depreciation and amortization expense		166
EBITDA		721
Adjustments to EBITDA:		
Terminated merger and settlement income, net[1]		) (171
Non-cash items[2]	5	
Unusual items:		
Loss on divestitures of assets < /td>		2
Net loss from discontinued operations[3]		2
Business realignments[4]		22
Other[5]		43
Total unusual items		69
Productivity program savings[6]		24
Savings from shared services agreement[7]		50
Adjusted EBITDA[8]	$	698
Fixed Charges[9]	$	246
Ratio of Adjusted EBITDA to Fixed Charges[10]		2.84

(1) Represents insurance recoveries by our owner in 2010 related to the $200 termination settlement payment that was pushed down and treated as an expense of the Company in 2008. Also represents recognition of insurance settlements related to litigation associated with the terminated Huntsman merger.

(2) Represents stock-based compensation and u nrealized foreign exchange and derivative activity.

(3) Represents the results of the IAR business.

(4) Represents plant rationalization and headcount reduction expenses related to productivity programs and other costs associated with business realignments.

(5) Primarily includes pension expense related to formerly owned businesses, business optimization expenses, management fees, retention program costs, realized foreign currency activity and debt issuance costs related to the January Refinancing Transactions.

(6) Represents pro forma impact of in-process productivity program savings.

(7) Represents pro forma impact of in-process savings from the shared services agreeme nt with MPM in conjunction with the Momentive Combination

(8) Adjusted EBITDA corresponds to the definition of “EBITDA” calculated on a pro forma basis used in certain of the Company's indentures and differs from the calculation of “EBITDA” calculated on a “Pro Forma Basis” used in the Company's credit agreement governing the senior credit facility due primarily to differences in classifications of unrestricted subsidiaries under such agreements.

(9) Reflects pro forma interest expense based on interest rates at January 28, 2011 as if the January Refinancing Transaction, November Refinancing Transaction, and the execution of the July 2010 Swap had taken place at the beginning of the period.

(10) 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, 2010, the Company was able to satisfy this test and incur additional indebtedness under this indenture.

Contractual Obligations

The following table presents our contractual cash obligations at December 31, 2010. Our contractual cash obligations consist of legal commitments at December 31, 2010 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. These contractual obligations are grouped in the same manner as they are classified in the Consolidated Statement of Cash Flows in order to provide a better understanding of the nature of the obligations.

	Payments Due By Year						
Contractual Obligations	**2011**	**2012**	**2013**	**2014**	**2015**	**2016 and beyond**	**Total**
Operating activities:							
Purchase obligations[a]	$ 280	$ 203	$ 176	39	$ 24	121	$ 843
Interest on fixed rate debt obligations[b]	186	169	168	167	165	581	1,436
Interest on variable rate debt obligations[c]	52	59	51	45	18	6	231
Operating lease obligations	29	21	16	12	yle="font-family:inherit;font-size:10pt;"> 10	< div style="text-align:left;"> 28	116
Funding of pension and other postretirement obligations[d]	31	< /div> 38	36	32	29	—	166
Financing activities:							
Long-term debt, including current maturities	81	71	474	161	913	1,866	< /td> 3,566
Capital lease obligations	1	1	1	—	1	6	10
Total	$ 660	$ 562	$ 922	456	$ 1,160	2,608	$ 6,368

(a) 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 circ umstances, some of these minimum commitment term periods could be further reduced which would significantly decrease these contractual obligations.

(b) Includes variable rate debt subject to interest rate swap agreements.

(c) Based on applicable interest rates in effect at December 31, 2010.

(d) Pension and other postretirement contributions have been included in the above table for the next five years. These amoun ts 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 7% for the years 2011 – 2015 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 13 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.

The table above excludes payments for income taxes and environmental obligations since, at this time, we cannot determine either the timing or the amounts of all payments beyond 2011. At December 31, 2010, we recorded unrecognized tax benefits and related interest and penalties of $112. We estimate that we will pay approximately $43 in 2011 for local, state and international income taxes. We expect non-capital environmental expenditures for 2011 through 2015 totaling $21. See Notes 12 and 16 to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on 10-K for more information on these obligations.

Capital Expenditures

We plan to spend between $120 and $130 on capital expenditures in 2011, which will primarily be used for growth, maintenance and environmental projects. 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. We plan to fund capital expenditures through cash from operations and proceeds from the sale of the IAR business, and if necessary, through available lines of credit.

Off Balance Sh eet Arrangements

We had no off-balance sheet arrangements as of December 31, 2010.

Critical Accounting 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 res ults 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 $36 and $39 at December 31, 2010 and 2009, 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 $24 to $68. 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 MSC 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.

Income Tax Assets and Liabilities and Related Valuation Allowances

At December 31, 2010 and 2009, we had valuation allowances of $483 and $583, 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, 2010 and 2009, we recorded unrecognized tax benefits and related interest and penalties of $112 and $82, 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 used for discounting the liability;
- The weighted average expected long-term rate of return on pension plan assets;
- The method used to determine market-related value of 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 projections.

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 Company has elected to use the five-year smoothing in the calculation of the market-related value of plan assets, which is used in the calculation of pension expense, as well as to establish the corridor used to determine amortization of unrecognized actuarial gains and losses. This method, which reduces the impact of market volatility on pension expense can result in significant differences in pension expense versus calcu lating expense based on the fair value of plan assets at the beginning of the period. At December 31, 2010, the market-related value of the Company's plan assets was $415 versus fair value of $408. Using market-related value of assets to calculate 2011 pension expense reduces expense by approximately $1.

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"), deficit ("Deficit") and 2011 pension expense to the following changes in key assumptions:

	Increase / (Decrease) at December 31, 2010			Increase / (Decrease)
	PBO	ABO	Deficit	2011 Expense
Assumption:				
Increase in discount rate of 0.5%	(35)	(33)	28	—
Decrease in discount rate of 0.5%	38	36	(31)	—
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 b e 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 facil ities and close facilities could result in material impairment charges. We do not have any indefinite-lived intangibles, other than goodwill.

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 amou nt, 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.

Prior to 2010, we performed our annual impairment test at December 31. However, as a result of the Momentive Combination, we have changed the annual goodwill impairment testing date to October 1. This change was made to conform with the accounting policy and annual impairment testing date of our accounting acquirer, MPM Holdings and our ultimate parent, Momentive Holdco. Accordingly, we consider this accounting change preferable. This change does not accelerate, delay, avoid or cause an impairment charge, nor does this change result in adjustments to previously issued financial statements . The annual goodwill impairment testing was performed as of October 1, 2010. Consideration was given to the period between the testing date and December 31, 2010, concluding that no facts or circumstances arose that would lead to a different conclusion as of December 31, 2010.

As of October 1, 2010, the fair value of each of our remaining reporting units exceeded the carrying amount of assets and liabilities assigned to each unit. A 20% decrease in the EBITDA multiple or a 20% increase in the interest rate used to calculate the discounted cash flows would not result in any reporting units failing the first step of our goodwill impairment analysis.

Recently Issued Accounting Standards

Newly Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 166, *Accounting for Transfers of Financial Assets* which was codified in December 2009 as *Accounting Standards update No. 2009-16: Accounting for Transfers of Financial Assets* ("ASU 2009-16"). ASU 2009-16 removes the concept of a qualifying special-purpose entity ("QSPE") and as a result eliminates the scope exception for QSPE's. ASU 2009-16 also changes the criteria for a transfer of financial assets to qualify as a sales-type transfer. We adopted ASU 2009-16 on January 1, 2010. The adoption of ASU 2009-16 did not have a material impact on our unaudited Condensed Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* which was codified in December 2009 as *Accounting Standards Update No. 2009-17: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ("ASU 2009-17"). ASU 2009-17 amends current guidance requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial int erest in a variable interest entity. We adopted ASU 2009-17 on January 1, 2010. We do not have the power to direct the activities that most significantly impact two of our VIEs' economic performance, and therefore do not have a controlling financial interest in these VIEs. As a result of the adoption of this guidance, we deconsolidated these two VIEs from our unaudited Condensed Consolidated Financial Statements, including our foundry joint venture with Delta-HA, Inc. The deconsolidation resulted in net decrease in assets of $19, liabilities of $8 and noncontrolling interest of $10 and an increase to Accumulated deficit of $1 for the cumulative effect of adoption on January 1, 2010.

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, 2010 and 2009, which are recorded as Othe r current liabilities in the Consolidated Balance Sheets. Fair values are determined from quoted market prices at these dates.

< td style="vertical-align:bottom;background-color:#cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

	2010				2009			
Liability Derivatives	**Average Days To Maturity**	**Average Contract Rate**	**Notional Amount**	**Fair Value Liability** < /td>	**Average Days to Maturity**	**Average Contract Rate**	**Notional Amount**	**Fair Value** Liability
Derivatives designated as hedging instruments								
Interest Rate Swaps								
Interest swap – 2007	4	$ —	$375	(5)	366	$ —	$650	(28)
Interest swap – 2010	732	—	350	(2)	——		—	—
Total derivatives designated as hedging instruments				$ (7)				$ (28)
Derivatives not designated as hedging instruments								
Foreign Exchange and Interest Rate Swaps								
Cross-Currency and Interest Rate Swap	273	$ 1.2038	$ 25	(3)	638	$ 1.2038	$ 25	(5)
Interest Rate Swap								
Interest swap - Australia Multi-Currency Term	364	—	22	—	729	—	23	(1)
Commodity Contracts								
Electricity contracts	—	—	4	—	—	—	3	(1)
Natural gas futures	—	—	2	—	—	—	3	—
Total derivatives not designated as hedging instruments				$ (3)				$ (7)

***Foreign Exchange Risk*. Our international operations accounted for approximately 57% and 58% of our sales in 2010 and 2009, respectively. 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 g oods (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 fin ancial 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.

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 4.6% and 5.5% and received a weighted average interest rate o f 2.8% and 3.4% on these amended swap agreements in 2010 and 2009, respectively.

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.**

In January 2007, we entered into a three-year interest rate swap agreement designed to offset cash flow variability associated w ith interest rate fluctuations on our variable rate debt. This swap became effective on January 1, 2008. The initial notional amount of the swap was $300, but increased to $700 before amortizing down to $375. 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 July 2010, the Company entered into a two-year interest rate swap agreement (the "July 2010 Swap"). This swap is designed to offset the cash flow variability that results from interest rate fluctuations on the Company's variable rate debt. This swap will become effective on January 4, 2011 upon the expiration of the January 2007 interest rate swap. The initial notional amount of the swap is $350, and will subsequently be amortized down to $325. The Company pays a fixed rate of 1.032% and will receive a variable one month LIBOR rate. The Company accounts for the swap as a qualifying cash flow hedge.

In February 2007, to effectively fix the interest rate on approximately $30 of our Australian Multi-Currency Term / Working Capital 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, as adjusted for the Amendment and Offering Transactions, remains the same, an increase of 1% in the interest rates on our variable rate debt would increase our 2010 estimated debt service requirements by approximately $14. 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 non-affiliated debt as of December 31, 2010 and 2009 (See Note 10 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, 2010 and 2 009. All other debt fair values are determined from quoted market interest rates at December 31, 2010 and 2009.

< /td>

		2010					2009			
Year		**Non-affiliated Debt Maturities**	< /td>	**Weighted Average Interest Rate**		**Fair Value**	**Non-affiliated Debt Maturities**		**Weighted Average Interest Rate**	**Fair Value**
2010					$		78	%	$4.5	75
2011	$	82	%	6.1$		82	112	%	4.5	104
2012		72	%	6.4		71	305	%		27
2013		475	%	6.7		461	2,183	%	5.5	1,867
2014		161	%	7.0		154	678	%	8.7	644
2015		914	%	7.6		901	857	%		20
2016 and beyond		1,872	%	7.8		1,944	296	%	8.4	214
	$	3,576		$		3$613	3,402		$ 2,951	

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, 2010 and 2009< font style="font-family:inherit;font-size:9pt;">, we had $80 and $64, respectively, invested at average rates of 2% and 2%, 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, 2010 and 2009.

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 purc hase 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 we would be able to make these purchases or make them at prices that would allow us to remain competitive. Our largest supplier provides 9% 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 manne r. 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 also enter into fixed price forward contracts for the purchase of natural gas and electricity at certain of our manufacturing plants to offset the risk associated with increases in the prices of the underlying commodities.

We recognize gains and losses on these contracts each month as gas and electricity 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.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Table of Contents

MOMENTIVE SPECIALTY CHEMICALS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
(In millions)	**2010**	**2009**	**2008**
Net sales	$ 4,818	$ 3,751	$ 5,690
Cost of sales	4,074	3,260	5,091
Gross profit	744	491	599
Selling, general and administrative expense	344	320	360
Terminated merger and settlement (income) expense, net	(171)	(62)	1,027
Integration costs (See Note 2)	—	—	27
Asset impairments (See Note 2)	—	49	15
Business realignment c osts (See Note 2)	22	41	32
Other operating expense, net	5	10	9
Operating income (loss)	544	133	(871)
Interest expense, net	276	223	[illegible]03
Loss (gain) on extinguishment of debt (See Note 10)	30	(224)	—
Other non-operating (income) expense, net	(5)	—	6
Income (loss) from continuing operations before income tax and earnings fr om unconsolidated entities	243	134	(1,180)
Income tax expense (benefit) (See Note 16)	35	(8)	(16)
Income (loss) from continuing operations before earnings from unconsolidated entities	208	142	(1,164)
Earnings from unconsolidated entities, net of taxes	8	2	2
Net income (loss) from continuing operations	216	144	(1,162)
Net loss from discontinued operations, net of taxes (See Note 3)	(2)	(27)	(23)
Net income (loss)	214	117	(1,185)
Net income attributable to noncontrolling interest	—	(3)	(5)
Net income (loss) attributable to Momentive Specialty Chemicals Inc.	$ 214	$ 114	$ (1,190)
Comprehensive income (loss) attributable to Momentive Specialty Chemicals Inc.	$ 203	$ 21[illegible]	$ (1,362)

See Notes to Consolidated Financial Statements

Table of Contents

MOMENTIVE SPECIALTY CHEMICALS INC.
CONSOLIDATED BALANCE SHEETS

(In millions, except share data)		December 31, 2010		December 31, 2009
Assets				
Current assets				
Cash and cash equivalents (including restricted cash of $6 and $7, respectively) (See Note 2)	$	186	$	142
Short-term investments		6		10
Accounts receivable (net of allowance for doubtful accounts of $25 and $24, respectively)		547		423
Inventories:				
Finished and in-process goods		279		245
Raw materials and suppl ies		117		95
Other current assets		80		77
&n bsp; Current assets of discontinued operations (See Note 3)		180		101
Total current assets		1,395		< /font> 1,003
Other assets		153		99
Property and equipment				
Land		80		88
Buildings		305		299
Machinery and equipment		2,268		2,314
		2,653		2,701
Less accumulated depreciation		(1,365)		(1,321)
		&nbs p; 1,288		1,380
Goodwill (See Note 7)	< div style="overflow:hidden;font-size:10pt;">	169		177
Other intangible assets, net (See Note 7)		132		151
Noncurrent assets of discontinued operations (See Note 3)		—		73
Total assets	$	3,137	$	2,973
Liabilities and Deficit				
Current liabilities				
Accounts and drafts payable	$	430	$	457
Debt payable within one year (See Note 10)	82			78
Affiliated loans payable		2		4
Interest payable		69		36
Income t axes payable		24		35
Accrued payroll and incentive compensation		66		47
Other current liabilities		152		191
Current liabilities of discontinued operations (See Note 3)		40		40
Total current liabilities		865		888
Long-term debt (See Note 10)		3,488		3,324
Affiliated long-term debt (See Note 10)		100		100
Long-term pension and post employment benefit obligations (See Note 13)		208		224
Deferred income taxes (See Note 16)		110		116
Other long-term liabilities		160		136
Advance from affiliates (See Note 6)		225		225
Noncurrent liabilities of discontinued operations (See Note 3)		—		9
Total liabilities		5,156		5,022
Commitments and contingencies (See Notes 10 and 12)				
Deficit				
Common stock - $0.01 par value; 300,000,000 shares authorized, 170,605,906 issued and 82,556,847 outstanding at December 31, 2010 and 2009		1	1	
Paid-in capital		324		485
Treasury stock, at cost – 88,049,059 shares		(296)	(296	)
Note receivable from parent		(24)		(24)
Accumulated other comprehensive income		88		99
Accumulated deficit		(2,115)		(2,328)
Total Momentive Specialty Chemicals Inc. shareholder's deficit		(2,022)		(2,063)
N oncontrolling interest		3		14
Total deficit		(2,019)		(2,049)
Total liabilities and deficit	$	3,137	$	2,973

< div style="line-height:120%;padding-top:24px;text-align:center;font-size:9pt;">See Notes to Consolidated Financial Statements

MOMENTIVE SPECIALTY CHEMICALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(In millions)	**2010**	**2009**	**2008**
Cash flows provided by (used in) operating activities			
Net income (loss)	$ 214	$ 117	$ (1,185)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	172	178	203
Loss (gain) on extinguishment of debt (See Note 10)	30	(224)	—
Push-down of (income) expense (recovered) paid by shareholder (See Note 2)	(163)	(37)	200
Write-off of deferred acquisition costs	—	—	101
Deferred tax provision (benefit)	(10)	(7)	(13)
Non-cash impairments and accelerated depreciation	—	57	33
Cash settlement of derivatives	—	—	37
Other non-cash adjustments	10	(5)	(4)
Net change in assets and liabilities:			
Accounts receivable	(142)	128	231
Inventories	(65)	99	99< /div>
Accounts and drafts payable	(16)	95	(299)
Income taxes payable	< div style="text-align:right;font-size:9pt;">12	6	(10)
Other assets, current and non-current	(16)	2	8
Other liabilities, current and long-term	19	(54)	(33)
Net cash provided by (used in) operating activities	45	355	(632)
Cash flows used in investing activities			
Capital expenditures	(119)	(131)	(134)
Capitalized interest	(1)	(5)	—
Proceeds from matured debt securities	4	—	—
Change in restricted cash	2	2	(6)
Deconsolidation of variable interest entities	(4)	—	—
Purchases of investments	—	(2)	(7)
Proceeds from the sale of assets	14	4	13
Investment in unconsolidated affiliates, net	5	—	—
Net cash used in investing activities	(99)	(132)	(134)
Cash flows provided by (used in) financing activities			
Net short-term debt (repayments) borrowings	(7)	(10)	8
Borrowings of long-term debt	2,356	1,155	1,092
Repayments of long-term debt	(2,177)	(1,404)	(929)
(Repayments) borrowings of affiliated debt	(3)	104	—
Purchase of note receivable due from parent	—	(24)	—
Capital contribution from parent (See Note 14)	—	—	325
Advance from affiliates (See Note 6)	—	—	225
Payment of dividends on common stock	—	(10)	(2)
Long-term debt and credit facility financing fees	(72)	(5)	—
(Deconsolidation) consolidation of noncontrolling interest in variable interest entity	—	(24)	24
Payment of dividends to noncontrolling interest holder	—	(4)	—
Cash settlement of derivatives	—	—	(37)
Net cash provided by (used in) financing activities	97	(222)	706
Effect of exchange rates on cash and cash equivalents	2	13	(18)
Increase (decrease) in cash and cash equivalents	45	14	(78)
Cash and cash equivalents at beginning of year	135	121	199
Cash and cash equivalents (unrestricted) at end of year	$ 180	$ 135	$ 121
Supplemental disclosures of cash flow information			
Cash paid for:			
Interest, net	$ 235	$ 234	$ 298
Income taxes (refunded) paid, net	36	(6)	&nb sp; 7

See Notes to Consolidated Financial Statements

MOMENTIVE SPECIALTY CHEMICALS INC.
CONSOLIDATED STATEMENTS OF DEFICIT AND COMPREHENSIVE INCOME (LOSS)

(In millions)	Common Stock	Paid-in Capital (Deficit)	Treasury Stock	Note Receivable From Parent	Accumulated Other Comprehensive Income (loss) (a)	Accumulated Deficit	Noncontrolling Interest	Total
Balance at December 31, 2007	$ 1	$ (13)	$ (296)	$ —	$ 174	$ (1,252)	$ 12	(1,374)
Net loss	—	—	—	—	—	(1,190)	5	(1,185)
Translation adjustments	—	—	—	—	(84)	—	—	(84)
Net deferred losses on cash flow hedges recognized in comprehensive income	—	—	—	—	(10)	—	—	(10)
Loss recognized from pension and postretirement benefits, net of tax	—	—	—	—	(78)	—	—	(78)
Comprehensive loss								(1,357)
Dividends declared to noncontrolling interest holder	—	&m dash;	—	—	—	—	(2)	(2)
Capital contribution from parent (See Note 14)	—	325	&m dash;	—	—	—	—	325
Push-down of expense paid by shareholder (See Note 2)	—	200	—	—	—	—	—	200
Consolidation of variable interest entity	—	—	—	—	—	—	24	24
Stock-based compensation expense	—	5	—	—	—	—	—	5
Balance at December 31, 2008	1	517	(296)	—	2	(2,442)	39	(2,179)
Net income	—	—	—	—	—	114	3	117
Translation adjustments	—	—	—	—	64	—	1	65
Net deferred losses on cash flow hedges reclassified to income	—	—	—	—	15	—	—	15
Gain recognized from pension and postretirement benefits, net of tax	—	—	—	—	18	—	—	18
Comprehensive income								215
Dividends declared to noncontrolling interest holder	—	—	—	—	—	—	(5)	(5)
Push-down of recovery of expense paid by shareholder (See Note 2)	—	(37)	—	—	—	—	—	(37)
Deconsolidation of variable interest entity (See Note 8)	—	—	—	—	—	—	(24)	(24)
Purchase of note receivable due from parent (See Note 6)	—	—	—	(24)	—	—	—	(24)
Stock-based compensation expense	—	5	—	—	—	—	—	5
Balance at December 31, 2009	1	485	(296)	(24)	99	(2,328)	14	(2,049)
Net income	—	—	—	—	—	214	—	214
Translation adjustments	—	—	—	—	(23)	—	(1)	(24)
Net deferred losses on cash flow hedges reclassified to income	—	—	—	—	18	—	—	18
Loss recognized from pension and postretirement benefits, net of tax	—	—	—	—	(6)	—	—	(6)
Comprehensive income								202
Push-down of recovery of expense paid by shareholder (See Note 2)	—	(163)	—	—	—	—	—	(163)
Impact of adoption of new accounting guidance for variable interest entities (See Note 2)	—	—	—	—	—	(1)	(10)	(11)
Stock-based compensation expense	—	2	—	—	—	—	—	2
Balance at December 31, 2010	$ 1	$ 324	$ (296)	$ (24)	$ 88	$ (2,115)	$ 3	$ (2,019)

(a) Accumulated other comprehensive income at December 31, 2010 represents $173 of net foreign currency translation gains, net of tax, $2 of net deferred losses on cash flow hedges and a $83 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 13). Accumulated other comprehensive income at December 31, 2009 represents $196 of net foreign currency translation gains, net of tax, $20 of net deferred losses on cash flow hedges and a $77 unrealized loss, net of tax, related to net actuarial losses and prior service costs for the Company's defined benefit pension and postretirement plans. 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 13).

See Notes to Consolidated Financial Statements

MOMENTIVE SPECIALTY CHEMICALS INC.

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

1. Background and Basis of Presentation

Based in Columbus, Ohio, Momentive Specialty Chemicals Inc. (formerly known as Hexion Specialty Chemicals, Inc.), (which may be referred to "MSC"or the "Company") serves global industrial markets through a broad range of thermoset technologies, specialty products and technical support for customers in a diverse range of applications and industries. At December 31, 2010, the Company has 80 active production and manufacturing facilities, with 34 located in the United States. Our business is organized based on the products that we offer and the markets that we serve. At December 31, 2010, we had three reportable segments: Epoxy and Phenolic Resins, Formaldehyde and Forest Products Resins and Coatings.

Hexion Formation

The Company was formed on May 31, 2005 by combining three Apollo Management, L.P. 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”.

Momentive Combination

On October 1, 2010, our parent, Momentive Specialty Chemicals Holdings LLC (“MSC Holdings”, formerly known as Hexion LLC) and Momentive Performance Materials Holdings Inc. ("MPM Holdings"), the parent company of Momentive Performance Materials Inc. ("MPM"), became subsidiaries of a newly formed holding company, Momentive Performance Materials Holdings LLC ("Momentive Holdco"). We refer to this transaction as the "Momentive Combination".

At the time of the Momentive Combination, Hexion LLC changed its name to Momentive Spe cialty Chemicals Holdings LLC and Hexion Specialty Chemicals, Inc. changed its name to Momentive Specialty Chemicals Inc. As a result of the Momentive Combination, Momentive Holdco became the ultimate parent entity of MPM and MSC. Momentive Holdco is controlled by investment funds (the “Apollo Funds”) managed by affiliates of Apollo Management Holdings, L.P. (together with Apollo Global Management, LLC and its subsidiaries, “Apollo”). Apollo may also be referred to as the Company’s owner.

As of December 31, 2010, the Company has elected not to apply push-down accounting of its parent's basis as a result of the Momentive Combination because it is a public reporting registrant as a result of significant public debt that was outstanding before and after the Momentive Combination.

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 has the power to direct the activities that most significantly impact the variable interest entities' economic performance. 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 s ignificant 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 noncontrolling interest for the equity interests in consolidated subsidiaries that are not 100% owned.

The Company's unconsolidated investments accounted for under the equity method of accounting include the following:

- 50% ownership interest in HA International, Inc, a joint venture that manufactures foundry resins
- 50% ownership interest in Hexion Shchekinoazot B.V. that manufactures forest products resins Russia.
- 50% ownership interest in Asia Dekor Borden (Hong Kong) Chemical Company, a joint venture that manufactures form aldehyde and resins in China
- 49.99% interest in Hexion UV Coatings (Shanghai) Co., Ltd, a joint venture that manufactures UV-curable coatings and adhesives in China.

Foreign Currency Translations—Assets and liabilities of foreign affiliates are translated at the exchange rate s in effect at the balance sheet date. Income, expenses and cash flows are translated at average exchange rates during the year. In addition, gains or losses related to the Company’s intercompany loans payable and receivable denominated in a foreign currency other than the subsidiary’s functional currency that are deemed to be permanently invested are remeasured to cumulative translation. The effect of translation is accounted for as an adjustment to Deficit and is included in Accumulated other comprehensive income. Transaction gains and losses are included as a component of Net income (loss). The Company recognized transaction gains (losses) of $8, $4 and $(31) for the years ended December 31, 2010, 2009 and 2008, respectively.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of Am erica requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and also the disclosure of contingent assets and liabilities at the date of the financial statements. In addition, it requires management to make estimates and assumptions that affect 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.

Terminated merger and settlement (income) expense, net—The Company recognized net Terminated merger and settlement income, net of $171 for the year ended December 31, 2010. The amount primarily includes income of $163 for insurance recoveries by the Company's owner related to the $200 settlement payment made by the Company's owner that had been treated as an expense of the Company in 2008. As of December 31, 2010, the Company's owner has recovered the $200 settlement payment in full. Terminated merger and settlement (income) expense, net also includes income of $8 in insurance recoveries recorded by the Company related to the settlement of the New York Shareholder Action (See Note 12).

The Company recognized net T erminated merger and settlement income, net of $62 for the year ended December 31, 2009. The Company recognized income during the year of $51 as the Company negotiated reductions on certain of its merger related service provider liabilities and $37 in insurance recoveries by the Company's owner related to the $200 settlement payment made by Apollo that was treated as an expense of the Company in 2008. The income was partially offset by legal contingency accruals.

The Company incurred Terminated merger and settlement expense, net totaling $1,027 for the year ended December 31, 2008. The costs represent the $325 termination fee, the $225 settlement payment, the non-cash push-down of settlement costs paid by Apollo of $200 and the litigation costs associated with the terminated merger. These costs also include the write-off of previously deferred acquisit ion costs and legal, consulting, accounting and tax costs related to the terminated merger agreement and associated litigation.

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, 2010 and 2009, the Company had interest-bearing time deposits and other cash equivalent investments of $75 an d $54, respectively. They are included in the Consolidated Balance Sheets as a component of Cash and cash equivalents. The Company does not present cash flows from discontinued operations separately in the Consolidated Statement of Cash Flows.

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, 2010 and 2009, the Company had Brazilian real denominated U.S. dollar index investments of $6 and $10, respectively. These investments, which are classified as held-to-maturity 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, which are based on normal production capacity. 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 in the Consolidated Balance Sheets are presented net of an allowance for excess and obsolete inventory of $9 and $10 at December 31, 2010 and 2009, respectively.

Deferred Expenses—Deferred financing costs are presented as a component of Other assets in 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, 2010 and 2009, the Company’s unamortized deferred financing costs were $65 and $34, respectively.

Property and Equipment—Land, buildings and machinery and equipment are stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of properties (the average estimated useful life for buildings is 20 years and 15 years for machinery and equipment). Assets under capital leases are amortized over the lesser of their useful life or the lease term. Major renewals and betterments are capitalized. Maintenance, repairs, minor renewals and turnarounds (periodic maintenance and repairs to major units of manufacturing facilities) are expensed as incurred. 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 operating income. The Company capitalizes interest costs tha t are incurred during the construction of property and equipment. Depreciation expense was $151, $152 and $182 for the years ended December 31, 2010, 2009 and 2008, respectively.

Capitalized Software—The Company capitalizes certain costs, such as software coding, installation and testing, that are incurred to purchase or create and imple ment computer software for internal use. Amortization is recorded on the straight-line basis over the estimated useful lives ranging from 1 to 5 years.

Goodwill and Intangibles—The excess of purchase price over net tangible and identifiable intangible assets of businesses acquired is carried as Goodwill in the Conso lidated 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 b e recoverable. Recoverability is based on estimated undiscounted cash flows. 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.

During the years ended December 31, 2009 and 2008, asset impairments of $49 and $15, respectively, were included in Asset impairments in the Consolidated Statements of Operations. In addition, during the years ended December 31, 2010 and 2009, accelerated depreciation on closing facilities of $1 and $6, respectively, was included in Other operating expense, net on the Consolidated Statements of Operations.

Long-Lived and Amortizable Intangible Assets

In 2009, the Company recorded impairment charges of $44 in the Epoxy and Phenolic Resins segment and $2 in the Coatings segment as a result of the Company’s decision to indefinitely idle certain production lines. In addition, the Company recorded miscellaneous impairments of $3 related to the closure of R&D facilities in the Formaldehyde and Forest Products Resins and Epoxy and Phenolic Resins segments.

In 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.

Goodwill

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 t he 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.

Prior to 2010, the Company performed its annual impairment test at December 31. However, as a result of the Momentive Combination, the Company has changed th e annual goodwill impairment testing date to October 1. This change was made to conform with the accounting policy and annual impairment testing date of the Company's accounting acquirer, MPM Holdings and the Company's ultimate parent, Momentive Holdco. Accordingly, the Company considers this accounting change preferable. This change does not accelerate, delay, avoid or cause an impairment charge, nor does this change result in adjustments to previously issued financial statements. The annual goodwill impairment testing was performed as of October 1, 2010. Consideration was given to the period between the testing date and December 31, 2010, concluding that no facts or circumstances arose that would lead to a different conclusion as of December 31, 2010.

At October 1, 2010, 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, 2009, the fair value of the remaining reporting units exceeded the carrying amount of assets (including goodwill) and liabilities assigned to the units. In the fourth quarter of 2008, the Company recognized goodwill impairments in its Coatings segment of $7 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.

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 liabilit y under high-deductible insurance policies. The Company records losses when a loss has been incurred and is estimable and amortizes premiums over the life of the respective insurance policies. The Company records losses when a loss has been incurred and is estimable.

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, fine s and incurred legal fees. See Note 12.

Environmental Matters—Accruals for environmental matters are recorded 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 or on its invoices.

Shipping and Handling—Freight costs that are billed to customers are included in Net sales in the Consolidated Statements of Operations. Shipping costs are incurred to move the Compa ny'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 $58, $57 and $68 for the years ended December 31, 2010, 2009 and 2008, respectively and is included in Selling, general and administrative expense in the Consolidated Statements of Operations.

Integration Costs—The Company incurred Integration costs totaling $27 for the year ended December 31, 2008. This represents costs to implement a single, company-wide, management information and accounting sy stem 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. The Company records these expenses as incurred.

Business Realignment Costs—The Company incurred Business realignment costs totaling $22, $41 and $32 for the years ended December 31, 2010, 2009 and 2008, respectively. These costs primarily represent expenses to implement productivity savings programs to reduce the Company's cost structure and align manufacturing capacity with current volume demands (See Note 4). For the year ended December 31, 2008, these costs also represent minor restructuring programs related to headcount reduction costs associated with plant closures and divestitures.

Income Taxes—The Company recognizes deferred tax assets and liabilities for the expected future tax conse quences 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 16.

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 a re 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.

Derivative Financial Instruments—The Company is a party to forward exchange contracts, interest rate swaps, cross-currency swaps and natural gas futures and electricity and natural gas forward contracts to reduce its cash flow exposure to changes in foreign exchange rates, interest rates, natural gas and electricity prices. The Company does not hold or issue derivative financial instruments for trading purposes. All derivative financia l 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 Company's Consolidated Statement of Operations 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 9.

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. See Note 15.

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 based on the terms and conditions of each agreement. For the portion of the sales pric e that is deferred in a reserve account and subsequently collected, the Company's policy is to classify the cash in-flows as cash flows from operating activities as the predominant source of the cash flows pertains to the Company's trade accounts receivable. The Company generated (used) $4 and $(5) of cash for the years ended December 31, 2010 and 2009, respectively, related to the reserve account. When the Company retains the servicing rights on the transfers of accounts receivable, it measures these rights at fair value, if material. See Note 8.

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 canceled, the Company would be forced to purchase raw materials at current market prices. The Company's largest supplier provides 9% of raw material purchases. In addition, several of the feedstocks at various facilities are transported through a pipeline from one supplier.

Subsequent Events—The Company evaluates all subsequent events from December 31, 2010 through the time that it files its Consolidated Financial Statements.

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

Recently Issued Accounting Standards

Newly Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 166, *Accounting for Transfers of Financial Assets* which was codified in December 2009 as *Accounting Standards Update No. 2009-16: Accounting for Transfers of Financial Assets* ("ASU 2009-16"). ASU 2009-16 removes the concept of a qualifying special-purpose entity ("QSPE") and as a result eliminates the scope exception for QSPE's. ASU 2009-16 also changes the criteria for a transfer of financial assets to qualify as a sales-type transfer. The Company adopted ASU 2009-16 on January 1, 2010. The adoption of ASU 2009-1 6 did not have a material impact on the Company's Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* which was codified in December 2009 as *Accounting Standards Update No. 2009-17: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ("ASU 2009-17"). ASU 2009-17 amends current guidance requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a VIE. The Company adopted ASU 2009-17 on January 1, 2010. The Company does not have the power to direct the activities that most significantly impact two of its VIEs' economic performance, and therefore, the Company does not have a controlling financial interest in these VIEs. As a result of the adoption of this guidance, the Company deconsolidated these two VIEs from its Consolidated Financial Statements, including its foundry joint venture between the Company and Delta-HA, Inc ("HAI"). The deconsolidation resulted in a net decrease in assets of $19, liabilities of $8 and noncontrolling interest of $10 and an increase to Accumulated deficit of $1 for the cumulative effect of adoption on January 1, 2010.

3. Discontinued Operations

On January 31, 2011, the Company sold its Inks and Adhesive Resins ("IAR") business to Harima Chemicals Inc (the "Buyer") for a purchase price of $120. The Buyer also paid $14 for cash and $8 for working capital transferred to the Buyer at the time of closing as part of the purchase agreement, less indebtedness and pension plan liability transferred to the Buyer of $4. A subsequent adjustment to the purchase price may be made based upon the final settlement as defined by the Purchase Agreement.

In conjunction with the sale, as part of a Transitional Services Agreement, the Company will provide certain transitional services to the Buyer for a period of six months. The purpose of these services is to provide short-term assistance to the Buyer in assuming the operations of the IAR business. These services do not confer to the Company the ability to influence the operating or financial policies of the IAR business under its new ownership. The Company's cash inflows and outflows from these services are expected to be insignificant during the transition period.

The IAR business is engaged in the production of naturally derived resins and related products primarily used for the manufacture of printing inks, adhesives, synthetic rubber, specialty coatings and aroma chemicals and includes 11 manufacturing facilities in the United States, Europe and the Asia-Pacific region. The IAR business had 2010 net sales of approximately $356 and pre-tax income of $2 and was previously reported within the Coatings and Inks segment. The IAR business is reported as a discontinued operation as of December 31, 2010 and for all periods presented. In addition, the Company incurred approximately $4 in transaction and other costs, which is presented in Loss from discontinued operations in the Consolidated Statement of Operations.

The Company has recorded an estimated l oss on sale of the IAR business of $1 for the year ended December 31, 2010, which is included within Loss from discontinued operations in the Consolidated Statement of Operations.

The aggregate carrying value of the IAR business was $140 as of December 31, 2010. The major classes of assets and liabilities of discontinued operations included in the Consolidated Balance Sheets are as follows:

	December 31, 2010	December 31, 2009
Assets:		
Accounts Receivable	$ 69	$ 55
Inventories	42	40
Other current assets	6	6
Total current assets	117	101
Property and equipment, net	54	61
Other intangible assets, net	6	7
Other assets	3	5
Total noncurrent assets	63	73
Total assets of discontinued operations	< font style="font-family:inherit;font-size:9pt;">$ 180	$174
Liabilities:		
Accounts and drafts payable	$ 24	$ 24
Other current liabilities	7	16
Total current liabilities	31	40
Long-term debt	4	4
Other long-term liabilities	5	5
Total noncurrent liabilities	9	9
Total liabilities of discontinued operations	$ 40	$ 49

4. Productivity Program

At December 31, 2010, the Company had $24 of in-process productivity savings expected to be achieved over the remaining life of the projects. The Company estimates that these cost reduction activities will occur over the next 6 months. The net costs to achieve these productivity savings is estimated at $3, including restructuring costs described below and expected capital expenditures related to productivity savings programs.

The following table summarizes restructuring information by type of cost:

< td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;">

$

	Workforce reductions	Site closure costs		Other projects	Total
Restructuring costs expected to be incurred	$ 47	$ 9	< div style="overflow:hidden;font-size:10pt;">	$ 5	$ 61
Cumulative restructuring costs incurred through December 31, 2010	$ 47	$ 5		$ 4	56
Accrued liability at December 31, 2007	$ —	$ —		$ —	$ —
Restructuring charges	12	—		—	12
Payments	(1)	—		—	(1)
Accrued liability at December 31, 2008	11	—		—	11
Restructuring charges	25	2		2	29
Payments	(17)	(2)		(2)	(21)
Foreign currency translation	1	—		—	1
Accrued liability at December 31, 2009	20	—		—	20
Restructuring charges	10	3		2	15
Payments	(23)	(3)		(2)	(28)
Accrued liability at December 31, 2010	$ 7	$ —		$ —	$ 7

Workforce reduction costs primarily relate to employee termination costs and are accounted for under the guidance for nonretirement postemployment benefits or as exit and disposal costs, as applicable. During the years ended December 31, 2010 , 2009 and 2008 restructuring charges of $15, $29 and $12, respectively, were recorded in Business realignment costs on the Consolidated Statements of Operations. At December 31, 2010 and 2009, the Company had accrued $7 and $20, respectively, for restructuring liabilities in Other current liabilities in the Consolidated Balance Sheets.

The following table summarizes restructuring information by reporting segment:

	Epoxy and Phenolic Resins	Formaldehyde and Forest Products	Coatings	Corporate and Other	Total
Restructuring costs expected to be incurred	$ 30	$ & 6nbsp;	$ 18	$ 7	$ 61
Cumulative restructuring costs incurred through December 31, 2010	$ 29	$ 5	$ 15	$ 7	$ 56
Accrued liability at December 31, 2007	$ —	$ —	$ —	$ —	$ —
Restructuring charges	7	1	1	3	12
Payments	—	—	(1)	—	(1)
Accrued liability at December 31, 2008	7	1	—	3	11
Restructuring charges	15	3	7	4	29
Payments	(9) < /div>	(2)	(6)	(4)	(21)
Foreign currency translation	1	—	—	—	1
Accrued liability at December 31, 2009 < /td>	14	2	1	3	20
Restructuring charges	7	1	7	—	15
P ayments	(17)	(2)	(7)	(2)	(28)
Accrued liability at December 31, 2010	$ 4	$ 1	$ 1	$ 1	$ 7

5. Divestitures

2009 and 2008 Divestitures

During the years ended December 31, 2009 and 2008, the Company completed the sale of .01% and 4.99% interest in HAI, respectively. At December 31, 2009 and 2008, the Company's economic interest in HAI was 50% and 50.01%, respectively. 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 du ring the year ended December 31, 2008. This amount is included in Other operating expense, net in the Company's Consolidated Statements of Operations.

6. 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") that terminates on May 31, 2012 under which the Company receives certain structuring and advi sory services from Apollo and its affiliates. The annual fees under the Management Consulting Agreement is $3. Due to the recent economic downturn, Apollo suspended its 2009 annual fees but has reinstated the fees in 2010. 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 Management Consulting Agreement, the Company paid annual fees of $3, $0 and $3 for the years ended December 31, 2010, 2009 and 2008, respectiv ely. These amounts are included in Other operating expense, net in the Company's Consolidated Statements of Operations.

Shared Services Agreement

On October 1, 2010, in connection with the closing of the Momentive Combination, the Company entered into a shared services agreement with MPM. Pursuant to the shared services agreement, the Company will provide to MPM, and MPM provides to the Company, certain services, including, but not limited to, executive and senior management, administrative support, human resources, information technology support, accounting, finance, legal and procurement services. The shared services agreement establishes certain criteria upon which the costs of such services will be allocated between the Company and MPM. Allocation of service costs not demonstrably attributable to either the Company or MPM will initially be 51% to the Company and 49% to MPM, except to the extent that 100% of any cost was demonstrably attributable to or for the benefit of either MPM or the Company, in which case the total cost was allocated 100% to such party. The Shared Services Agreement remains in effect until terminated according to its terms. MPM or the Company may terminate the agreement for convenience, without cause, by giving written notice not less than thirty (30) days prior to the effective date of termination. It is also anticipated that the Company and MPM will cooperate to achieve favorable pricing with respect to purchases of raw materials and logistics services.

Pursuant to this agreement, in the fourth quarter of 2010, the Company incurred approximately $42 of costs for shared services and MPM incurred approximately $43 of costs for shared services (excluding, in each case, costs allocated 100% to one party). MPM billed the Company approximately $1 which represents a true-up payment to bring the percentage of total net incurred costs for shared services under the Shared Services Agreement to 51% for the Company and 49% for MPM. The true-up amount is included in Other operating expense, net, in the Consolidated Statement of Operations. The Company has accounts payable to MPM of $1 at December 31, 2010.

Financing Agreements

In connection with the terminated Huntsman merger and related litigation settlement agreement and release among the Company, Huntsman and other parties entered into on December 14, 2008, the Company paid Huntsman $225. The settlement payment was funded to the Company 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, 2010. As of December 31, 2010, the Company has not recovered any insurance proceeds related to the $225 settlement payment.

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 MSC Holdings pursuant to which they committed to purchase $200 in preferred units and warrants of MSC Holdings 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 MSC Holdings 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, in 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 will mature on December 31, 2011 with interest at adjusted LIBOR plus 2.25% per annum. Interest expense incurred during the years ended December 31, 2010 and 2009 on the Term Loan was $3. See Note 10 for further information on the Company's affiliated debt. In addition, in December 2010 the Comp any sold $67 of trade accounts receivable to affiliates of Apollo for net cash of $60, ($7 remains held in a reserve account at December 31, 2010). See Note 8 for a description of the Company's sale of trade accounts receivable. The available borrowings under these liquidity facilities at December 31, 2010 were $40. This amount will increase on a dollar for dollar basis as the $67 of sold receivables are collected.

On October 1, 2010, at the time of the closing of the Momentive Combination, the commitment by Apollo to purchase $200 in preferred units of MSC Holdings and warrants to purchase common units of Momentive Holdings was amended to become a commitment to purchase preferred units and warrants to purchase common units of Momentive Holdco. Momentive Holdco has agreed to contribute any proceeds from the issuance of preferred or comm on units under this agreement as a capital contribution to MSC Holdings, and MSC Holdings has agreed to contribute such amounts as a capital contribution to the Company.

Purchase of MSC Holdings debt

In 2009, the Company purchased $180 in face value of the outstanding MSC Holdings LLC PIK Facility for $24, including accrued interest. The loan receivable from MSC Holdings has been recorded at its acquisition value of $24 as an addition to the Company's shareholder deficit as MSC Holdings is the Company's parent. In addition, at December 31, 2010 the Company has not recorded accretion of the purchase discount or interest income as ultimate receipt of these cash flows is under the control of MSC Holdings. The Company will continue to assess the collectibility of these cash flows to determine future amounts to record, if any.

Purchases and Sales of Products and Services with Apollo Affiliates

The Company sells products to certain Apollo affiliates and members of Momentive Holdco. These sales were $3, $2 and $7 for the years ended December 31, 2010, 2009 and 2008, respectively. Accounts receivable from these affiliates were less than $1 at both December 31, 2010 and 2009. The Company also purchases raw materials and services from certain Apollo affiliates. These purchases were $21, $8 and $3 for the years ended December 31, 2010, 2009 and 2008, respectively. The Company had accounts payable to Apollo affiliates of $1 and $2 at December 31, 2010 and 2009, respectively.

Other Transactions and Arrangements

The Company sells finished goods to and purchases raw materials from HAI. The Company also provides toll-manufacturing and other services to HAI. Prior to 2010 and the adoption of ASU 2009-17, HAI was consolidated in the Company's Consolidated Financial Statements and these transactions were eliminated in consolidation. Beginning in 2010, the Company's investment in HAI is recorded under the equity method of accounting and the related sales and purchases are not eliminated from the Company's Consolidated Financial Statements. However, any profit on these transactions is eliminated in the Company's Consolidated Financial Statements to the extent of the Company's 50% interest in HAI. Sales to and services provided to HAI were $96 for the year ended December 31, 2010. Purchases from HAI were $58 for the year ended December 31, 2010. The Company had accounts receivable from HAI of $13 and accounts payable to HAI of $2 at December 31, 2010.

The Company's purchase contracts with HAI represent a significant portion of HAI's total revenue. In addition, the Company has pledged its member interest in HAI as collateral on HAI's revolving line of credit. These factors result in the Company absorbing the majority of the risk to potential losses or gains from a majority of the expected returns. However, the Company does not have the power to direct the activities that most significantly impact HAI, and therefore, does not have a controlling financial interest. As of December 31, 2010 the value of HAI's assets and liabilities were $44 and $22, respectively.

The Company has a loan receivable from its unconsolidated forest products joint venture in Russia of $4 as of December 31, 2010.

7. Goodwill and Intangible Assets

The Company's gross carrying amount and accumulated impairments of goodwill consist of the following as of December 31:

	2010				2009			
	Gross Carrying Amount	Accumulated Impairments	Accumulated Foreign Currency Translation	Net Book Value	Gross Carrying Amount	Accumulated Impairments	Accumulated Foreign Currency Translation	Net Book Value
Epoxy and Phenolic Resins	$ 88	$ —	$ 3	$ 91	$ 95	$ —	< div style="text-align:left;font-size:8pt;">$ 5	$ 100
Formaldehyde and Forest Products	81	—	(3)	78	82	—	(5)	77
Coatings	7	(7)	—	—	7	(7)	—	—
	$ 176	$ (7)	$ —	$ 169	$ 184	$ (7)	$ —	$ 177

The changes in the net carrying amount of goodwill by segment for the years ended December 31, 2010 and 2009 are as follows:

	Epoxy and Phenolic Resins	Formaldehyde and Forest Products	Coatings	Total
Goodwill balance at December 31, 2008	$ 98	$ 72	$ —	$ 170
Purchase accounting adjustments	—	1	—	1
Foreign currency translation	2	4	—	6
Goodwill balance at Decem ber 31, 2009	100	77	—	177
Deconsolidation of variable interest entity	(7)	—	—	(7)
Foreign c urrency translation	(2)	1	—	(1)
Goodwill balance at December 31, 2010	$ 91	$ 78	$ —	$ 169

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.

Goodwill impairment charges for the year ended December 31, 2008 of $7 were recognized in the Coatings reporting unit 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 balance in the Coatings reporting unit has been impaired as the implied fair value of the reporting units' goodwill was zero.

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

226

	2010			2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Value Net Book
Intangible assets:						
Patents and technology	$ 110	$ (53)	$ 57	$ 112	$ (46)	$ 66
Customer lists and contracts	91	(37)	54	98	(34)	64
Other	25	(4)	21	26< /font>	(5)	21
	$	$ (94)	$ 132	$ 236	$ (85)	$ 151

The impact of foreign currency translation on intangible assets is included in accumulated amortization.

During the year ended December 31, 2010, the Company wrote off gross carrying amount of $7 of fully amortized intangible assets that no longer provided economic benefits to the Company.

Total intangible amortization expense for the years ended December 31, 2010, 2009 and 2008 was $15, $17 and $19, respectively.

Estimated annual intangible amortization expense for 2011 through 2015 is as follows:

2011	$	14
2012	14	
2013		14
2014		13
2015		13

8. Transfers of Financial Assets

In December 2010, the Company entered into accounts receivable purchase and sale agreements to sell $67 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 an unaffiliated party. Under the terms of the agreements, the receivables were sold at a discount relative to their carrying value in exchange for all int erests in such receivables; the Company retained the obligation to service the collection of the receivables on the purchasers' behalf; and the purchasers' deferred payment of a portion of the receivables purchase price and established 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 $1 for the years ended December 31, 20 10 and 2009, and are included in Other non-operating expense, net in the Consolidated Statements of Operations. Fees for the servicing were less than $1 for the years ended December 31, 2010 and 2009.

9. Fair Value and Financial Instruments

Fair value measurement provisions establish 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. This guidance describes three levels of inputs that may be used to measure fair value:

- Level 1: Inputs are quoted prices (unadjusted) for identical asset s 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 m arkets.
- Level 3: Unobservable inputs, for example, inputs derived through extrapolation or interpolation that cannot be corroborated by observable market data.

Recurring Fair Value Measurements

Following is a summary of assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total**
December 31, 2010				
Derivative liabilities	$ —	$ (10)	$ —	$ (10)
December 31, 2009				
Derivative liabilities	$ —	$ (35)	$ —	$ (35)

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. At December 31, 2010, no adjustment was made by the Company to reduce its derivative liabilities for its nonperformance risk. As a significant portion of the Company's derivative liabilities are cash flow hedges, $0 and $1 was recognized in Accumulated other comprehensive income at December&n bsp;31, 2010 and 2009, respectively.

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.

Non-recurring Fair Value Measurements

There were no significant assets or liabilities measured at fair value on a non-recurring basis during the year ended December 31, 2010.

Following is a summary of losses as a result of the Company measuring assets at fair value on a non-recurring basis during the year ended December 31, 2009:

	Year ended December 31, 2009
Long-lived assets held and used	$ (10)
Long-lived asse ts held for sale	(1)
Long-lived assets held for disposal/abandonment	(38)
Total	$ (49)

As part of the Company's productivity initiatives, the Company decided to indefinitely idle certain production lines. Long-lived assets with a carrying value of $57 were written down to fair value of $8, resulting in an impairment charge of $49 for the year ended December 31, 2009. These long-lived assets were valued based on appraisals from third parties or using discounted cash flow analysis based on assumptions that market participants would use. Key inputs in the model included projected revenues and manufacturing costs associated with these long-lived assets.

Derivative Financial Instruments

The Company is exposed to certain risks related to its ongoing business operations. The primary risks managed by using derivative instruments are foreign currency exchange risk, interest rate risk and commodity price risk. The Company does not hold or issue derivative financial instruments for trading purposes.

The following table summarizes the Company's derivative financial instruments as of December 31, which are recorded as Other current liabilities in the Consolidated Balance Sh eets:

	2010				2009			
Liability Derivatives	**Average Days To Maturity**	< div style="font-size:8pt;text-align:center;font-size:8pt;">**Average Contract Rate**	**Notional Amount**	**Fair Value Liability**	**Average Days to Maturity**	**Average Contract Rate**	**Notional Amount**	**Fair Value Liability**
Derivatives designated as hedging instruments				&nb sp;				
Interest Rate Swaps								
Interest swap – 2007	4	—	$ 375	$ (5)	366	—	$ 650	$ (28)
Interest swap – 2010	732	—	350	(2)	—	—	—	—
Total derivatives designated as hedging instruments	&nb sp;			$ (7)				$ (28)
Derivatives not designated as hedging instruments								
Foreign Exchange and Interest Rate Swaps								
Cross-Currency and Interest Rate Swap	273	1.2038	$ 25	$ (3)	638	1.2038	$ 25	$ (5)
Interest Rate Swap								
Interest swap - Australia Multi-Currency Term	364	—	22	—	729	—	23	(1)
Commodity Contracts								
Electricity contracts	—	—	4	—	—	—	3	(1)
Natural gas futures	—	—	2	< font style="font-family:inherit;font-size:8pt;">—	—	—	3	—
Total derivatives not designated as hedging instruments				$ (3)				$ (7)

The following tables summarize gains and losses recognized on the Company's derivative financial instruments:

Derivatives in Cash Flow Hedging Relationship	Amount of Loss Recognized in OCI on Derivative for the year ended December 31:			Location of Loss Reclassified from Accumulated OCI into Income	Amount of Loss Reclassified from Accumulated OCI into Income for the year ended December 31:		
	2010	2009	2008		2010	2009	2008
Interest Rate Swaps							
Interest swap – 2006	$ —	$ —	$ (8)	Interest expense, net	$ —	$ (8)	$ (10)
Interest swap – 2007	—	(15)	(16)	Interest expense, net	(20)	(22)	(4)
Interest swap – 2010	(2)	—	—	Interest expense, net	—	—	—
Total	$ (2)	$ (15)	$ (24)		$ (20)	$ (30)	$ (14)

Derivatives Not Designated as Derivative Instruments		Amount of Gain (Loss) Recognized in Income on Derivative for the year ended December 31: 2010	2009	2008	Location of Gain (Loss) Recognized in Income on Derivative
Foreign Exchange and Interest Rate Swaps					
Cross-Currency and Interest Rate Swap		$ 2	$ (1)	$ 26	Other non-operating expense, net
Interest Rate Swap					
Interest swap – Australia Multi-Currency Term		—	—	(2)	Other non-operating expense, net
Commodity Contracts					
Electricity contracts		1	(1)	—	Cost of sales
Natural gas futures		(1)	(3)	(3)	Cost of sales
Total	</td>	$ 2	$ (5)	$ 21	

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 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 4.6% and 5.5% and received a weighted average in terest rate of 2.8% and 3.4% on these amended swap agreements in 2010 and 2009, respectively.

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 paid a fixed rate equal to approximately 7.6% per year and received a variable rate based on the terms of the underlying debt. The Company accounts for the swaps as qualifying cash flow hedges. These swap agreements matured and were terminated during 2009.

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. 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 qua lifying cash flow hedge.

In February 2007, to effectively fix the interest rate on approximately $30 of our Australian Multi-Currency Term / Working Capital 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.

In July 2010, the Company entered into a two-year interest rate swap agreement (the "July 2010 Sw ap"). This swap is designed to offset the cash flow variability that results from interest rate fluctuations on the Company's variable rate debt. This swap will become effective on January 4, 2011 upon the expiration of the January 2007 interest rate swap. The initial notional amount of the swap is $350, and will subsequently be amortized down to $325. The Company pays a fixed rate of 1.032% and will receive a variable one month LIBOR rate. The Company accounts for the swap as a qualifying cash flow hedge.

Commodity 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 42%, 70% and 72% of its 2010, 2009 and 2008 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. We also enter into fixed price forward contracts for the purchase of natural gas and electricity at certain of our manufacturing plants to offset the risk associated with increases in the prices of the underlying commodities.

The Company does not apply hedge accounting to these future and forward contracts. The Company recognizes gains and losses each month as the gas and electricity is used. Remaining obligations are marked to market on a quarterly basis.

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:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt	$ 3,672	$ 3,708	$ 3,506	$ 3,055

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.

10. Debt and Lease Obligations

Debt outstanding at December 31 is as follows:

< td style="vertical-align:bottom;background-color:#cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

	2010		**2009**	
	Long-Term	**Due Within One Year**	**Long-Term**	Due Within **One Year**
Non-affiliated debt:				
Senior Secured Credit Facilities:				
Revolving facility due 2011 at 3.0% at December 31, 2009	$ —	$ —	$ 36	$ —
Floating rate term loans due 2013 at 2.6% at December 31, 2010 and 2009	455	8	2,211	23
Floating rate term loans due 2015 at 4.1% at Decem ber 31, 2010	927	15	—	—
Senior Secured Notes:				
8.875 % senior secured notes due 2018 (includes $6 of unamortized debt discount)	994	—	—	—
Floating rate second-priority senior secured notes due 2014 at 4.8% at December 31, 2010 and 2009	120	—	120	—
9.00% Second-priority senior secured notes due 2020	574	—	—	—
9.75% Second-priority senior secured notes due 2014	— < /div>	—	533	—
Debentures:				
9.2% debentures due 2021	74	—	74	—
7.875% debentures due 2023	189	—	189	—
8.375% sinking fund debentures due 2016	62	—	62	—
Other Borrowings:				
Australia Multi-Currency Term / Working Capital Facility due 2011 at 4.5% and 4.1% at December 31, 2010 and 2009, respectively	38	10	46	8
Brazilian bank loans at 9.8% and 10.6% at December 31, 2010 and 2009, respectively < /div>	33	37	30	35
Capital Leases	9	1	10	1
Other at 3.5% and 3.7% at December 31, 2010 and 2009, respectively	13	11	13	11
Total non-affiliated debt	3,488	82	3,324	78
Affiliated debt:				
Affiliated borrowings due on demand at 3.4%	—	2	—	4
Affiliated term loan due 2011 at 2.6% at December 31, 2010 and 2009	10 0	—	100	—
Total affiliated debt	100	2	100	4
Total debt	$ 3,588	$ 84	$ 3,424	$ 82

2010 Refinancing Activities

January Refinancing Transaction

In late December 2009 and January 2010, the Company extended $200 of its revolving facility commitments from lenders under the Senior Secured Credit Facility, which will t ake effect upon the May 31, 2011 maturity of the existing revolving facility commitments. The new commitments will extend the availability of the revolving facility to February 2013.

In January 2010, through the Company's wholly owned finance subsidiaries, Hexion U.S. Finance Corp. and Hexion Nova Scotia Finance, ULC, the Company sold $1,000 aggregate principal amount of 8.875% senior secured notes due 2018. The Company used the net proceeds of $993 ($1,000 less original issue discount of $7) from the issuance to repay $800 of its U.S. term loans under the Senior Secured Credit Facility, pay $31 of transaction costs and expenses and provide incremental liquidity of $162. The 8.875% senior secured notes are secured by the same collateral as the Company's existing second-priority senior secured notes, but the priority of the collateral l iens securing the 8.875% senior secured notes is senior to the collateral liens securing the existing second-priority senior secured notes, and is junior to the collateral liens securing the Company's Senior Secured Credit Facility.

In addition to, and in connection with the issuance of the $1,000 aggregate principal amount of 8.875% notes, the Company entered into an amendment of its Senior Secured Credit Facilities. Under the amendment and restatement, the Company extended the maturity of approximately $959 of its Senior Secured Credit Facility term loans from May 5, 2013 to May 5, 2015 and increased the interest rate with respect to such term loans from LIBOR plus 2.25% to LIBOR plus 3.75%. Collectively, both the issuance of the $1,000 aggregate principal amount 8.875% senior secured notes and the amendment of the Senior Secured Faci lities are referred to as the "January Refinancing Transaction."

In the first quarter of 2010 the Company incurred $31 in fees related to the January Refinancing Transactions, of which $29 were deferred and are recorded in Other assets, net in the Consolidated Balance Sheets. The deferred fees will be amortized over the contractual life of the respective debt obligations. The remaining $2 in fees w ere expensed as incurred and are included in Other non-operating expense, net in the Consolidated Statements of Operations. Additionally, $7 in unamortized deferred financing fees were written-off related to the $800 of U.S. term loans under the Senior Secured Credit Facility that were repaid and extinguished. The write-off of these fees are included in Loss on extinguishment of debt in the Consolidated Statements of Operations.

November Refinancing Transactions

In November 2010, Hexion U.S. Finance Corp. and Hexion Nova Scotia Finance, ULC issued $574 aggregate pr incipal amount of 9.00% second-priority senior secured notes due 2020 (the "New Notes"), which mature on November 15, 2020. $440 aggregate principal amount of the New Notes was offered through a private placement to unaffiliated investors ("Offering"). The cash proceeds of the Offering were used to redeem the $406 outstanding 9.75% Second-priority senior secured notes due 2014 ("Old Notes"), pay redemption premiums on the Old Notes, and pay transaction fees and expenses.

The remaining $134 aggregate principal amount of the Notes was issued in exchange for $127 aggregate principal amount of the Old Notes that were held by an affiliate of Apollo Global Management, LLC at the time of the Offering ("Apollo Exchange"). The exchange ratio was determined based on the consideration offered to holders of the Old Notes to redeem th e Old Notes, which is intended to give Apollo an aggregate value equivalent to that which it would receive if it had received the total consideration upon the Company's redemption of the Old Notes and used the proceeds received to invest in the New Notes. The new debt issued to Apollo has the same terms as the New Notes issued by the Company in the Offering. Collectively, the Offering and Apollo Exchange are referred to as the "November Refinancing Transaction."

The Company incurred $11 in transaction fees associated with the Offering and $7 in direct lender exchange premiums associated with the Apollo Exchange, which were deferred and are recorded in Other assets, net in the Consolidated Balance Sheets. The deferred fees and exchange premiums will be amortized over the contractual life of the respective debt obligations. In addition, the Company paid premiums of $21 to redeem the Old Notes and wrote-off $2 in unamortized deferred financing fees related to the Old Notes, resulting in a loss on extinguishment of $23. This amount is included in Loss on extinguishment of debt in the Consolidated Statement of Operations.

Senior Secured Credit Facilities

The terms of the amended Senior Secured Credit Facilities include a term loan facility with maturities in 2013 and 2015, a $50 synthetic letter of credit facility ("LOC") that matures in 2013, access to a $225 revolving credit facility through May 2011 and access to a $200 revolving credit facility from May 2011 through February 2013.

The facilities are 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.

Pursuant to the terms of our Senior Secured Credit Facilities, intercompany indebtedness of any borrower thereunder to any of our subsidiaries is subordinated to the prior payment of the senior indebtedness obligations under the Senior Secured Credit Facility. 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 Senior Secured Credit Facilities also contain cross-acceleration and cross default provisions. Accordingly, events of default under certain other foreign debt agreements could result in the Company's outstanding debt becoming immediately due and payable.

Term Loans

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% for term loans maturing 2013 and 3.75% for term loans maturing 2015 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% for term loans maturing 2013 and 2.25% for term loans maturing 2015. Term loans to the Company's Netherlands subsidiary are at the Company's option; (a) EURO LIBOR plus 2.25% for term loans maturing 2013 or 3.75% for term loans maturing 2015 or (b) the rate quoted by JPMCB as its base rate for those loans plus 0.75% for term loans maturing 2013 and 2.25% for term loans maturing 2015.

Revolving Credit Facility

The interest rate for the revolving credit facility through May 2011 bears interest at adjusted LIBOR plus 2.50%. The extended revolving loans will bear interest at a rate of LIBOR plus 4.50%. The Company is also required to pay a 2% ticking fee on committed amounts for the extended revolver, payable quarterly through May 2011. Available borrowings under the amended Senior Secured Credit Facilities (including LOC facility) were $220 at December 31, 2010.

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.

Affiliated Debt

In 2009, the Company borrowed $100 in term loans from affiliates of Apollo which will mature on December 31, 2011 with interest at adjusted LIBOR plus 2.25%. As the Company has the intent and ability to refinance this debt with Apollo, the amount has been classified as Affiliated long-term debt as of December 31, 2010 in the Consolidated Balance Sheets. In 2009, the Company also borrowed $4 from an affiliate of Apollo which is due upon demand, of which $2 was repaid in 2010.

The weighted average interest rate of affiliated borrowings at December 31, 2010 was 2.57%. Proceeds from the loans were used for general corporate purposes.

Debentures

	Origination Date	**Interest Payable**	**Early Redemption**
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

The Company's Australian Multi-Currency Term / Working Capital Facility has a variable interest rate equal to the 90 day Australian or New Zealand Bank Bill Rates plus an applicable margin.

The Brazilian bank loans represent various bank loans primarily for working capital purposes and to finance plant expansions.

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 $8 and $4 at December 31, 2010 and 2009, respectively.

Scheduled Maturities

Aggregate maturities of non-affiliated debt, minimum payments under capital leases and minimum rentals under operating leases at December 31, 2010 for the Company are as follows:

Year	Non-affiliated Debt	Minimum Rentals Under Operating Leases	Minimum Payments Under Capital Leases
2011	$ 81	$ 29	$ 2
2012	71	21	2
2013	474	16	2
2014	161	12	1
2015	913	10	2
2016 and thereafter	1,866	28	10
Total minimum payments	$ 3,566	$ 116	19
Less: Amount representing interest			(9)
Present value of minimum payments			$ 10

Rental expense under operating leases amounted to $36, $36 and $38 in the years ended December 31, 2010, 2009 and 2008, respectively.

Covenant Compliance

The Company is currently in compliance with all terms of its outstanding indebtedness under its Senior Secured Credit Facility, including the senior secured bank leverage ratio. A failure to comply with the Company's senior secured bank leverage ratio contained within its Senior Secured Credit Facility, 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 MSC Holdings. 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 6) converted to equity to cure a default would reduce the amount of available financing remaining under the $200 financing.

11. 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 w arranties. 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 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 simpl y 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, 2010 and 2009 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 li mitations). 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.

Our corporate charter also requires us to indemnify, to the extent allowed by New Jersey state corporate law, our directors and officers as well as directors and officers of our subsidiaries and other agents against certain liabilities and expenses incurred by them in carrying out their obligations.

Apollo Indemnification

In March 2009, the Company 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. See Note 6 for additional information regarding indemnification provided by the Company to Apollo under the Management Consulting Agreement.

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 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, 2010 and 2009.

	Number of Sites		Liability		Range of Reasonably Possible Costs	
Site Description	**December 31, 2010**	**December 31, 2009**	**December 31, 2010**	**December 31, 2009**	**Low**	**High**
Geismar, LA	1	1	$ 17	$ 17	&nb sp; $ 10	$ 25
Superfund and offsite landfills – allocated share:						
Less than 1%	29	27	1	1	1	2
Equal to or greater than 1%	12	12	7	7	5	13
Currently-owned	21	22	9	11	6	16
Formerly-owned:						&nb sp;
Remediation	10	10	1	2	1	10
Monitoring only	7	7	1	1	1	& 2nbsp;
	80	79	$ 36	$ 39	$ 24	$ 68

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 fr om these estimates. At December 31, 2010 and 2009, $10 and $13, respectively, have 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, 2010:

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 potent ially responsible parties ("PRP") 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, costs that would approach the higher end of the range of possible outcomes could result.

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 28 years. The range of possible outcomes is discounted in a similar manner. The undiscounted liability, which is expected to be paid over the next 28 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 Potentially Responsible Party ("PRP") under the United States Comprehensive Environmental Response, Compensation and Liability Act or similar state "superfund" laws. The Company anticipates approximately 50% 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.*

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 eight sites are no longer in operation. As the Company is performing a portion 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 $8 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.*

Non-Environmental Legal Matters

The Company is involved in various legal proceedings in the ordinary course of business and has reserves of $11 and $29 at December 31, 2010 and December 31, 2009, respectively, for all non-environmental legal defense costs incurred and settlement costs that it believes are probable and estimable. At December 31, 2010 and December 31, 2009, $5 and $26, respectively, have 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:

Matters Related to the Terminated Merger Agreement with Huntsman Corporation—

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 plaintiff in the New York Shareholder Action sought to represent a class of purchasers of Huntsman common stock between May 14, 2008 and June 18, 2008 (the "Class Period"). The complaint alleged that the defendants disseminated false and misleading sta tements and failed to disclose material facts regarding the merger during the Class Period in violation of U.S. securities laws. In October 2009, the parties reached a settlement agreement which includes payment by the Company of $18 which the Company had accrued as of December 31, 2009 and has subsequently paid in 2010. In 2010, the Company negotiated and subsequently received an $8 resolution payment from its director and officer liability insurance carrier related to the settlement agreement. The amount is included in Terminated merger and settlement income, net in the Condensed Consolidated Statements of Operations.

On September 30, 2009, the Company received a letter from counsel for affiliates of Credit Suisse and Deutsche Bank which demanded payment of the Banks' legal fees claimed to be in excess of $60 incurred in various litig ations associated with the terminated merger of the Company and Huntsman. The Company had previously rejected the Banks' demand citing not only the Banks' material breach of their commitment to fund the merger, but among other things, the Banks' failure to obtain the Company's approval of its settlement with Huntsman, the failure to provide a release for any and all liabilities in favor of the Company and the unreasonable amount of the fees sought. On October 22, 2010, the Company and affiliates of Credit Suisse and Deutsche Bank entered into a mutual general release, settling all outstanding claims.

Brazil Tax Claim*—In 1992, the State of Sao Paulo Administrative Tax Bureau issued an assessment against the Company's Brazilian subsidiary claiming tha t 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 pursu ed. The Company has pledged certain properties and assets in Brazil during the pendency of the Annulment action in lieu of paying the assessment. In September 2010, in the Company's favor, the Court adopted its appointed expert's report finding that the transactions in question were intercompany loans. Sao Paulo has mandatory appeal rights but the Court's decision based on the facts is likely to be upheld and therefore, the Company does not believe a loss contingency is probable. At December 31, 2010 the amount of the assessment, including tax, penalties, monetary correction and interest, is 66 Brazilian reais, or approximately $40.*

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, which is still pending. 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 on July 12, 2004 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.*

Environmental Institution of Paraná IAP*—On August 25, 2009, Governo Do Paraná and the Environmental Instit ution of Paraná IAP, an environmental agency of the Brazilian government, provided Momentive Quimica Industria, our Brazilian subsidiary, with notice of a potential fine of up to $11 in connection with alleged environmental damages to the Port of Paranagua caused in November 2004 by an oil spill from a shipping vessel carrying methanol purchased by MSC. The investigation as to the cause of the accident has not been finalized. In early October 2009, MSC was granted an injunction precluding the imposition of any fines or penalties by the Paraná IAP. In November 2010, the Court lifted its injunction; however, the Company appealed in order to preclude the IAP from levying any fines or penalties. The Company continues to believe it has a strong defense and does not believe a loss contingency is probable. At December 31, 2010, the amount of the assessment, including tax, penalties, monetary correction and interest, is 22 Brazilian reais, or approximately $13.*

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 yea r 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 are cancelable by either party as provided for in each agreem ent. Feedstock prices are based on market prices less negotiated volume discounts or cost input formulas.
The Company is required to make minimum annual payments under these contracts as follows:

Year	Minimum Annual Purchase Commitments
2011	$ 280
2012	203
2013	176
2014	39
2015	24
2016 and beyond	121
Total minimum payments	843
Less: Amount representing interest	(71)
Present value of minimum payments	$ 772

13. 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. Benefits under these plans are generally based on eligible compensation and / or years of credited service. Retirement benefits in other foreign locations are primarily structured as defined contribution plans. Effective June 30, 2009, the Company froze the benefits for the non-bargained and some of the bargained participants in the U.S. pension plans. During 2010, in conjunction with the renegotiation of collectively bargained agreements, the Company negotiated a freeze of the benefit for the remaining active participants. The Company has replaced this benefit with an additional annual employer contribution to the existing defined contribution plan for all non-bargained associates.

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 U.S. benefit primarily consists of a life insurance benefit for retirees, for which the premiums are paid by the Company. In addition, some U.S. participants are offered the same medical plans as active employees; however, for most participants, the premiums are paid by the retiree. The Canadian plans provide retirees and their dependents with medical and life insurance benefits, which are supplemental benefits to the respective provincial healthcare plan in Canada. The Netherlands' plan provides a lump sum payment at retirement.

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:

Fair value of plan assets at end of year

	Pension Benefits				Non-Pension Postretirement Benefits			
	2010		2009		2010		2009	
	U.S. Plans	< div style="overflow:hidden;font-size:10pt;"> 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 ob ligation at beginning of year	$ 271	$ 308	$ 276	$ 282	$ 13	$ 5	$ 13	$ 4
Service cost	3	8	4	8	—	—	—	—
Interest cost	15	15	17	16	1	—	1	—
Actuarial losses	10	3	6	—	—	1	—	—
Foreign currency exchange rate changes	—	(19)	—	10	—	—	—	1
Benefits paid	(20)	(8)	(21)	(8)	(1)	—	(1)	—
Plan curtailments / settlements	(1)	—	(11)	(1)	—	—	—	—
Employee contributions	—	1	—	1	—	—	—	—
Benefit obligation at end of year	278	308	271	308	13	6	13	5
Change in Plan Assets		&n bsp;		;				
Fair value of plan assets at beg inning of year	185	189	156	162	—	—	—	—
Actual return on plan assets	< font style="font-family:inherit;font-size:10pt;"> 22	14 < div style="text-align:left;">	38	7		—	—	—
Foreig n currency exchange rate changes	—	(12)	—	6	—	—	—	—
Employer contributions	20	17	12	21	1	—	1	< —/td>
Benefits paid	(20)	(8)	(21)	(8)	(1)	—	(1)	—
Employee contributions	—	1	—	1	—	—	—	—
	207	201	185	189	—	—	—	—
Funded status of the plan at end of year	$ (71)	$ (107)	$ (86)	$ < /td> (119)	$ (13)	$ (6)	$ (13)	$ (5)

	Pension Benefits				Non-Pension Postretirement Benefits			
	2010		2009		2010		2009	
	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:								
Noncurrent assets	$ &m dash;	$ 15	$ —	$ 6	$ —	$ —	$ —	$ —
Other current liabilities	—	(4)	(1)	(4)	(1)	—	(1)	—
Long-term pension and post employment benefit obligations	(71)	(118)	(85)	(121)	(12)	(6)	(12)	(5)
Accumulated other comprehensive loss (income)	133	16	138	16	(25)	(2)	(35)	(2)
Net amounts recognized	$ 62	$ (91)	$ 52	$ (103)	$ (38)	$ (8)	$ (48)	$ (7)
Amounts recognized in Accumulated other comprehensive loss (income) at December 31 consist of:								
Net actuarial loss (gain)	$ 133	$ 12	$ 138	$ 11	$ (6)	$ (1)	$ (5)	$ (2)
Net prior service cost (benefit)	—	6	—	7	(19)	(1)	(30)	(1)
Deferred income taxes	—	(2)	—	(2)	—	—	— ;	1
Net amounts recognized	$ 133	$ 16	$ 138	$ 16	$ (25)	$ (2) ;	$ (35)	$ (2)
Accumulated benefit obligation	$ 278	$ 293	$ 270	$ 295				
Accumulated benefit obligation for funded plans	275	181	268	179				
Pension plans with underfunded or non-funded accumulated benefit obligations at December 31:			< /div>					
Aggregate projected benefit obligation	$ 278	$ 129	$ 271	$ 131				
< font style="font-family:inherit;font-size:9pt;">Aggregate accumulated benefit obligation	278	123	270	125				
Aggregate fair value of plan assets	207	8	185	7				
Pension plans with projected benefit obligations in excess of plan assets at December 31:								
Aggregate projected benefit obligation	$ 278	$ 135	$ 271	$ 137				
Aggregate fair value of plan assets	207	13	185	12				

The net accumulated unrecognized actuarial losses relating to the U.S. plans were reduced by $6 for favorable gains on assets versus expected returns during the year ended December 31, 2010. In addition, the net accumulated unrecognized actuarial losses for the U.S. plans decreased by approximately $1 due to curtailments resulting from the plan freezes, which more than offset the unrecognized actuarial loss of $10 relating to the decrease in the discount rate at December 31, 2010 and unfavorable experience. Actuarial losses of $1 for the Non-U.S. plans at December 31, 2010 primarily resulted from unfavorable asset expe rience and other adjustments.

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

The Pension Protection Act of 2006 (the "2006 PPA") provides for minimum funding levels on U.S. plans, and plans not meeting the minimum funding requirement may be subject to certain restrictions. During 2009 and 2010, the Company's U.S. qualified pension plan was under the minimum funding level as measured under the 2006 PPA, resulting in restrictions on lump sum payments to 50%.

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

	Pens ion Benefits					
	U.S. Plans			Non-U.S. Plans< /div>		
	2010	2009	2008	2010	2009	2008
Service cost	$ 3	$ 4	&n bsp; $ 6	$ 8	$ 8	$ 8
Interest cost on projected benefit obligation	15	17	16	15	16	16
Expected return on assets	(16)	(14)	(18)	(11)	(10)	(9)
Amortization of prior service cost	—	—	—	1	1	1
Recognized actuarial loss (gain)	8	9	8	—	(1)	—
Curtailment (gain) loss	—	(1)	—	—	1	—
Net expense	$ 10	$ 15	$ 12	$ 13	$ 15	$ 16

	Non-Pension Postretirement Benefits					
	U.S. Plans			Non-U.S. Plans		
	2010	2009	2008	2010	2009	2008
Service cost	$ —	$ —	$ —	$ —	$ —	$ —
Interest cost on projected benefit obligation	1	1	1	—	—	—
Amortization of prior service benefit	(11)	(11)	(11)	—	—	—
Recognized actuarial gain	—	(1)	—	—	—	(1)
Settlement gain	—	—	—< /font>	—	(1)	—
Net benefit	$ (10)	$ (11)	$ (10)	$ —	$ (1)	$ (1)

The curtailment gain recognized on U.S. pension benefits during the year ended December 31, 2009 related to the U.S. plan freeze previously discussed. The curtailment loss recognized on non-U.S. pension benefits during the year ended December 31, 2009 related to the impact of planned workforce reductions on the Company's pension plan in the Netherlands. The settlement gain recognized during the year ended December 31, 2009 for non-pension postretirement plans resulted from lump sum payments made under the Company's plan offered to certain associates in the Netherlands.

The following amounts were recognized in other comprehensive income during the year ended December 31, 2010:

	Pension Benefits	;	Non-Pension 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	3	< 1/font>	(1)	1	2	2
Amortization of prior service (cost) benefit	—	(1)	11	—	11	(1)
Amortization of net (losses) gains	(8)	—	—	—	(8)	—
(Gain) loss recognized in other comprehensive income	(5)	—	10	1	5	1
Def erred income taxes	—	—	—	(1)	< div style="text-align:right;font-size:9pt;">—	(1)
(Gain) loss recognized in other comprehensive income, net of tax	(5)	—	10	—	5	—

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:

	Pension Benefits		Non-Pension Postretirement Benefits		Total	
	U.S. Plans	Non-U.S. Plans	< div style="text-align:center;font-size:8pt;">U.S. Plans	Non-U.S. Plans	U.S. Plans	
Prior service cost (benefit)	$ —	$ 1	$ (11)	$ —	$ (11)	$
Net actuarial loss (gain)	7	—	(1)	—	6	

Determination of actuarial assumptions

The Company's actuarial assumptions are determined based on 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. For our European plans, these assumptions are set by country, as the plans within these countries have similar demographics, and are impacted by the same regional economic trends and statutory requirements.
The Company merged its three U.S. qualified pension plans at December 31, 2009, and merged the Trusts holding the plan assets in September 2010. As a result, the economic actuarial assumptions for these plans at December 31, 2010 and December 31, 2009 were determined based on the demographics of the merged plan, including the Company's assumptions for expected rate of return on assets and the target asset mix for the plan assets. Prior to 2009, these assumptions were set separately for each plan.

The discount rates selected reflect the rate at which pension obligations could be effectively settled. The Company selects 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 long-term 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-ter m 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.

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

< td colspan="2" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-bottom:1px solid #000000;">
Non-U.S.
Plans

	Pension Benefits				Non-Pension Postretirement Benefits			
	2010		2009		2010		2009	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	U.S.< /div> Plans	Non- U.S. Plans	
Discount rate	5.1%	5.5%	5.7%	5.5%	4.9%	5.6%	5.4%	6.3%
Rate of increase in future compensation levels	—	3.3%	4.0%	3.3%	—	—	—	—
The weighted average assumed health care cost trend rates are as follows at December 31:				< div style="overflow:hidden;font-size:10pt;">				
Health care cost trend rate assumed for next year	—	—	—	—	7.9%	7.2%	8.1%	7.4%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	—	—< /div>	—	—	4.5%	4.5%	5.1%	4.4%
Year that the rate reaches the ultimate trend rate	—	—	—	—	2029	2030	2026	2029

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		
	2010	2009	2008	2010	2009	2008
Discount rate	5.7%	6.1%	6.1%	5.5%	5.8%	5.5%
Rate of increase in future compensation levels	4.0%	4.0%	4.0%	3.3%	3.3%	3.3%
Expected long-term rate of return on plan assets	8.0%	8.2%	8.3%	5.8%	5.8%	5.8%

	Non-Pension Postretirement Benefits					
	U.S. Plans			Non-U.S. Plans		
	2010	2009	2008	2010	2009	2008
Discoun t rate	5.4%	6.1%	6.1%	6.3%	7.1%	5.5%

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 $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. For U.S. plans, equity investments are also diversified across U.S. and international stocks, as well as growth, value and small and large capitalization investments, while the Company's Canadian plan includes a blend of Canadian securities with U.S. and other foreign investments. Investment risk and performance is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual lia bility 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. The target allocations for the Company's U.S. plans have been aligned for 2010, due to the planned merger of these Trusts.

The Company observes local regulations and customs 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
	2010	**2009**	**2011**
Weighted average allocations of U.S. pension plan assets at December 31:			
Equity securities	63%	64%	60%
Debt securities	30%	28%	40%
Cash, short-term investments and other	7%	8%	—
	100%	100%	100%
Weighted average allocations of non-U.S. pension plan assets at December 31:			
Equity securities	14%	13%	21%
Debt securities	82%	87%	79%
Cash, short-term investments and other	4%	—	—
	100%	100%	100%

Fair Value of Plan Assets

Fair value measurement provisions establish 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. This guidance 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 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 3: Unobservable inputs, for example, inputs derived through extrapolation or interpolation that cannot be corroborated by observable market data.

The following table presents U.S. pension plan investments measured at fair value on a recurring basis as of December 31, 2010 and 2009:

	Fair Value Measurements Using							
	2010				2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs< /font> (Level 2)	Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Large cap equity funds[a][b]	$ 37	$ 17	$ —	$ 54	$ 26	$ 33	$ —	$ 59
Small/mid cap equity funds [b]< /div>	45	—	—	45	31	6	—	37
Other international equity [b]	—	32	—	32	—	23	—	23
Debt securities/fixed income[c]	2	60	—	62	—	52	—	52
Cash, money market and other[d]	1	13	—	14	—	14	—	14
Total	$ 85	$ 122	$ —	$ 207	$ 57	$ 128	$ —	$ 185

The following tab le presents non-U.S. pension plan investments measured at fair value on a recurring basis as of December 31, 2010 and 2009:

< td colspan="2" style="vertical-align:bottom;background-color:#cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;">

—

	Fair Value Measurements Using					
	2010					
	Quoted Prices in Active Markets for Ide ntical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	
U.S. equity[b]	$ —	$ 19	$ —	$ 19	$ —	
European equity[b]	—	—	—	—	—	
Other international equity [b]	—	5	—	5	—	
Debt securities/fixed income[b]	—	106	—	106	—	
Liability driven investments[c][e]		56	—	56	—	45
Balanced pooled funds[b][f]	—	8	—	8	—	
Pooled insurance products with fixed income guarantee[b]	—	5	—	5	—	
Cash, money market and other[d]	—	2	—	2	—	
Total	$ —	$ 201	$ —	$ 201	$ —	

(a) Level 1 equity securities are valued based on quoted prices in active markets.
(b) Level 2 equity securities are primarily in pooled asset and mutual funds and are valued based on underlying net asset value multiplied by the number of shares held.
(c) Level 2 fixed income securities are valued using a market approach that includes various valuation techniques and sources, primarily using matrix/market corroborated pricing based on observable inputs including yield curves and indices.
(d) Cash, money market and other securities include mutual funds, certificates of deposit and other short-term cash investments for which the share price is $1 or book value is assumed to equal fair value due to the short duration of the investment term.
(e) Liability driven investments consist of a series of funds designed to provide returns matched to expected future cash flows, and include approximately 70% investments in fixed income securities targeting returns in line with 3-month euribor in the medium term, and 30% swaps, with an underlying portfolio of bonds and cash to cou nterbalance changes in the value of the swaps.
(f) The fund provides a mix of approximately 60% equity and 40% fixed income securities that achieves the target asset mix for the plan.

Projections of Plan Contributions and Benefit Payments

The Company expects to make contributions totaling $26 to its defined benefit pension plans in 2011.

Estimated future plan benefit payments as of December 31, 2010 are as fol lows:

	Pension Benefits		Non-Pension Postretirement Benefits	
Year	**U.S. Plans**	**Non-U.S. Plans**	**U.S. Plans**	**Non-U.S. Plans**
2011	$ 22	$ 8	$ 1	$ —
2012	22	9	1	—
2013	21	9	1	1
2014	20	11	1	—
2015	28	11	1	1
2016-2020	89	72	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 2006 Pension Protection Act, 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 Pension Protection Act, such as the Company's, are not grandfathered under the act. During 2010, the Company received a letter of determination that the plan as converted is a qualified plan.

Defined Contribution Plans

The Company sponsors a number of defined contribution plans for its employees, primarily i n the U.S., Canada, Europe and in the Asia-Pacific region. Full-time employees are generally 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. Due to the economic downturn at the end of 2008, during 2009 the Company suspended for one year the employer match provided to non-bargaining employees and to some bargained employees in its U.S. and Canadian defined contribution plans.

Effective July 1, 2009, the Company introduced an annual retirement contribution ("ARC") to eligible U.S. associates to replace benefits previously provided under the Company's U.S. defined benefit pension plans, which have been frozen, as previously dis cussed, for non-bargaining associates and for some bargained associates. The contribution, which will be paid into the existing U.S. defined contribution plan, is a percentage of eligible earnings, ranging from 2% to 7% based on years of service, subject to IRS limitations. The contribution for each year will be made in the second quarter of the following year to eligible associates actively employed with the Company at year-end.

Prior to July 1, 2009 certain U.S. employees received annual employer contributions to the U.S. defined contribution plan based on age and years of service in lieu of a defined benefit pension plan. Under this arrangement, contributions ranged from 1% to 15% on wages up to FICA limits and 2% to 20% on wages in excess of FICA limits. These benefits were eliminated effective July 1, 2009, and were replaced with the ARC (discussed above).

The Company incurred expense for contributions under these plans in 2010, 2009 and 2008 of $14, $9 and $15, respectively.

Non-Qualified and Other Retirement Benefit Plans

The Company provides key executives in some locations with non-qualified 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 local statutory limitations. The Company froze benefits under its U.S. non-qualified plans beginning January 1, 2009. Most of the Company's non-qualified benefit plans are unfunded. Prior to the plan freezes, certain deferrals were matched by the Company based on years of service. The liabilities related to defined benefit top-ups are included in the previously discussed defined benefit pension disclosures. The Company's liability for the other components of these non-qualified benefit plans was $7 and $8 at December 31, 2010 and 2009, respectively, and is included in Other long-term liabilities.

The Company's German subsidiaries offer a government subsidized early retirement program to eligible employees called Altersteilzeit or ATZ Plans. The German government provides a subsidy in certain cases where the participant is replaced with a qualifying candidate. The Company has liabilities for these arrangements totaling $7 and $4 for the years ended December 31, 2010 and 2009, respectively. The Company incurred expense for these plans in 2010, 2009 and 2008 of $4, $1 and $2, respectively.

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 ye ar 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, 2010 and 2009 are other post-employment benefit obligations relating to long-term disability and liabilities relating to European jubilee benefit plans of $8 and $8, respectively.

14. Deficit

The Company has 82,556,847 shares of $0.01 par value common stock outstanding at December 31, 2010.

In December 2008, in connection with the settlement agreement with Huntsman, MSC Holdings made a capital contribution of $325 allowing the Company to fund the $325 termination fee and affiliates of the Company's owner paid a $200 settlement payment, while reserving all rights with respect to reallocation of the payments to certain other affiliates of the Company's owner. The $200 settlement payment made by the Company's owner was 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.

For the years ended December 31, 2010 and December 31, 2009, the Company's owner received insurance recoveries of $163 and $37, respectively, related to the $200 settlement payment paid by the Company's owner that had been treated as an expense of the Company in 2008. These recoveries were recorded as income by the Company for the years ended December 31, 2010 and 2009, with the corresponding debit to Paid-in capital. As of December 31, 2010, the Company's owner has recovered the $200 settlement payment in full.

15. Stock Option Plans and Stock Based Compensation

Summary of Plans

Prior to the Hexion Formation, Resolution Performance, Resolution Specialty and BHI Acquisition (now MSC Holdings) 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, which is discussed below. 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 common units of MSC Holdings based on relative fair value. In 2007, the Company adopted the 2007 Long-Term Incentive Plan which granted restricted stock units and options to purchase common units of MSC Holdings.

The following is a summary of existing stock option plans and outstanding shares as of December 31, 2010:

Plan name	Shares outstanding	Plan expiration	Vesting Terms	Option term	Number of shares authorized
Resolution Performance 2000 Stock Option Plan	&nb sp;	November 2010		8 yrs 30 days(1)	n/a plan expired
Tranche A options	26,476		Vest ratably over 5 years		
Tranche B performance options	51,316		Cliff vest on 8th anniversary		
Resolution Performance 2000 Non-Employee Directors Option Plan	302,433	November 2010	Fully vested upon Hexion Formation	8 yrs 30 days(2)	n/a plan expired
Resolution Specialty Materials 2004 Stock Option Plan				8 yrs 30 days	1,027,197
Tranche A options	47,359	October 2014	Vest ratably over 5 years		
Tranche B performance options	93,202		Performance-based vested due to attainment of target upon Hexion Formation		
Director options	142,664		Fully vested upon Hexion Formation		
BHI Acquisition Corp. 2004 Stock Incentive Plan		August 2014		10 years	3,670,635
Tranche A options	951,616		Vest ratably over 5 years		
Tranche B performance options	951,616		Cliff vest on earlier of 8th anniversary or change in control		
Director options	84,423		Director grants vest upon IPO / Change in Control		
Director options	28,141		Director grants vested upon grant		
Hexion LLC 2007 Long-Term Incentive Plan		April 2017			1,700,000
Options to purchase units	422,500	&n bsp;	Vest upon attainment of performance targets upon change in control	8 years	
Restricted stock units	100,000		50% vest on third and fourth anniversaries of grant	n/a	

(1) 71,301 Options granted between November 2000 - December 2003 were modified during the 4th quarter of 2010 to extend expiration date to November 13, 2012
(2) 265,550 Options granted between November 2000 - December 2003 were modified to extend expiration date to November 13, 2012

Conversion of Units to Momentive Holdco

Effective October 1, 2010, in conjunction with the Momentive Combination, stock options to purchase units in MSC Holdings that were gran ted to our Directors and those granted under the Resolution Performance 2000 Stock Option Plan, the Resolution Performance 2000 Non-Employee Directors Option Plan, the Resolution Specialty 2004 Stock Option Plan, the BHI Acquisition 2004 Stock Incentive Plan and Hexion 2007 Long-Term Incentive plan to purchase units in MSC Holdings were converted on a one-for-one basis to an equivalent number of options to purchase units in Momentive Holdco. Similarly, the restricted MSC Holdings LLC unit awards granted under the Hexion 2007 Long-Term Incentive Plan, the BHI Acquisition 2004 Deferred Compensation Plan and the Resolution Performance Restricted Unit Plan were converted on a one-for-one basis to units in Momentive Holdco. Upon modification of the outstanding option and restricted unit awards, the remeasurement of the fair value resulted in additional compensation expense of less than $1 recognized for the year ended December 31, 2010. The conversion affected approximately 125 employees.

Financial Statement Impact

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 $2, $5 and $5 for each of the years ended December 31, 2010, 2009 and 2008, respectively all of which is the result of the remeasurement and modifications. The amounts are included in Selling, general and administrative expense in the Consolidated Statements of Operations. The Company expects additional compensation expense of $5, which will be recognized over the vesting period of the underlying share-based awards. $3 is expected to be recognized ratably over a weighted-average period of 1.6 years, while the remaining $2 will be recognized upon an initial public offering or other future contingent event.

Options Activity

Following is a summary of the Company’s stock option plan activity for the year ended December 31, 2010:

	Momentive Holdco Common Units	Weighted Average Exercise Price
Options outstanding at December 31, 2009	3,300,253	$ 7.07
Options granted	—	$ —
Options exercised	(59,767)	$ 5.64
Options forfeited	(138,740)	$ 7.09
Options outstanding at December 31, 2010	3,101,746	$ 7.05
Exercisable at December 31, 2010	1,627,491	$ 6.52
Expected to vest at December 31, 2010	3,031,789	$ 7.06

At December 31, 2010, exercise prices for options outstanding ranged from $3.51 to $29.42 with a weighted average remaining contractual life of 3.3 years. The weighted average remaining contractual life for options exercisable and options expected to vest was 2.8 and 3.3 years, respectively. At December 31, 2010, the aggregate intrinsic value of options exercisable and options expected to vest was less than $1.

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, 2010, 2009 and 2008 was less than $1, $0, and less than $1, respectively.

Restricted Unit Activity

Following is a summary of the Company’s restricted unit plan activity for the year ended December 31, 2010:

	Momentive Holdco Common Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2009	116,000	$ 10.81
Restricted units granted	—	—
Restricted units vested	(55,000)	$ 10.81
Restricted units forfeited	(11,000)	$ 10.81
Nonvested at December 31, 2010	50,000	$ 10.81

The weighted average remaining contractual life for restricted units granted and outstanding was 0.3 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 Momentive Holdco. 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, 2010, there were 798,941 undistributed units under the 2004 DC Plan.

Subsequent Event

On February 23, 2011, the Compensation Committee of the Board of Managers of Momentive Holdco approved the Momentive Performance Materials Holdings LLC 2011 Equity Incentive Plan (the "2011 Equity Plan&rdqu o;). Under the 2011 Equity Plan, Momentive Holdco can award unit options, unit awards, restricted units, restricted deferred units, and other unit-based awards. The restricted deferred units are non-voting units of measurement which are deemed to be equivalent to one common unit of Momentive Holdco. The unit options are options to purchase common units of Momentive Holdco. The awards made pursuant to the 2011 Equity Plan will vest based on continued service and the achievement of certain unit prices following certain transactions involving Momentive Holdco. The awards contain restrictions on transferability and other typical terms and conditions. The Company is currently evaluating the impact of these unit-based compensation awards on its Consolidated Financial Statements.

16. Income Taxes

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

State and local

)

	2010	2009	2008
Current			
Federal	$ —	$ —	$ (6)
	2	2	(4
Foreign	45	2	5
Total current	47	4	(5)
Deferred			
Federal	1	(7)	1
State and local	—	—	—
Foreign	(13)	(5)	(12)
Total deferred	(12)	(12)	(11)
Income tax expense (benefit)	$ 35	$ (8)	$ (16)

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:

< td style="vertical-align:bottom;background-color:#cceeff;">

	2010	2009	2008
Income tax benefit computed at federal statutory tax rate	$ 85	$ 47	$ (413)
State tax provision, net of federal benefits	2	2	2
Foreign tax rate differential	48	(9)	—
Foreign source income subject to U.S. taxation	25	1	3
Losses and other (income) expenses not deductible for tax	(69)	(7)	116
(Decrease) increase in th e taxes due to changes in valuation allowance	(55)	(34)	289
Additional tax (benefit) on foreign unrepatriated earnings	1	(1)	(1)
Changes in enacted tax rates	< font style="font-family:inherit;font-(1size:9pt;">)	(2)	(1)
Adjustments of prior year estimates and other	(1)	(5)	(11)
Income tax expense (benefit)	$ 35	$ (8)	$ (16)

For the year ending December 31, 2008, losses and other expenses not deductible for tax include the $200 non-cash push - -down of settlement costs paid by Apollo (see Note 2) 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, 2010.

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

	2010	2009	2008
Domestic	$ 296	$ 128	$ (1,022)
Foreign	(53)	6	(158)
	$ 243	$ 134	$ (1,180)

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:

	2010	2009
Assets		
Non-pension post-employment	$ 7	$ 8
Accrued and other expenses	76	99
Loss and credit carryforwards	557	712
Pension liabilities	31	38
Gross deferred tax assets	671	857
Valuation allowance	(483)	(583)
Net deferred tax asset	188	274
Liabilities		
Property, plant and equipment	(164)	(181)
Unrepatriated earnings of foreign subsidiaries	(88)	(73)
Intangibles	(17)	(32)
Deferred income from extinguishment of debt	—	(76)
Gross deferred tax liabilities	(269)	(362)
Net deferred tax liability	$ (81)	$ (88)

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

	2010	2009
Assets		
Current deferred income taxes (Other current assets)	$ 24	$ 17
Long-term deferred income taxes (Other assets)	5	15
Liabilities		
Current deferred income taxes (Other current liabilities)	—	(4)
Long-term deferred income taxes	(110)	(116)
Net deferred tax liability	$ (81)	$ (88)

MSC Holdings and its eligible subsidiaries file a consolidated U.S. Federal income tax return. As MSC Holdings is not a member of the registrant, its tax attributes are not reflected in the tables above. However, because MSC Holdings is the Company's parent, the Company can utilize MSC Holdings attributes. These attributes are comprised of $366 of deferred interest deductions, which have an unlimited carryover, but have significant restrictions on their use. MSC Holdings 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, 2010, the Company has a $483 valuation allowanc e 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 $1,055, which expire starting in 2020. The Company's deferred assets also include minimum tax credits of $2, which are available indefinitely. A valuation allowance of $313 has been provided against these items. The Company had undistributed earnings of certain foreign subsidiaries of $118, 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, 2010 , 2009 and 2008:

	Balance at Beginning of Period	Changes in related Gross Deferred Tax Assets/Liabilities	Charge/Release	Balance at End of Period
Valuat ion allowance on Deferred tax assets:				
Year ended December 31, 2008	$ 356	$ (31)	$ 298	$ 623
Year ended December 31, 2009	623	(15)	(25)	583
Year ended December 31, 2010	583	53	(153)	483

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 Brazil, Canada, the Czech Republic, France, Germany, Italy, South Korea, Netherlands and the United States.

The Company is no longer subject to U.S. federal examinations for years before December 31, 2007; however, 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.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2010	2009
Balance at beginning of year	$ 60	$ 57
Additions based on tax positions related to the current year	22	7
Additions for tax positions of prior years	3	2
Reductions for tax positions of prior years	—	(6)
Balance at end of year	$ 85	$ 60

During the year ended December 31, 2010, the company increased its amount of unrecognized tax benefits, including its accrual for interest and penalties, by $31 for various intercompany transactions and prior year changes in estimates. During the years ended December 31, 2010, 2009 and 2008, the Company recognized approximately $1, $1 and $(1), respectively, in interest and penalties. The Company had approximately $27 and $22 accrued for the payment of interest and penalties at December 31, 2010 and 2009, respectively.

$85 of u nrecognized tax benefits, if recognized, would affect the effective tax rate. The Company anticipates recognizing a range of $3 to $41 of the total amount of unrecognized tax benefits, exclusive of interest, within the next 12 months as a result of negotiations with foreign jurisdictions and completion of foreign and U.S. state audit examinations.

17. Segment Information

Effective January 1, 2010, the Company made certain changes to its internal reporting structure. Additionally, on January 1, 2010, upon the adoption of new accounting guidance related to the consolidation of variable interest entities, the Company deconsolidated HAI, its foundry applications joint venture between the Company and Delta-HA, Inc., from its unaudited Condensed Consolidated Financial Statements. These changes caused the Company to re-evaluate its reportable segments. Effective in the first quarter of 2010, the results of the Company's oil field products applications and the equity earnings in its HAI joint venture are included within its Epoxy and Phenolic Resins segment. Previously the results of these businesses were reported in the Performance Products segment.

On January 31, 2011, the Company sold its Inks and Adhesive Resins ("IAR") business to Harima Chemicals, Inc. for a purchase price of approximately $120. The IAR business was previously reported within the Coatings and Inks segment and effective in the fourth quarter of 2010, is reported as a discontinued operation as of December 31, 2010, for the year ended December 31, 2010 and for all periods presented. The presentation of the IAR business as a discontinued operation also caused the Company to re-evaluate its reportable segments. After removing the IAR business from the Coatings and Inks segment results, the remaining coatings operating segment continues to qualify as a reportable segment, and is now reported as the Coatings segment.

The Company's business segments are based on the products that the Company offers and the markets that it serves. At December 31, 2010, the Company had three reportable segments: Epoxy and Phenolic Resins, Formaldehyde and Forest Products Resins and Coatings. A summary of the major products of the Company's reportable segments follows:

- Epoxy and Phenolic Resins: epoxy specialty resins, oil field products, versatic acids and derivatives, basic epoxy resins and intermediates and phenolic specialty resins and molding compounds
- Formaldehyde a nd Forest Products Resins: forest products resins and formaldehyde applications
- Coatings: polyester resins, alkyds resins, acrylic resins and vinylic resins

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 may result in future changes to the Company's reportable segments.

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 ce rtain 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, such as shared service and administrative functions, foreign exchange gains and losses and legacy company costs not allocated to continuing segments.

Net Sales to Unaffiliated Customers for the years ended December 31[1][2]< /sup>:

	2010	2009	2008
Epoxy and Phenolic Resins	$ 2,530	$ 1,944	$ 2,795
Formaldehyde and Forest Products Resins	1,607	1,198	2,049
Coatings	681	609	846
Total	$ 4,818	$ 3,751	$ 5,690

Segment EBITDA for the years ended December 31[2]:

	2010	2009	2008
Epoxy and Phenolic Resins[3]	$ 431	$ 267	$ 278 < div style="text-align:left;">
Formaldehyde and Forest Products Resins[4]	177	111	198
Coatings[5]	63	46	23
Corporate and Other	(62)	(51)	(50)

Depreciation and Amortization Expense for the years ended December 31[2]:

	2010	2009	2008
Epoxy and Phenolic Resins	$ 98	$ 101	$ 110
Formaldehyde and Forest Products Resins	47	45	48
Coatings	15	16	21
Corporate and Other	6	7	12
Total	$ 166	$ 169	$ 191

Total Assets as of December 31[2]:

	2010	2009
Epoxy and Phenolic Resins	$ 1,598 ;	$ 1,653
Formaldehyde and Forest Products Resins	849	819
Coatings	277	295
Corporate and Other	233	32
Discontinued Operations	180	174
Total	$ 3,137	$ 2,973

Capital Expenditures for the years ended December 31[2][6]:

	2010	2009	2008
Epoxy and Phenolic Resins	$ 67	$ 47	$ 64
Formaldehyde and Forest Products Resins	34	70	46
Coatings	12	8	12
Corporate and Other	3	4	5
Total	$ 116	$ 129	$ 127

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

(2) The Company changed its segment reporting in 2010. Prior period balances have been recast to conform to the Company's current reportable segments.

(3) Included in the Epoxy and Phenolic Resins Segment EBITDA are Earnings from unconsolidated affiliates, net of taxes of $7 for the year ended December 31, 2010

(4) Included in Formaldehyde and Forest Products Resins Segment EBITDA are Earnings from unconsolidated entities, net of taxes of less than $1, less than $1 and $1 for the years ended December 31, 2010, 2009 and 2008, respectively.

(5) Included in the Coatings Segment EBITDA are Earnings from unconsolidated entities, net of taxes of $1, $2 and $1 for the years ended December 31, 2010, 2009 and 2008, r espectively.

(6) Excludes capital expenditures of discontinued operations. Includes capitalized interest costs that are incurred during the construction of property and equipment.

< font style="font-family:inherit;font-size:9pt;font-weight:bold;">Reconciliation of Segment EBITDA to Net Income (Loss):

	Year Ended December 31,		
	2010	2009	2008
Segment EBITDA:			
Epoxy and Phenolic Resins	$ 431	$ 267	$ 278
Formaldehyde and Forest Products Resins	177	111	198
Coatings	63	46	23
Corporate and Other	(62)	(51)	(50)
Reconciliation:			
Items not included in Segment EBITDA			
Terminated merger and settlement income (expense), net	171	62	(1,027)
Integration costs	—	—	(27)
Non-cash charges	(5)	4	(4)
Unusual items:			
(Loss) gain on divestiture of assets	(2)	(6)	5
Net loss from discontinued operations	(2)	(27)	(23)
Business realignments	(22)	(41)	(32)
Asset impairments	—	(49)	(15)
Other	(28)	(41)	(38)
Total unusual items	(54)	(164)	(103)
Total adjustments	112	(98)	(1,161)
Interest expense, net	(276)	(223)	(303)
(Loss) gain on extinguishment of debt	(30)	224	—
Income tax (expense) benefit	< /td> (35)	8	16
Depreciation and amortization	(166)	(170)	(191)
Net income (loss) attributable to Momentive Specialty Chemicals Inc.	214	114	(1,190)
Net income attributable to noncontrolling interest	—	3	5
Net income (loss)	$ 214	$ 117	$ (1,185)

Items not included in Segment EBITDA

In 2010 , Terminated merger and settlement income, net primarily includes the pushdown of Apollo's 2010 recoveries of $163 in insurance proceeds in 2010 related to the $200 settlement payment made by Apollo that was treated as a pushdown of shareholder expense in 2008 and the $8 in insurance settlements related to the New York Shareholder Action. In 2009, Terminated merger and settlement expense, net includes the pushdown of Apollo's recovery of $37 in insurance proceeds in 2009 related to the $200 settlement payment made by Apollo, as well as discounts on certain of the Company's merger related service provider liabilities. This income was partially offset by legal and consulting costs and legal contingency accruals related to the New York Shareholder Action. In 2008, Terminated merger and settlement exp ense, net 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.

Integration costs primarily represent redundancy and incremental administrative costs for integration programs as a result of the Hexion Formation, 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 represent stock-based compensation expense, accelerated depreciation on closing facilities and unrealized derivative and foreign exchange gains and losses. Loss from discontinued operations represents the results of the IAR business.

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 2010, these items consisted of business realignment costs primarily related to expenses from the Company's productivity program, realized foreign exchange gains and losses and retention program costs. For 2009, these items consisted of business realignment costs primarily related to expense from the Company's productivity program, asset impairments, retention program costs and realized foreign exchange gains and losses. For 2008, these items consisted of asset impairments, a gain on the sale of a portion of the Company's ownership in HAI and a gain on the sale of certain assets of a non-core product line.

Geographic Information

Net Sales to Unaffiliated Customers for the years ended December 31[1]:

	2010	2009	2008
United States	$ 2,082	$ 1,568	$ 2,467
Netherlands	938	846	1,222
Germany	347	282	494
Canada	244	165	276
Other international	1,207	890	1,231
Total	$ 4,818	$ 3,751	$ 5,690

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

Long-Lived Assets as of December 31:

	2010	2009
United States	$ 518	$ 545
Netherlands	251	289
Germany	&nbs 118p;	135
Canada	70	70
Other international	331	341
Total	$ 1,288	$ 1,380

Product Line Information

Net Sales to Unaffiliated Customers for the years ended December 31:

	2010	2009	2008
Epoxy resins and intermediates	$ 1,412	$ 1,092	$ 1,501
Forest products resins	1,205	927	1,534
Coating products	681	608	8 46
Phenolic specialty resins	488	325	545
All other[1]	1,032	799	1,264
Total	$ 4,818	$ 3,751	$ 5,690

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

18. 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 8.875% first priority senior secured notes due 2018, the floating rate second-priority senior secured notes due 2014 and the 9% second-priority notes due 2020.

The following information contains the condensed consolidating financial information for MSC (the parent), the Subsidiary Issuers, the combined subsidiary guarantors (Momentive Specialty Chemical Investments Inc.; Borden Chemical Foundry; LLC, Lawter International, Inc.; HSC Capital Corporation; Momentive International, Inc.; Momentive CI Holding C ompany; NL COOP Holdings LLC and Oilfield Technology Group, Inc.) and the combined non-guarantor subsidiaries, which includes all of the Company's foreign subsidiaries and HAI (prior to the deconsolidation of this entity).

All of the subsidiary issuers and subsidiary guarantors are 100% owned by MSC. 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, New Zealand and Brazilian subsidiaries 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.

MOMENTIVE SPECIALTY CHEMICALS INC.

Notes to Consolidated Financial Statements
(dollars in millions)

YEAR ENDED DECEMBER 31, 2010
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

< td style="vertical-align:bottom;border-bottom:1px solid #000000;">

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Elimination
Net sales	$ 2,223	$ —	$ —	$ 2,934	$ (339
Cost of sales	1,826	—	—	2,587	(339)
Gross profit	397	—	—	347	—
Selling, general and administrative expense	129	—	—	215	—
Terminated merger and settlement (income) expense, net	(171)	—	—	—	—
Business realignment costs	7	—	—	15	—
Other operating expense (income), net	7	—	—	(2)	—
Operating income	425	—	—	119	—
Interest expense, net	92	144	—	40	—
Loss on extinguishment of debt	7	5	—	18	—
Intercompany interest expense (income)	123	(169)	(1)	47	—
Other non-operating (income) expense, net	(19)	8	—	6	—
Income before income tax, earnings from unconsolidated entities	222	12	1	8	—
Income tax (benefit) expense	(11)	10	—	36	—
Income (loss) before earnings from unconsolidated entities	233	2	1	(28)	—
Earnings from unconsolidated entities, net of taxes	(13)	—	(5)	—	26
Net income (loss) from continuing operations	220	2	(4)	(28)	26
Net (loss) income from discontinued operations, net of tax	(6)	—	—	4	—
Net income (loss) attributable to Momentive Specialty Chemicals Inc.	$ 214	$ 2	$ (4)	$ (24)	$ 26

MOMENTIVE SPECIALTY CHEMICALS INC.

Notes to Consolidated Financial Statements
(dollars in millions)

YEAR ENDED DECEMBER 31, 2009
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Elim
Net sales	$ 1,620	$ —	$ —	$ 2,475	$ (3
Cost of sales	1,431	—	—	2,173	(3
Gross profit	189	—	—	302	—
Selling, general and administrative expense	96	—	—	224	
Terminated merger and settlement (income) expense, net	(64)	—	—	2	
Asset impairments	37	—	—	12	
Business realignment costs	18	—	—	23	—
Other operating expense (income), net	10	— < /td>	(1)	1	
Operating income	92	—	1	40	
Interest expense, net	130	62	—	31	
Gain on extinguishment of debt	(76)	(148)	—	—;	
Intercompany interest expense (income)	67	(82) &nb sp;	(1)	16	
Other non-operating (income) expense, net	(6)	7	1	< font style="font-family:inherit;font-size:9pt;">(2)	
(Loss) income before income tax, earnings from unconsolidated entities	(23)	161	1	(5)	
Income tax (benefit) expense	(4)	6	—	(10)	
(Loss) income before earnings from unconsolidated entities	(19)	155	1	5	
Earnings from unconsolidated entities, net of taxes	145	—	2	2	(1
Net income from continuing operations	126	155	3	7	(1
Net loss from discontinued operations, net of tax	(9)	—	—	(18)	
Net income attributable to noncontrolling interest	(3)	—	—	—	
Net income (loss) attributable to Momentive Specialty Chemicals Inc.	$ 114	$ 155	$ 3	$ (11)	$ (1

MOMENTIVE SPECIALTY CHEMICALS INC.

Notes to Consolidated Financial Statements
(dollars in millions)

YEAR ENDED DECEMBER 31, 2008
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidia ries	Eliminations
Net sales	$ 2,565	$ —	$ —	$ 3,592	$ (467
Cost of sales	2,327	—	—	3,231	(467
Gross profit	238	—	—	361	—
Selling, general and administrative expense	104	—	—	256	—
Terminated merger and settlement expense, net	872	—	—	155	—
Integration costs	13	—	—	14	—
Asset impairments	2	—	—	13	—
Business realignment costs	5	—	—	27	—
Other operating expense (income), net	7	1	(1)	2	—
Operating (loss) income	(765)	(1)	1	(106)	—
Interest expense, net	160	77	—	66	—
Intercompany interest expense (income)	< 93/div>	(90)	(1)	(2)	—
Other non-operating (income) expense, net	(4)	10	—	—	—
(Loss) income before income tax, earnings from unconsolidated entities	(1,014)	2	2	(170)	—
Income tax benefit	(13)	(1)	—	(2)	—
(Loss) income before earnings from unconsolidated entities	(1,001)	3	2	(168)	—
Earnings from unconsolidated entities, net of taxes	(175)	—	6	2	169
Net (loss) income from continuing operations	(1,176)	3	8	(166)	169
Net loss from discontinued operations, net of tax	(9)	—	—	(14)	—
Net income attributable to noncontrolling interest	(5)	—	—	—	—
Net (loss) income attributable to Momentive Specialty Chemicals Inc.	$ (1,190)	$ 3	$ 8	$ (180)	$ 169

(dollars in millions)

Table of Contents

DECEMBER 31, 2010
CONDENSED CONSOLIDATING BALANCE SHEET

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eli
Assets					
Current assets					
Cash and cash equivalents (including restricted cash of $0 and $6, respectively)	$ 56	$ —	$ —	130 $< /td>	$
Short-term investments	—	—	—	6	
Accounts receivable, net	135	—< /td>	—	412	
Inventories: < /div>					
Finished and in-process goods	135	—	—	144	
Raw materials and supplies	43	—	—	< div style="text-74align:left;">	
Discontinued operations	39	— &n bsp;	—	141	
Other current assets	32	—	—	48	
Total current assets	< div style="text-align:right;font-size:8pt;">440	—	—	955	
Other assets					
Other assets	6	41	30	73	3< /
Property and equipment, net	518	—	—	770	
Goodwill	93	—	—	76	
Other intangible assets, net	62	—	—	70	
Total assets	$ 1,119	$ 41	$ 30	$ 1,944	$
Liabilities and (Deficit) Equity					
Current liabilities					
Accounts and drafts payable	$ 153	$ —	$ —	$ 277	$
Intercompany accounts (receivable) payable	(140)	(46)	—	186	
Debt payable within one year	25	—	—	57	
Intercompany loans (receivable) payable	(97)	—	—	97	
Loans payable to affiliates	2	—	—	—	
Interest payable	21	46	—	2	
Income taxes payable	7	—	—	17	
Accrued payroll an d incentive compensation	29	—	—	37	
Discontinued operations	18	—	—	22	
Other current liabilities &nb sp;	92	—	—	60	
Total current liabilities	110	—	—	755	
Long-term debt	1,152	1,687	—	649	—
Affiliated long-term debt	80	—	—	20	
Intercompany loans payable (receivable)	1,352	(1,887)	(15)	550	
Long-term pension and post employment benefit obligations	83	—	—	125	
Deferred income taxes	35	2	—	73	
Other long-term liabilities	104	6	—	50	
Advance from affiliates	225	—	—	—	
Total liabilities	3,141	(192)	(15)	2,222	
Total Momentive Specialty Chemicals Inc. shareholder's (deficit) equity	(2,022)	233	45	(281)	
Noncontrolling interest	—	—	—	3	—
Shareholder’s (deficit) equity	(2,022)	233	45	(278)	
Total liabilities and (deficit) equity	$ 1,119	$ 41	$ 30	$ 1,944	$

MOMENTIVE SPECIALTY CHEMICALS INC.

Notes to Consolidated Financial Statements
(dollars in millions)

DECEMBER 31, 2009
CONDENSED CONSOLIDATING BALANCE SHEET

< td style="vertical-align:bottom;background-color:#cceeff;border-bottom:1px solid #000000;">

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Elimin
Assets					
Current assets					
Cash and cash equivalents (including restricted cash of $0 and $7, respectively)	$ 22	$ —	$ —	$ 120	$ —
Short-term investments	—	—	—	10	—
Accounts receivable, net	35	—	—	388	—
Inventories:					
Finished and in-process goods	125	—	—	120	—
Raw materials and supplies	37	—	—	58	—
Discontinued operations	22	—	—	79	—
Other current assets	22	—	—	55	—
Total current assets	263	—	—	830	—
Other assets					
Investment in subsidiaries	831	—< /font>	23	—	(85
Other assets	33	6	—	60	—
	864	6	23	60	(85
Property and equipment, net	538	—	—	842	—
Goodwill	94	—	—	83	—
Other intangible assets, net	68	—	—	83	—
Discontinued operations	17	—	—	56	—
Total assets	$ 1,844	$ 6	$ 23	$ 1,954	$ (85
Liabilities and (Deficit) Equity					
Current liabilities					
Accounts and drafts payable	$ 157	$ —	$ —	$ 300	$ —
Intercompany accounts (receivable) payable	(13)	(4)	—	17	—
Debt payable within one year	22	—	—	56	—
Intercompany loans payable (receivable)	360	—	(5)	(355)	—
Loans payable to affiliates	4	—	—	—	—
Interest payable	27	7	—	2	—
Income taxes payable	9	—	—	26	—
Accrued payroll and incentive compensation	19	—	—	28	—
Discontinued operations	16	—	—	24	—
Other current liabilities	95	—	—	96	—
Total current liabilities	696	3	(5)	194	—
Long-term debt	1,969	653	— < /td>	702	—
Affiliated long-term debt	80	—	—	20	—
Intercompany loans payable (receivable)	683	(868)	(14)	199	—
Long-term pension and post employment benefit obligations	98	—	—	126	—
Deferred income taxes	39	—	—	77	—
Other long-term liabilities	106	—	—	30	—
Advance from affiliates	225	—	&m dash;	—	—
Discontinued operations	—		—	9	—
Total liabilities	3,896	(212)	(19)	1,357	—
Total Momentive Specialty Chemicals Inc. shareholder's (deficit) equity	(2,063)	218	42	594	(85
Noncontrolling interest	11	—	—	3	—
Shareholder&rsqu o;s (deficit) equity	(2,052)	218	42	597	(85
Total liabilities and (deficit) equity	$ 1,844	$ 6	$ 23	$ 1,954	$ (85

MOMENTIVE SPECIALTY CHEMICALS INC.

Notes to Consolidated Financial Statements
(dollars in millions)

YEAR ENDED DECEMBER 31, 2010
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Elimina
Cash flows (used in) provided by operating activities	$ (465)	$ 19	$ —	$ 491	$ —
Cash flows provided by (used in) investing activities					
Capital expenditures	(52)	—	—	(67)	—
Capitalized interest	—	—	—	(1)	—
Change in restricted cash	—< /font>	—	—	2	—
Proceeds from the return of capital from subsidiary	< font style="font-family:inherit;font-size:8pt;">367 (a)	—	—	—	(367
Dividend from subsidiary	18	—	1	—	(19
Proceeds from the sale of assets	6	—	—	8	—
Deconsolidation of variable interest entity	—	—	—	(4)	—
Investment in unconsolidated affiliates, net	&nb —sp;	—	4	1	—
Proceeds from matured debt securities	—	—	—	4	—
	339	—	< div style="text-align:right;font-size:8pt;">5	(57)	(386
Cash flows provided by (used in) financing activities					
Net short-term debt (repayments) borrowings	3	—	—	(10)	—
Borrowings of long-term debt	290	1,433	—	633	—
Repayments of long-term debt	(1,108)	(406)	—	(663)	—
Repayments of affiliated debt	(3)	—	—	—	—
Return of capital to parent	—	—	—	(367) (a)	367
Net intercompany loan borrowings (repayments)	987	(973)	—	(14)	—
Long-term debt and credit f acility financing fees	(9)	(63)	—	—	—
Payments of dividends on common stock	—	(10< /div>)	(5)	(4)	19
	160	(19)	(5)	(425)	386
Effect of exchange rates on cash and cash equivalents	—	—	—	2	&mda sh;
Increase in cash and cash equivalents	34	—	—	11	—
Cash and cash equivalents (unrestricted) at beginning of year	22	—	—	113	—
Cash and cash equivalents (unrestricted) at end of year	$ 56	$ —< /div>	$ —	$ 124	$ —

(a) In March, June, September and December 2010, Momentive Specialty Chemicals Inc. contributed receivables of $100, $100, $107 and $67, respectively to a non-guarantor subsidiary as capital contributions, resulting in a non-cash transaction. During the year ended December 31, 2010, the non-guarantor subsidiary sold $374 of the contributed receivables to affiliates of Apollo for net cash of $367 (see Note 8). The cash proceeds were returned to Momentive Specialty Chemicals Inc. by the non-guarantor subsidiary as a return of capital. The sale of receivables has been included within cash flows from operating activities on the Combined non-guarantor subsidiaries. The return of the cash proceeds from the sale of receivables has been included as a financing outflow and an investing inflow on the Combined Non-Guarantor Subsidiaries and Momentive Specialty Chemicals Inc., respectively.

MOMENTIVE SPECIALTY CHEMICALS INC.

Notes to Consolidated Financial Statements
(dollars in millions)

YEAR ENDED DECEMBER 31, 2009
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

< td style="vertical-align:bottom;background-color:#cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

(222

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows (used in) provided by operating activities	$ (197)	$ (16)	$ —	$ 568	$ —	$ 355
Cash flows provided by (used in) investing activities						
Capital expenditures	(38)	—	—	(93)	—	(131)
Capitalized interest	—	—	—	(5)	—	(5)
Change in restricted cash	—	—	—	2	—	2&nbs p;
Purchases of investments	—	—	—	(2)	&mdas h;	(2)
Proceeds from the return of capital from subsidiary	392 (a)	—	—	—	(392)	—& nbsp;
Dividend from subsidiary	6	—	5	—	(11)	—
Proceeds from the sale of assets	4	—	—	—	—	4
	364	—	5	(98)	(403)	(132)
Cash flows (used in) provided by financing activities						
Net short-term debt repayments	(2)	—	—	(8)	—	(10)
Borrowings of long-term debt	587	—	—	568	—	1,155
Repayments of long-term debt	(690)	(24)	—	(690)	—	(1,404)
Borrowings of affiliated debt	84	—	—	20	—	104
Purchase of note receivable due from parent	—	—	—	(24)	—	(24)
Deconsolidation of noncontrolling interest in variable interest entity	(24)	—	—	—	—	(24)
Return of capital to parent	—	—	—	(392) (a)	392	—
Net intercompany loan (repayments) borrowings	(108)	40	—	68	—	—
Payment of dividends to non-controlling interest	—	—	—	(4)	—	(4)
Long-term debt and credit facility financing fees	(5)	—	—	—	—	(5)
Payments of dividends on common stock	(10)	—	(5)	(6)	11	(10)
	(168)	16	(5)	(468)	403	)
Effect of exchange rates on cash and cash equivalents < /td>	—	—	—	13	—	13
(Decrease) increase in cash and cash equivalents	(1)	—	—	15	—	14
Cash and cash equivalents (unrestricted) at beginning of year	23	—	—	98	—	121
Cash and cash equivalents (unrestricted) at end of year	$ 22	$ —	$ —	$ 113	$ —	$ 135

(a) In March, June, September, November and December 2009, Momentive Specialty Chemicals Inc. contributed receivables of $70, $85, $110, $33 and $104, respectively to a non-guarantor subsidiary as capital contributions, resulting in a non-cash transaction. During the year ended December 31, 2009, the non-guarantor subsidiary sold $402 of the contributed receivables to affiliates of Apollo for net cash of $392 (see Note 8). The cash proceeds were returned to Momentive Specialty Chemicals Inc. by the non-guarantor subsidiary as a return of capital. The sale of receivables has been inc luded within cash flows from operating activities on the Combined non-guarantor subsidiaries. The return of the cash proceeds from the sale of receivables has been included as a financing outflow and an investing inflow on the Combined Non-Guarantor Subsidiaries and Momentive Specialty Chemicals Inc., respectively.

MOMENTIVE SPECIALTY CHEMICALS INC.
Notes to Consolidated Financial Statements
(dollars in millions)

YEAR ENDED DECEMBER 31, 2008
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

< td colspan="2" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;">

—

< td colspan="2" style="vertical-align:bottom;background-color:#cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;">

—

	Momentive 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)
Change in restricted cash	—	—	—	(6)	—	(6)
Purchases of investments	—	—	—	(7)	—	(7)
Dividend from subsidiary	8	&n—bsp;	—	&md ash;	(8)	
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)
Payments of dividends on common stock	(2)	—	(5)	(3)	8	(2)
Affiliated loan borrowings (repayments)	232	(3)	7	(236)	—	—
Capital contribution from parent	325	—	—	—	—	325
Contingent affiliate advance	225	—	—	—	—	225
Noncontrolling 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 (unrestricted) at beginning of year	107	—	—	92	—	199
Cash and cash equivalents (unrestricted) at end of year	$ 23	$< /font> —	$ —	$ < div style="text-align:right;font-size:8pt;">98	$ —	$ 121

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of
Momentive 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 Momentive Specialty Chemicals Inc. and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 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.

PricewaterhouseCoopers LLP
Columbus, Ohio
February 28, 2011

Schedule II – Valuation and Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to cost and expenses[(1)]	Charged to other accounts	Deductions	Balance at End of Period
Allowance for Doubtful Accounts:					
Year ended December 31, 2010	$ 24	$ 6	$ —	$ (5)	$ 25
Year ended December 31, 2009	23	7	—	(6)	24
Year ended December 31, 2008	22	2	—	(1)	23
Reserve for Obsolete Inventory:					
Year ended December 31, 2010	$ 10	$ 9	$ —	$ (10)	$ 9
Ye ar ended December 31, 2009	8	5	—	(3)	10
Year ended December 31, 2008	12	8	—	(12)	8

(1) Includes the impact of foreign currency translatio n

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

None.

ITEM 9A - 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, 2010.

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 as sets 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 de gree 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, 2010. 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, 2010, 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 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

On February 23, 2011, the Compensation Committee of the Board of Managers of Momentive Holdco approved the Momentive Performance Materials Holdings LLC 2011 Equity Incentive Plan (the “Plan”). Our directors, executive officers and selected key members of management are eligible to participate in the Plan. Under the Plan, Momentive Holdco can award Unit Options, Unit Awards, Restricted Units, Restricted Deferred Units, and Other Unit-Based Awards.

Also on February 23, 2011, the Committee made awards of Restricted Deferred Units and Unit Options to certain participants, including our directors and named executive officers. The following grants were made to our Chief Executive Officer, our Chief Financial Officer and our other Named Executive Officers:

Craig O. Morrison - 193,667 restricted deferred units, 581,001unit options
William H. Carter - 154,934 restricted deferred units, 464 ,801 unit options
Joseph P. Bevilaqua - 122,344 restricted deferred units, 367,033 unit options
Judith A. Sonnett - 153,295 restricted deferred units, 459,886 unit options
Dale N. Plante - 76,748 restricted deferred units, 230,243 unit options

The restricted deferred units are non-voting units of measurement which are deemed for bookkeeping purposes to be equivalent to one common unit of Momentive Holdco. The unit options are options to purchase common units of Momentive Holdco. The awards made pursuant to the Plan will vest based on continued service and the achievement of certain unit prices following certain transactions involving Momentive Holdco. The awards contain restrictions on transferability and other typical terms and conditions.

Table of Contents

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 February 1, 2011.

Name	Age	Position
Craig O. Morrison	55	Director, Chairman, President and Chief Executive Officer
William H. Carter	57	Director, Executive Vice President and Chief Financial Officer
Robert V. Seminara	39	Director
Jordan C. Zaken	36	Director
David B. Sambur	30	Director
Joseph P. Bevilaqua	55	Executive Vice President, President – Epoxy, Phenolic and Coatings Resins Division
Dale N. Plante	53	Executive Vice President, President – Forest Products Division
Judith A. Sonnett	54	Executive Vice President, Human Resources
Kevin W. McGuire	51	Executive Vice President – Business Processes and IT
Nathan E. Fisher	45	Executive Vice President - Procurement
Anthony B. Greene	51	Executive Vice President - Business Development and Strategy
Douglas A. Johns	53	Executive Vice President and General Counsel
George F. Knight	53	Senior Vice President &nda sh; Finance and Treasurer

Craig O. Morrison was elected President and Chief Executive Officer and a director effective March 25, 2002 and was named Chairman of the Board of Directors on June 1, 2005. He also serves as President and CEO and a director of Momentive Performance Materials Inc. and Momentive Performance Materials Holdings LLC, having been elected to those positions on October 1, 2010. 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 Managers of Momentive Holdco. Mr. Morrison's position as President and Chief Executive Officer, his extensive management experience, and his skills in business leadership and strategy qualify him to serve on our 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. He also serves as Executive Vice President and CFO and a director of Momentive Performance Materials Inc. and Momentive Performance Materials Holdings LLC, having been elected to those positions October 1, 2010. 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, and a director and executive officer of WKI Holding Company, Inc. from 2001 to 2003. Additionally, he has served as a director of Elmer's Products, Inc., Borden Foods Corporation and AEP Industries, Inc. 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. Mr. Carter's position as Executive Vice President and Chief Financial Officer, his extensive management experience, and his skills in financial leadership qualify him to serve on our 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. He is Chairman of the Audit Committee of the Board of Directors of the Company and of Momentive Performance Materials Holdings LLC's Board of Managers. Within the past five years he also served as a director of Momentive Performance Materials Holdings LLC, Covalence Specialty Materials, World Kitchen, Inc., Berry Plastics Corporation and Skylink Aviation, Inc., all Apollo portfolio companies. In light of our ownership structure and Mr. Seminara's position with Apollo and his extensive financial and business experience, we believe it is appropriate for Mr. Seminara to serve as a director of the Company.

Jordan C. Zaken was elected a director of the Company on June 29, 2005. Mr. Zaken is a Partner at Ap ollo, where he has worked since 1999. Prior to that time, Mr. Zaken was employed by Goldman, Sachs & Co. in its Mergers and Acquisitions Department. He also is a director of Apollo portfolio companies: Momentive Performance Materials Inc., Momentive Performance Materials Holdings LLC, Verso Paper Corp, Verso Paper Holdings, LLC. Within the past five years, Mr. Zaken was a director of Parallel Petroleum Corporation. He is the Chairman of the Compensation Committee of the Board of Directors of the Company. He is also a member of the Environmental, Health and Safety Committee, the Executive Committee, Audit Committee, and Chair of the Compensation Committee of the Board of Managers of Momentive Performance Materials Holdings LLC. In light of our ownership structure and Mr. Zaken's extensive finance and business experience, we believe it is appropriate for Mr. Zaken to serve as a director of the Company.

David B. Sambur was elected a director of the Company on October 1, 2010. He is a principal of Apollo Management, L.P., where he has worked since 2004. He was a member of the Leveraged Finance Group of Salomon Smith Barney Inc. from 2002 to 2004. Mr. Sambur also is a director of Verso Paper Corp., Verso Paper Holdings, Caesars Entertainment Corporation, Momentive Performance Materials Holdings LLC, and Momentive Performance Materials Inc, all Apollo portfolio companies. He serves on the Audit and Compensation Committees of the Company's Board of Directors. He also is a member of the Audit and Compensation Committees of the Board of Managers of Momentive Performance Materials Holdings LLC.

Joseph P. Bevilaqua is an Executive Vice President and President of the Epoxy, Phenolic and Coating Resins Division. Since August 10, 2008, he has been responsible for the epoxy and phenolic resins businesses and in October 2010, the coatings business was added to his division responsibilities. 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 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.

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 thirty years in the forest products sector with the Company and its predecessors. Prior to becoming President of the Forest Products division, in 2005 Mr. Plante relocated from Canada to Rotterdam to become the Managing Director of Forest Products and Formaldehyde - Euro pe. In 2007, Mr. Plante was promoted to Vice President and 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 also serves as Executive Vice President - Human Resources of Momentive Performance Materials Inc, having been elected to that position on October 1, 2010. She has served in various HR leadership roles for the Company and its predecessors since November 1998. Prior to her election to her current position, 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 B orden Chemical Inc. from November 1998 thru November 2004. From 1995 to 1998 Ms. Sonnett worked in Human Resources for W.L. Gore and Associates.

Kevin W. McGuire was elected Executive Vice President - Business Processes and IT on June 1, 2005. He also serves as Executive Vice President - Business Processes and IT of Momentive Performance Materials Inc, having been elected to that position October 1, 2010. Mr. McGuire joined the Company in 2002 as the Chief Information Officer.

Nathan E. Fisher was elected Executive Vice President - Procurement on June 1, 2005. He also serves as Executive Vice President - Procurement of Momentive Performance Materials Inc, having been elected to that position on October 1, 2010. Mr. Fisher joined the Company in March 2003 as Director of Strategic Sourcing and was promoted to Vice President - Global Sourcing in September 2004.

Anthony B. Greene was elected Executive Vice President- Business Development and Strategy on October 1, 2010. Mr. Greene also serves in that capacity for Momentive Performance Materials Inc. Mr. Greene joined Momentive Performance Materials Inc. upon its formation on December 4, 2006 as Global Financial Planning and Analysis Manager. He was appointed Global Business Development Leader in January 2010. Prior to December 2006, he served as Global Financial Planning and Analysis Manager for GE Advanced Materials since 2005. Mr. Greene joined GE in 1981 and has held numerous financial management roles in a wide variety of GE businesses in the U.S., Asia and Europe.

Douglas A. Johns was elected Executive Vice President and General Counsel on October 1, 2010. He also serves as Executive Vice President, General Counsel and Secretary of Momentive Performance Materials Inc. and Momentive Performance Materials Holdings LLC. Mr. Johns joined Momentive Performance Materials Inc. as General Counsel and Secretary upon its formation on December 4, 2006. He was promoted to Executive Vice President on October 1, 2010. Prior to that time, Mr. Johns served as General Counsel for GE Advanced Materials, a division of the General Electric Company ("GE") from 2004 to December 2006. Mr. Johns began his career as a trial lawyer at the U.S. Department of Justice and was in private practice before joining GE in 1991, where he served as Senior Counsel for global regulatory and environmental matters and Senior Business Counsel at GE Plastics' European headquarters in Bergen Op Zoom, The Netherlands from 2001 to 2004.

George F. Knight was elected Senior Vice President - Finance and Treasurer on June 1, 2005. Mr. 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. He also serves as Senior Vice President Finance and Treasurer of Momentive Performance Materials Inc. and Momentive Performance Materials Holdings LLC, having been elected to those positions on October 1, 2010 and November 1, 2010, respectively.

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. Seminara and Sambur, both of whom qualify as 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.Momentive.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, internally fair and externally 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, annual incentive opportunities 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 12 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." Our Senior Leadership Team is currently comprised of 12 individuals, including all o f the named executive officers.

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 a mix of short-term cash-based awards that encourage the achievement of annual goals, and long-term cash and equity-based elements that reward sustained business performance and encourage management stability. 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 stockholders.

Our annual compensation review process includes an evaluation of key objectives and measurable contributions 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 a balance between critical short-term objectives and long-term strategy;
- Each executive's total compensation should have a correlation to the scope of his or her responsibilities and relative contributions 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.

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 when we perform at or above target levels.

Roles and Responsibilities

The Committee makes all final decisions regarding the compensation of our Senior Leadership Team, and is also responsible for approving new compensation programs, changes to existing compensation programs and equity award grants for all other employees. These decisions, other than decisions regarding their own compensation, are ba sed on recommendations made by the CEO and the Executive Vice President of Human Resources. The compensation of the CEO and the Executive Vice President of Human Resources is determined by the Committee. 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 order to obtain a general understanding of current compensation practices when setting executive compensation levels, the Committee considers broad-based competitive 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 rev enues and operational complexity outside the chemical industry. We also use a variety of third party salary surveys, including Hay Group PayNet and Towers Watson Executive Compensation Database. When making its executive compensation decisions, the Committee 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 and Related Actions in 2010

In early 2009, in light of the dramatic volume decreases in most of our businesses in the fourth quarter of 2008, the Committee approved a number of urgent cost-saving actions, including the suspension of the Company match to the defined contribution plan and the reduction by 10% of the base salaries of each member of the Senior Leadership Team.

In January 2010, in anticipation of modest economic recovery and out of concern for retaining members of the Senior Leadership Team, the Committee voted to restore the Senior Leadership Team's base salaries to their 2008 levels, effective April 1, 2010. In addition, executives were eligible to receive merit increases based on individual performance effective April 1, 2010. In May 2010, the Company match to the defined contribution plan was restored for all employees.

No new equity awards were made to executives in 2010.

On October 1, 2010 in connection with the closing of the Momenti ve Combination, we entered into the Shared Services Agreement with MPM, pursuant to which, MPM provides to us, and we provide to MPM, a range of services, including the services of certain executives and employees on a shared basis. Under this arrangement, we provide MPM with the executive services of Mr. Morrison, Mr. Carter and Ms. Sonnett and certain other members of our Senior Leadership Team (while they continue to be employed by, and provide services to, MSC) and MPM provides the executive services of certain members of their Senior Leadership Team (while they continue to be employed by, and provide services to, MPM). In addition, under this agreement, MPM provides to us, and we provide to MPM, the services of various other executives and employees on a shared basis. Pursuant to the Shared Services Agreement, the fully burdened costs (including associated overhead costs) of the executives and other employees that MPM provides to us and we provide to MPM are allocated 51% to us and 49% to MPM, respecti vely, according to an agreed upon methodology, except to the extent that 100% of any cost is demonstrably attributable to or for the benefit of either MPM or us, in which case the entire cost is allocated to such party. Fully burdened costs for shared employees include salary, bonus, cash grants under annual incentive compensation plans, costs under health care, life insurance, pension, retirement, deferred compensation and severance plans and associated overhead, calculated in accordance with accounting policies and procedures approved, from time to time, by the parties. Monthly net payments are made under the Shared Services Agreement based on estimated total allocated costs for all services. Following the end of each quarter, an additional payment is made, if necessary, based on a reconciliation of estimated costs to actual costs for such quarter. We expect that the Momentive Combination, including the Shared Services Agreement, will result in significant synergies for us. For additional details regardin g the Shared Services Agreement, see Item 13 “Certain Relationships and Related Transactions, and Director Independence" of this Annual Report on Form 10-K.

In connection with the Momentive Combination, the responsibilities of certain executives were increased (as described above) and accordingly, effective October 1, 2010, these individuals, including certain of our Named Executive Officers, received salary adjustments and/or increases in their annual incentive compensation targets. These adjustments are further described below.

2011 Compensation Actions

In February, 2011, the Compensation Committee of the Board of Managers of Momentive Holdco approved a new long-term equity incentive plan for employees and directors of the Company and MPM (the “2011 Equity Plan”). The 2011 Equity Plan was adopted to address the concern that many of the Company's key managers do not currently hold a meaningful or any equity stake in Momentive Holdco, and the fact that management's overall ownership interest in Momentive Holdco is relatively small. Grants under the 2011 Equity Plan are denominated in Momentive Holdco common units. Under the 2011 Equity Plan, participants may receive grants of common units, restricted units, restricted deferred units, unit options, and other unit-based awards. Grants of restricted deferred units and options to purchase units were made to a select group of Company leaders, including our Named Executive Officers. The amount of each award is based on the executive's scope of responsibility, long-term potential, retention risk and/or impact on value creation. The awards also varied depending upon the grantees’ existing equity holdings, as the Compensation Committee of Momentive Holdco sought to harmonize equity ownership positions among key executives of MSC and MPM based on the factors above. The awards made pursuant to the 2011 Equity Plan will vest based on continued service and the achievement of certain unit prices following certain transactions involving Momentive Holdco, which we believe provides a retention incentive and encourages long-term value creation.

Executive Compensation Components

The following pa ragraphs describe and analyze the essential components of our executive compensation program which are as follows: base salaries, annual incentive awards, long-term incentive awards, retirement benefits and international assignment compensation and severance benefits. Unless otherwise noted, the same compensation principles apply to all other non-bargained salaried employees of the Company.

1. Base Salaries

We provide our executives with an annual, fixed base salary commensurate with their professional status, accomplishments, scope of responsibility, and overall impact on the organization. The Committee reviews our executives’ base salary levels annually in conjunction with the annual performance review conducted globally for all non-bargained salaried employees. In addition, the Committee reviews base salaries in conjunction with promotions or significant changes in job responsibilities of the Senior Leadership Team. 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 Executive Vice Presidents, in relation to each other, generally reflect the size and complexity of the business or functional operations they manage.

2. Annual Incentive Awards

The purpose of our annual incentive program is to provide a short-term performance incentive and to reward participants for delivering increased value to the organization against specific EBITDA, cash flow and Environmental Health and Safety (“EH&S”) objectives. In order to accomplish this, we have an annual cash incentive plan which uses measurable performance targets. In addition, from time to time the CEO may request a discretionary cash bonus pool to reward exemplary performance, or for retention purposes or in connection with a new hiring or promotion. The CEO makes discretionary bonus recommendations to the Committee for consideration and approval.

Our annual incentive plan 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 pla n for executives and other eligible, salaried employees are identical. We strive to set annual incentive compensation targets that are achievable only through strong performance, believing that this motivates our executives and other participants to deliver ongoing value creation, while allowing the Company to attract and retain a highly talented Senior Leadership Team.

Annual incentive award targets are determined by the Committee as part of the Company's annual planning process in January. 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; expansio n plans; new product development; and other strategic factors that could potentially impact our operations.

The three metrics used in our 2010 Annual Incentive Compensation Plan ("2010 ICP") design are Segment EBITDA, EH&S statistics and Cash Flow. 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 Income (loss)). The Segment EBITDA target for the annual incentive plan is set by the Committee 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. For the 2010 ICP, the targeted MSC Segment EBITDA was $515 million. The minimum threshold for an incentive payout under the Segment EBITDA measure was established at 89.3% of the target and the maximum payout was established at 110.7% of the target.

Cash flow encompasses EBITDA, net trading capital improvement and/or usage, capital spending and interest paid along with other smaller operating cash flow items such as income taxes paid and pension contributions. The purpose of this component is to increase focus on cost control and cost reduction actions to preserve an adequate amount of liquidity to fund operations and capital expenditures, service debt and ultimately sustain the business through difficult economic cycles. The cash flow targets were established as a result of budget projections and reflected a cash usage of $140 million. This target represents a decrease from 2009's actual cash flow generated amount of approximately $274 million and incorporates a usage of cash through an increased investment in working capital of $303 million, due to the anticipated recovery in volumes and raw material price increases within our businesses. Minimum and maximum threshold targets were established for each division and for global MSC. The Segment EBITDA and cash flow measurements act independently such that a payout of one element is possible even if the minimum target threshold for the other is not achieved We believe this design encourages continued focus on critical cash constraints.

Consistent with past plan designs, 10% of the 2010 ICP was based on achievement of Environmental Health and Safety ("EH&S") goals. As a chemical manufacturer, our operations involve the use of hazardous materials, and we are subject to extensive environmental regulation. As a result, EH&S is a critical focus for all of our associates. EH&S targets are measured based upon achievement of goals around reducing occupational illness and injury rates ("OIIR") and environmental incidents such as permit exceedances and hazardous spills. The Company's EH&S target for 2010 was an OIIR of .83. This goal represents a 10% improvement over prior year actual. Any payout on achievement of an EH&S target is contingent upon the achievement of the Segment EBITDA target.

Each par ticipant's incentive target award is based on a percentage of his or her base salary. All executives have 50% of their annual incentive compensation tied to global MSC or Division Segment EBITDA budget targets, 10% tied to EH&S goals and 40% tied to cash flow budget targets. The following table summarizes the targets and performance components, including individual goals and weightings, for each of our Named Executive Officers.

Name	**Incentive Target (% of Base Salary)**	**Award Payout Range (% of Incentive Target)**	**Performance Components Individual Goals**	**Weight**
C. Morrison	100%	50% - 200%	MSC Segment EBIT DA Global EH&S Goals MSC Cash Flow Targets	50% 10% 40%
W. Carter	80%	50% - 200%	MSC Segment EBITDA Global EH&S Goals MSC Cash Flow Targets	50% 10% 40%
J. Bevilaqua	80%	50% - 200%	MSC Segment EBITDA Division Segment EBITDA Division EH&S Goals Division Cash Flow Target	10% 40% 10% 40%
J. Sonnett	60%	50% - 200%	MSC Segment EBITDA Global EH&S Goals MSC Cash Flow Targets	50% 10% 40%
D. Plante	70%< /div>	50% - 200%	MSC Segment EBITDA Division Seg ment EBITDA Division EH&S Goals Division Cash Flow Target	10% 40% 10% 40%

We believe that our Division Presidents' incentive compensation must have a strong tie to their division's performance where they have the greatest impact and closest line of sight and therefore, 90% of their targets are tied to their division's results. Please see "Determining Executive Compensation for our Named Executive Officers" below for a description of each Named Executive Officer's performance against the 2010 ICP goals.

3. Long-term Incentive Awards

Equity Awards

From time to time, grants of equity-based awards may be made to our Named Executive Officers, other members of the Senior Leadership Team and other eligible associates. The purpose of equity awards is to provide a long-term performance incentive and to reward the participants for planning and delivering long-term value. The equity incentive awards granted prior to the Momentive Combination covered equity securities of our parent, MSC Holdings 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. At the time of the Momentive Combination, all outstanding equity-based awards that covered common units of MSC Holdings were converted on a one-for-one basis to cover units of Momentive Holdco. The Company has equity-based awards outstanding under the 2004 Stock Incentive Plan (the "2004 Stock Plan"),the 2004 Deferred Compensation Plan (the "2004 DC Plan"), the RPP Restricted Unit Plan, the 2000 Non-Employee Directors Stock Option Plan, the RPP 2000 Stock Option Plan, the RSM 2004 Stock Option Plan, and.the 2007 Long-Term Incentive Plan (the "2007 Long-Term Plan"). The material terms of awards made to our Named Executive Officers under any of these plans are further described in the Narrative to the Outstanding Equity Awards Table.

Long-Term Cash Awards

The Committee may, from time to time, adopt long-term cash award plans for our Named Executive Officers, other members of the Senior Leadership Team and other eligible associates. The purpose of cash based long -t erm incentive plans is to provide a definite value to the executive after a multi-year period upon the achievement of financial targets and to retain such key employees.

Retaining key talent during difficult business cycles has been a critical focus for us. In early 2009, the Committee approved the 2009 LTIP to provide management stability during a difficult economic environment and focus key leaders, including our Named Executive Officers, on business sustainability and recovery. The terms of the 2009 LTIP are set forth in the Narrative to the Grants of Plan Based Awards Table.

Our 2009 LTIP contained two financial performance measures in order to trigger vesting of the award. The first measure was a cost reduction target of $ 60 million with a measurement period of July 2009 through December 2010. The second measure was an annual MSC Segment EBITDA achievement target of $550 million with a measurement period that began after December 2009 and ran until the calendar year in which the target was achieved. The cost reduction target was achieved in 2009 and the MSC Segment EBITDA achievement target was achieved in 2010. Accordingly, one-half of the awards vested on January 1, 2011 and will be paid in the first quarter of 2011, with the remainder to vest January 1, 2012 and be paid in first quarter of 2012, subject to the participant's continued employment with the Company.

4. Retirement Benefits

Each of our Named Executive Officers participates in qualified defined-benefit and defined-contribution retirement plans on substantially the same terms as our other U.S. and Canadian participating employees.

In 2009, we froze the non-qualified Executive Supplemental Pension Plan ("ESPP"), which exists to provide retirement benefits above the maximum limitations under an IRS qualified benefit plan. In July 2009, Momentive Specialty's U.S. pension plans ("the U.S. Pension Plans")were frozen for all executive and non-executive non-bargained salaried employees. The Company chose to freeze the U.S. Pension Plans to control the growth of future pension liabilities, reduce administrative costs and equalize retirement benefits among our U.S. associates. One of our Named Exec utive Officers participates in the Momentive Specialty Chemicals Canada Employees Retirement Income Plan, a non-contributory defined benefit which remains an active plan under which employees continue to earn service benefits.

In April 2009, in conjunction with other urgent cost-saving actions, we suspended the Company match to the U.S. defined contribution plan ("the Savings Plan") as a temporary measure due to the significant declines experienced in our businesses in the fourth quarter of 2008 and first quarter of 2009. In May 2010, having experienced slight increases in sequential quarter volumes for most of our businesses, and to address employee morale and retention, the Company match to the Savings Plan was restored.

While we bel ieve that retirement benefits are important compensation and retention tools, we believe that the shift away from defined benefit plans to defined contribution plans is a growing trend. Accordingly, in 2009, we instituted an annual retirement contribution benefit for U.S. associates to replace future pension benefits, which is based on a percent of salary determined by years of service. This annual retirement contribution is made to the U.S. Savings Plan and is in addition to the Company's matching contributions and the Company "achievement" match, which is made to participants' accounts upon the achievement of Momentive Specialty Segment EBITDA targets. There is a description of these plans in the narrative following the Pension Benefits table below.

5. Intern ational Assignment Compensation

Benefits provided to employees and executives as part of an international assignment are viewed by the Company as a means to compensate the executive for financial expenses and personal hardships 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 employees and executives to temporarily relocate for strategic business reasons. Mr. Bevilaqua's international assignment package is described in the Narrative to the Summary Compensation table.

6. Severance Benefits

In most cases our Named Executive Officers are entitled to receive severance benefits if their employment is terminated by the Company without cause. Severance benefits for Named Executive Officers are provided pursuant to the terms of the executive's employment agreement, and generally include base salary and bene fits continuation for the same period of time following the executive's termination of employment that the executive is subject to a non-competition restriction.

Determining Compensation for our Named Executive Officers

President and Chief Executive Officer - Craig O. Morrison

At the beginning of 2010, Mr. Morrison recommended annual goals and objectives for the organization. The goals included a global Momentive Specialty Segment EBITDA target, a cash flow from operations target, Environmental Health and Safety (EH&S) and compliance goals, the implement ation of productivity and six sigma goals, specific actions relating to people and organization matters, and the development and execution of specific development plans for high growth businesses, and the prioritization of strategic alternatives. These goals supported both critical short-term objectives and long-term value creation and were discussed by the full Board of Directors and subsequently approved by the Committee. Under the 2010 ICP, Mr. Morrison's incentive is tied to the achievement of the global Momentive Specialty Segment EBITDA target, the EH&S target and the cash flow target.

The Company posted record results in 2010 since the Company's formation, despite only modest economic recovery, as the Company exceeded the 2010 ICP EBITDA target by approximately 23%. The cash flow target was also exceeded but the global EH&S target was not met. While a 4% improvement was made in the safety metrics, the 10% corporate improvement objective for 2010 was not achieved. The Committee believes that Mr. Morrison's leadership was critical to the development of a comprehensive long term strategic business plan to ensure the continued growth and success of the business. Mr. Morrison led the business and functional leaders in the development of several strategic alternatives, with specific implementation plans. In addition, Mr. Morrison continued to drive Six Sigma and a strong focus on achieving productivity savings. Six Sigma projects focused on working capital, EBITDA growth and margin over material improvement. The Committee also feels Mr. Morrison's leadership was instrumental in the Company's successful completion of the Momentive Combination which will provide a platform for continued growth while allowing the Company to reduce administrative costs.

In recognition of his accomplishments, the Committee awarded Mr. Morrison a discretionary bonus of $3,250,000. In determining the amount of this award the Committee took into consideration the factors mentioned above as well as the fact that, dating back to 2008, Mr. Morrison had declined cash awards to which he was entitled. Mr. Morrison will also be considered for a salary merit increase in April 2011.

Under the 2010 ICP, given the Company's record performance and the achievement of Company goals, Mr. Morrison will receive a $1,409,800 payment, as a result of the Company exceeding MSC Segment EBITDA and cash flow targets. No amounts will be paid under the MSC EH&S target, as the target was not met.

Under the 2009 LTIP, in which Mr. Morrison participates, the relevant performance targets were achieved at December 31, 2010 giving Mr. Morrison an incentive payment of 300% of his January 1, 2009 base salary. One-half of the target award vested on January 1, 2011 and will be paid during the first quarter of 2011. The remaining one-half will vest on January 1, 2012, provided Mr. Morrison is still employed by the Company.

In February 2011, Mr. Morrison was granted an award of 193,667 restricted deferred units and an option to purchase 581,001 units under the 2011 Equity Plan.

Executive Vice President and Chief Financial Officer - William H. Carter
Mr. Carter's 2010 goals included improvement of liquidity and enhancements to the Company's capital structure as well as supporting the Company's strategic planning process and implementation of key strategic objectives. In addition, Mr. Carter's goals included a continued focus on optimizing the Company's finance function and reporting processes as well as continued enhancements to the Company's internal controls with system implementations and projects.

The Company exceeded its 2010 ICP EBITDA target by approximately 23% resulting in the highest EBITDA achievement since the Hexion Formation and the Committee believes that Mr. Carter's leadership was a factor in the Company exceeding its cash flow target by 15%. Under Mr. Carter's direction the Company successfully extended the maturity of $959 million of its Senior Secured Credit Facility term loans and issued $1 billion of aggregate principle senior secured notes which were used to repay certain term loans, which provided incremental liquidity and extended maturities. Further, Mr. Carter led the refinancing of $533 million of its senior secured fixed rate notes, which effectively extended maturities on the notes by six years. Also, with his support and direction as part of its strategic plan the Company successfully divested certain of its non-core assets with the sale of its Inks and Adhesives Resins business in January 2011. The Committee also believes Mr. Carter was instrumental in the Company's successful completion of the Momentive Combination which will provide a platform for continued growth while allowing the Company to reduce administrative costs.

In recognition of his accomplish ments, the Committee awarded Mr. Carter a discretionary bonus of $1,750,000. In determining the amount of this award the Committee took into consideration the factors mentioned above as well as the fact that, dating back to 2008, Mr. Carter had declined cash awards to which he was entitled. In October, the Committee increased Mr. Carter's incentive compensation target from 70% to 80% of base salary to reflect his increased responsibilities as Chief Financial Officer of Momentive Holdco and the increased size and scope of the financial operations he has been asked to head. Mr. Carter will also be considered for a salary merit increase in April 2011.

Under the 2010 ICP, given the Company's record performance and the achievement of goals, Mr. Carter will be entitled to receive a $737,648 payment, as a result of exceeding MSC Segment EBITDA and cash flow targets. No amounts will be paid under the MSC EH&S portion, as the targets were not met. The amount is prorated to represent a 70% target for the first three quarters of 2010 and an 80% target or the fourth quarter of 2010.

Under the 2009 LTIP, in which Mr. Carter participates, the relevant performance targets were achieved at December 31, 2010. Mr. Carter's target award under this plan is 300% of his January 1, 2009 base salary. One-half of the target award vested on January 1, 2011 and will be paid during the first quarter of 2011. The remaining one-half will vest on January 1, 2012, provided Mr. Carter is still employed by the Company.

In February 2011, Mr. Carter was granted an award of 154,934 restricted deferred units and an option to purchase 464,801 units under the 2011 Equity Plan.

Executive Vice President and President- Epoxy, Phenolic & Coatings Resins Division - Joseph P. Bevilaqua

Mr. Bevilaqua's 2010 goals were focused upon the achievement of MSC and division EBITDA targets, division cash flow and EH&S targets, productivity goals including six sigma projects and strategic business review goals. The Committee believes that Mr. Bevilaqua's leadership of the Epoxy & Phenolic Resins Division resulted in significant financial improvement. The division exceeded it's 2010 ICP Segment EBITDA and cash flow targets by over 30%. Mr. Bevilaqua's focus on plant and operational safety led to the achievement of the division EH&S goal. Mr. Bevilaqua was successful in implementing productivity objectives, driving the implementation of six sigma deeper into the division, and creating a phased divisional growth strategy.

In recognition of his accomplishments, Mr. Bevilaqua's base salary was increased in October to $550, 000 per year and his incentive target percent was increased from 70% to 80% to reflect the increased size and scope of the Epoxy & Phenolic Resins Division to include operations formerly in our Coatings reporting unit. He is not eligible for another merit increase until April 2012.

Under the 2010 ICP, as a result of the Company's and his division's performance, and the achievement of MSC and division Segment EBITDA, cash flow, EH&S goals, Mr. Bevilaqua will receive a $771,250 payment, which is prorated to represent 70% of his pre-October salary for the first three quarters of 2010 and 80% of his new base salary for the fourth quarter of 2010.

Under the 2009 LTIP, in which Mr. Bevilaqua participates, the relevant performance targets were achieved at December 31, 2010. Mr. Bevilaqua's target award under this plan is 300% of his January 1, 2009 base salary. One-half of the target award vested on January 1, 2011 and will be paid during the first quarter of 2011. The remaining one-half will vest on January 1, 2012, provided Mr. Bevilaqua is still employed by the Company.

In February 2011, Mr. Bevilaqua was granted an award of 122,344 restricted deferred units and an option to purchase 367,033 units under the 2011 Equity Plan.

The Company has an agreement with Mr. Bevilaqua relating to his international assignment, which is described in the Na rrative to the Summary Compensation Table. The additional allowances that he receives as part of his international assignment in The Netherlands were not impacted by the 10% base salary reduction that went into effect for the Senior Leadership Team in April 2009.

Executive Vice President Human Resources - Judith A. Sonnett

Ms. Sonnett's goals for 2010 were similar to those of Mr. Morrison's and Mr. Carter's, described above, but in addition she had goals focused on the achievement of recruiting over 800 positions globally during the year to secure the intellectual capital necessary to drive growth. In addition, she was instrumental in driving the implementation of development planning for over 80% of the top 3 levels of the organization, creating a People and Organizational Development plan for the Asia Management Team, and over 300 developmental moves and promotions internally with company associates. Finally, Ms. Sonnett was responsible for HR-related cost savings initiatives to help the Company meet its cash flow targets under the annual incentive plan. The Committee also believes that Ms. Sonnett's leadership was a significant contributor to goals focused on global organizational design changes with minimal business disruption, reducing pension liabilities while harmonizing benefits within countries, as well as a global in depth review of talent and succession planning, all of which were successfully completed. Ms. Sonnett will continue to play a key leadership role during the integration of the Momentive Combination, which will provide a platform for continued growth of the company.

In recognition of her accomplishments, Ms. Sonnett's base salary was increased in October to $400,000 to reflect her increased responsibilities as the leader of Human Resources for the Momentive Holdco and MPM organizations, and the increased size and scope of the functional area she has been asked to lead. She will not be eligible for another merit increase until April 2012.

Under the 2010 ICP, given the Company's performance and the achievement of goals, Ms. Sonnett will receive a $336,981 payment, as a result of the Company exceeding MSC Segment EBITDA and cash flow targets. No amounts will be paid under the MSC EH&S portion, as the targets were not met. The amount is prorated to represent 60% of her pre-October base salary for the first three quarters of 2010 and 60% of her new base salary for the fourth quarter of 2010.

Under the 2009 LTIP, in which Ms. Sonnett participates, the relevant performance targets were achieved at December 31, 2010. Ms. Sonnett's target award under this plan is 300% of her January 1, 2009 base salary. One-half of the target award vested on January 1, 2011 and will be paid during the first quarter of 2011. The remaining one-half will vest on January 1, 2012, provided Ms. Sonnett is still employed by the Company.

In April 2010, one-half of the restricted stock units awarded to Ms. Sonnett in 2007 time-vested. These units will not be distributed to her until her termination from the Company.

In February 2011, Ms. Sonnett was granted an award of 153,295 restricted deferred units and an option to purchase 459,886 units under the 2011 Equity Plan.

Executive Vice President and President - Forest Products Division - Dale N. Plante.

Mr. Plante's 2010 goals were focused upon the achievement of division EBITDA, cash flow and working capital targets, EH&S targets, productivity and six sigma goals. In addition, Mr. Plante's goals included product compliance and development initiatives and strategy. Mr. Plante's division exceeded its EBITDA target by 3% in a continued depressed housing and construction market, a key driver of the division's results. Although only 89% of the division's cash flow target was achieved, the Committee recognized Mr. Plante's focused efforts to manage cash given raw material price increases and the resulting increased investment in working capital. Mr. Plante aggressively pursued Six Sigma projects which delivered significant savings as well as the completion of the Company's new Montenegro, Brazil facility, which expanded the Company's capacity in a key Latin America growth region. In addition, Mr. Plante has cond ucted a thorough review of the business globally; optimized the plant network, and identified potential acquisition targets for growth. Finally, Mr. Plante has also done a complete organizational review and made the necessary decisions to position the business for future success. In recognition of his accomplishments, Mr. Plante will be considered for a merit increase in base salary in April 2011.

Under the 2010 ICP, given the Company's and his division's performance, Mr. Plante will be entitled to receive a $252,867 payment, as a result of the Forest Products Division exceeding Segment EBITDA targets and the Company exceeding MSC Segment EBITDA targets. No amounts will be paid under the MSC EH&S portion, as the target was not met.

Under the 2009 LTIP, in which Mr. Plante participates, the relevant performance targets were achieved at December 31, 2010. Mr. Plante's target award under this plan is $640,380. One-half of the target award vested on January 1, 2011 and will be paid during the first quarter of 2011. The remaining one-half will vest on January 1, 2012, provided Mr. Plante is still employed by the Company.

In February 2011, Mr. Plante was granted an award of 76,748 restricted deferred units and an option to purchase 230,243 units under the 2011 Equity Plan.

< div style="line-height:120%;text-align:center;font-size:9pt;">**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

Jordan C. Zaken (Chairman)

Scott M. Kleinman (through September 2010)

David B. Sambur (from October 1, 2010)

(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 2010, 2009 and 2008

The following table presents information about the compensation of our CEO, Chief Financial Officer, and our three next most highly compensated executive officers at December 31, 2010, whom we collectively refer to as our Named Executive Officers, for the years ended December 31, 2010, 2009 and 2008.

SUMMARY COMPENSATION TABLE

Name and Principal Position(a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Options Awards ($) (f)	Non-Equity Incentive Plan Compensation ($) (1) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (2) (h)		All Other Compensation ($) (3) (i)	Total ($) (j)
Craig O. Morrison President and Chief Executive Officer	2010	906,250	3,250,000	—	—	4,034,800	33,839		7,350	8,232,239
	2009	810,048	—	—	—	—	19,002		19,561	848,611
	2008	847,956	—	—	—	—	107,804		75,916	1,031,676
William H. Carter Executive Vice President and Chief Financial Officer	2010	659,241	1,750,000	—	—	2,696,534	46,601		12,250	5,164,626
	2009	604,492	—	—	—	365,659	21,150		31,075	1,022,376
	2008	646,683	—	—	—	—	86,824		66,431	799,938
								< div style="overflow:hidden;height:5px;font-size:10pt;">		
Joseph P. Bevilaqua Executive Vice President, President, Epoxy, Phenolic and Coating Resins Division	2010	510,577	—	—	—	2,271,250	14,432		520,051< font style="font-family:inherit;font-size:10pt;">	3,316,310
	2009	462,885	—	—	—	156,660	15,665		542,819	1,178,029
	2008	459,203	98,000	—	—	—	51,317		19,473	627,993
Judith A. Sonnett Executive Vice President, Human Resources	2010	363,738	—	—&n bsp;	—	1,397,781	13,706		9,800	1,785,025
	2009	327,352	—	—	—	169,728	15,178		11,719	523,977
	2008	350,200	106,111	—	—	—	33,950		12,295	502,556
Dale N. Plante Executive Vice President, President, Forest Products Division	2010	316,038	—	—	—	893,247	59,975		39,543	1,308,803

1. The amounts shown in column (g) reflect the amounts awarded under our 2010 ICP and 2009 LTIP. The material terms of the 2010 ICP and 2009 LTIP are described in detail within the Compensation Discussion & Analysis above. Amounts are reflected in column (g) for the 2009 LTIP since the relevant performance measures were achieved by the end of 2010; however, half of the earned award under the 2009 LTIP is payable to the Named Executive Officer in 2011 with the remainder payable in 2012, provided the employee is still employed by the Company at that time. The aggregate amounts earned for each Named Executive Officer under the 2009 LTIP are: Morrison—$2,625,000; Carter—$1,958,886; Bevilaqua—$1,500,000; Sonnett—$1,060,800; and Plante—$640,380.
2. The amounts shown in column (h) reflect the actuarial increase in the present value of each Named Executive Officers' benefits under the MSC Pension Plan and MSC Supplemental Pension Plan. For Mr. Plante, the amount also reflects the actuarial increase in the present value for benefits under the MSC Canada Employees' Retirement Income Plan.
3. The amounts shown in column (i) include company matching contributions and annual retirement contributions to our Retirement Savings Plan. Fo r Mr. Plante, these matching contributions totaled $21,983. For Mr. Bevilaqua, the amount shown includes allowances for international assignment of $512,701, which includes goods and services allowances of $57,700 and payment of Dutch income taxes on Mr. Bevilaqua's U.S. salary of $282,575. Also included in Mr. Bevilaqua's international assignment compensation are tax gross-ups of $107,693.

Narrative to the Summary Compensation Table

Messrs. Morrison and Carter, and Ms. Sonnett are employed by us and began to provide executive services to MPM on October 1, 2010 pursuant to the terms of the Shared Services Agreement, which is fully described in the Compensation Discussion and Analysis section of this report. The compensation set forth in this table for our executives who also provide services to MPM on a shared basis, is shown regardless of the cost allocations of any compensation amounts under the Shared Services Agreement.

The Company has an employment agreement with Mr. Morrison which includes an agreement not to compete with the Company for 18 months following termination, a one-year non-solicitation agreement and a confidentiality agreement. In the event that Mr. Morrison's employment is terminated by the Board of Directors without cause or Mr . Morrison resigns for good reason, he is entitled, under this agreement, to base salary continuation during the term of his non-compete agreement.

The Company has an employment agreement with Mr. Carter which includes an agreement not to compete with the Company for two years following termination, a one-year non-solicitation agreement and a confidentiality agreement. In the event that Mr. Carter&r squo;s employment is terminated without cause or he resigns for good reason, he is entitled, under this agreement, to base salary continuation during the term of his non-compete agreement.

The Company has an agreement with Mr. Bevilaqua relating to his international assignment, which began in November 2008. The additional compensation that he receives as part of his international assignment in The Netherlands was not impacted by the 10% base salary reduction that went into effect for the Senior Leadership Team in April 2009 as they are related to his additional living expenses in the Netherlands. This additional compensation is directly related to additional expenses Mr. Bevilaqua incurs as a result of his international assignment including tax preparation assistance, up to $25,000 per year for family travel while he remains on assignment, relocation and repa triation expenses, a housing allowance of up to $5,000 per month, a monthly goods and services allowance of $4,800 to compensate for the difference in the cost of living internationally and payment of Dutch taxes on his U.S. paid salary. He is also provided with a vehicle under the Company’s European Automobile Policy. 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 back to the U.S. even 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 the end of 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. The Company’s employment agr eement with Mr. Bevilaqua includes an agreement not to compete with the Company for 18 months following termination, a one-year non-solicitation agreement and a confidentiality agreement. In the event that Mr. Bevilaqua’s employment is terminated without cause by the Company or he resigns for good reason, he is entitled, under this agreement, to base salary continuation during the term of his non-compete agreement.

Mr. Plante's terms of employment provide him with eighteen months of severance in the event his employment is terminated though no fault of his own. If such an event occurs prior to August 2013, the Company has agreed to pay the cost of relocating Mr. Plante and his family back to Canada under the Company's U.S relocation policy. Mr. Plante is provided a lump sum of $7,000 per year through December 2013 for his immediate family members to tra vel between Canada and the U.S. In addition, the Company will reimburse the cost of travel for Mr. and Mrs. Plante for bereavement leave related to immediate family members.

The Company has also agreed to pay to Mr. Plante's account an additional 2% annual Company matching contribution in a yet-to-be established supplemental plan, for the period January 1, 2009 through April 1, 2009 and May 1, 2010 through the date of inception of the plan. This additional match is intended to compensate Mr. Plante for the reduced Company matching contribution percentage in the U.S. Savings Plan compared to the Canadian plan in which he previously participated.

Under his terms of employment, tax preparation services will be provided to Mr. Plante for 2009-2010. Mr. Plante has an agreement not to compete with the Company and not to solicit Company employees for one year following termination for any reason, and a confidentiality agreement.

2009 Cash-Based Long Term Incentive Plan

Our 2009 LTIP contains two financial performance measures in order to trigger vesting of an award. The first measure is a cost reduction target of $60 million with a measurement period of Ju ly 2009 through December 2010. The second measure was an annual MSC Segment EBITDA achievement target of $550 million with a measurement period that began after December 2009 and ran until the calendar year in which the target was achieved. The cost reduction target was achieved in 2009 and the MSC Segment EBITDA achievement target was achieved in 2010. One-half of the participants’ awards vested January 1, 2011 and will be paid in the first quarter of 2011 with the remaining one-half vesting in January 2012, subject to the participants continued employment with the Company.

Additional information on amounts reported in the Summary Compensation Table, including payouts under the 2010 ICP, is covered in detail for each Named Executive Officer within the Compensation Discussion & Analysis above.

Grants of Plan-Based Awards – Fiscal 2010

The following table presents information about grants of awards during the year ended December 31, 2010 under our 2010 Annual Incentive Compensation Plan (“2010 ICP”)

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards		
Name (a)	**Grant Date (b)**	**Threshold ($) (c)**	**Target ($) (d)**	**Maximum ($) (e)**
Craig O. Morrison				
2010 ICP	—	190,000	950,000	1,900,000
William H. Carter				
2010 ICP	—	99,413	497,067	994,135
Joseph P. Bevilaqua				
2010 ICP	—	19,281	385,625	771,250
Judith A. Sonnett				
2010 ICP	—	45,415	227,076	454,152
Dale N. Plante				
2010 ICP	—	11,655	233,100	466,200

Narrative to Grants of Plan-Based Awards Table

2010 Annual Incentive Compensation Plan

Our 2010 ICP uses three performance metrics: Segment EBITDA, an Environmental Health and Safety (EH&S) OIIR statistic and Cash Flow targets. 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 Income (loss)). Cash flow encompasses EBITDA, net trading capital improvement and/or usage, capital spending and interest paid along with other smaller operating cash flow items such as income taxes paid and pension contributions. Minimum, target and maximum goals were established for each division and for global Momentive for both EBITDA and cash flow targets. The minimum threshold for an incentive payout under the segment EBITDA measure was established at 89.3% of the target and the maximum payout was established at 110.7% of the target. The EBITDA and cash flow measurements act independently such that a payout of on e element is possible even if the minimum target threshold for the other is not achieved.

Consistent with past plan designs, 10% of the 2010 ICP was based on achievement of an Environmental Health and Safety (“EH&S”) goal. Our EH&S target is measured based upon achievement of a target occupational illness and injury rate (“OIIR”). The MSC EH&S target for 2010 was an OIIR of .83. This goal represents a 10% improvement over prior year actual. Any payout on achievement of an EH&S target is contingent upon the achievement of the Segment EBITDA target.

Each Named Executive Officer’s incentive target award is based on a percentage of his or her base salary. All executives have 50% of their annual incentive compensation tied to annual MSC or Division Segment EBITDA, 10% tied to EH&S goals and 40% tied to MSC or division cash flow targets. Additional information on the 2010 ICP targets, performance components and weightings for each of our Named Executive Officers can be found in the Compensation Discussion and Analysis section of this Report.

Outstanding Equity Awards at Fiscal 2010 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, 2010. The securities underlying the awards are common units of Momentive Holdco and were granted under the 2004 Stock Plan and the 2007 Long-Term Plan. See the Narrative below for a discussion of these plans and the vesting conditions applicable to the awards.

< td style="vertical-align:bottom;background-color:#cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

	Options Awards					Stock Awards	
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c) (1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned 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)
Craig O. Morrison							
2004 Stock Plan Tranche A	301,514	—	—	6.22	8/12/2014	—	—
2004 Stock Plan Tranche B	—	301,514	—	6.22	8/12/2014	— —	
William H. Carter							< /div>
2004 Stock Plan Tranche A	241,211	—	—< /div>	6.22	8/12/2014	—	—
2004 Stock Plan Tranche B	—	241,211	—	6 .22	8/12/2014	—	—
Joseph P. Bevilaqua							
2004 Stock Plan Tranche A	100,504	—	—	6.22	8/12/2014	—	—
2004 Stock Plan Tranche B	—	100,504	—	6.22	8/12/2014	—	—
Judith A. Sonnett							
2007 Long-Term Plan Options (with performance conditions)	—	—	18,000	10.81	4/30/2015	—	—
2007 Long-Term Plan 4 Year Vest RSUs	—	—	—	—	—	3,000	14,550
Dale N. Plante					< div style="overflow:hidden;font-size:10pt;">		
2007 Long-Term Plan Options (with performance conditions)	—	—	15,000	10.81	4/30/2015	—	—

(1) Since equity interests in our ultimate parent, Momentive Holdco, 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 Momentive Holdco as determined by Momentive Holdco 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 Momentive Holdco does not necessarily equal the value of a share of the Company’s common stock.

Narrative to Outstanding Equity Awards Table

At the time of the Momentive Combination, all outstanding equity-based awards that covered common units of MSC Holdings were converted on a one-for-one basis to cover units of Momentive Holdco.The outstanding options held by Messrs. Morrison, Carter and Bevilaqua were granted under the 2004 Stock Incentive Plan (the “2004 Stock Plan”) and cover equity securities of Momentive Holdco. The “Tranche A” options reported in the table above vested over five years and are fully vested at December 31, 2010. The “Tranche B” options reported in the table are designed to vest on the eighth anniversary of the grant dat e (August 2004) but are subject to accelerated vesting in connection with a change in control 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 sale occurs, the options would vest six months after the date of a sale of the Company (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 Stock Plan or the agreement that evidences the individual award.

In addition to the options shown above, Messrs. Morrison, Carter, Bevilaqua have deferred compensation which is held in the form of deferred stock units in Momentive Holdco (Morrison- 241,211 un its; Carter- 192,969 units; Bevilaqua- 80,403 units). These deferred stock units will be distributed upon termination of employment or retirement and are not shown in the table above.

The outstanding options and restricted stock unit awards held by Ms. Sonnett and outstanding options held by Mr. Plante at year-end were granted under the 2007 Long-Term Plan and cover equity securities of Momentive Holdco. The option awards vest only if our principal shareholder realizes certain internal rates of return on its investment in a sale or other transfer to independent third parties of a majority interest in Momentive Holdco. The restricted stock 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 up on termination of employment with the Company.

The Compensation Committee administers all long-term equity plans. 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.

Option Exercises and Stock Vested – Fiscal 2010

The following table presents information on vesting of certain of our stock awards during the year ended December 31, 2010.

	Options Awards		**Stock Awards**	
Name (a)	Number of Shares Acquired on Exercise **(b)**	**Value Realized on Exercise (c) (1)**	**Number of Shares Acquired on Vesting (#) (d)**	**Value Realiz ed on Vesting ($) (e)**
Craig O. Morrison	—	—	—	—
William H. Carter	—	—	—	—
Joseph P. Bevilaqua	—	—	—	—
Judith A. Sonnett				
2007 Long-Term Plan 3 Year Vest RSUs	—	—	3,000	4,6 80
Dale N. Plante	—	—	—	—

Pension Benefits – 2010

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, 2010. The amounts shown in the table for each participant represent the present value of the annuitized benefit under the plan and does not represent the actual cash balance of a participant's account. For a discussion of the assumptions applied in calculating the benefits reported in the table above, please see Note 13 to our Consolidated Financial Statements included in Part II of Item 8 in this Annual Report on Form 10-K. < /div>

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	MSC U.S. Pension Plan	8.75		99,586		—
	MSC Supplemental Pension Plan	8.75		400,898		—
William H. Carter	MSC U.S. Pension Plan	15.75		193,848		—
	MSC Supplemental Pension Plan	15.75		527,957		—
Joseph P. Bevilaqua	MSC U.S. Pension Plan	8.75		95,383		—
	MSC Supplemental Pension Plan	8.75	< font style="font-family:inherit;font-size:10pt;">	121,322		—
Judith A. Sonnett	MSC U.S. Pension Plan	12.17		133,807		—
	MSC Supplemental Pension Plan	12.17	< font style="font-family:inherit;font-size:10pt;">	78,956		—
Dale N. Plante	MSC Canada Pension Plan	29.70		233,889		—
	MSC U.S. Pension Plan	29.70		5,531		—
	MSC Supplemental Pension Plan	29.70		6,781		—

Narrative to Pension Benefits Table

MSC Pension Plans and MSC Supplemental Pension Plan

The benefits associated with the MSC Pension Plan and MSC Supplemental Plan were frozen June 30, 2009 and January 1, 2009, respectively. Although participants will continue to receive interest credits under the plan, no additional compensation will be credited. The MSC U.S. Pension Plan covered U.S. employees who work in locations and/or business units 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.

The MSC Supplemental Pension Plan provides non-qualified pension benefits in excess of the qualifi ed pension plans. The benefit calculation is the same as the qualified MSC Pension Plans but the formula is only applied to compensation above the federal limits for qualified plans. The benefits are unfunded and paid from our general assets upon the associates' termination from the Company.

Under both the MSC U.S. Pension Plan and Supplemental Pension Plan, eligible earnings include annual incentive a wards 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. The interest rate that was determined under the plan for fiscal 2010 was 0.31%. Participants vest after the completion of three years of service.

Effective July 1, 2009 as a replacement for the benefits under the frozen MSC Pension Plans, participants in the Savings Plan (described below) are eligible for an annual retirement contribution based on years of service. Participants in the Savings Plan begin vesting i n the Company matching contributions after two years of service and are fully vested after five years of service, and the annual retirement contributions (between 2% and 7%) are vested after three years of service. The annual retirement contributions to the Savings Plan are reflected in Column (i) in the Summary Compensation table.

MSC Canada Pension Plan

The Momentive Specialty Chemicals Canada Employees Retirement Income Plan ("MSC Canada Pension Plan") is a non-contributory defined benefit plan covering eligible Canadian employees. An employee is eligible to participate and vest in the Plan a fter two years of service with benefits retroactive back to date of hire. A participant's years of service and salaries determine the benefits earned each year.

U.S. Retirement Savings Plan ("Savings Plan")

The Savings Plan, which is a defined contribution plan, covers U.S. employees. This plan allows eligible employees, including 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 up to the federal limits for qualified plans. Those employees are also eligible to receive matching contributions from the Company at 100% on contributions of up to 5% of eligible earnings. Additional c ompany contributions may be made if we achieve specified annual financial measures established at the beginning of the plan year. The Company matching contributions were suspended for all participants effective April 1, 2009 through the end of 2009. The Committee voted in January 2010 to resume the Company matching contributions to the Savings Plan beginning May 1, 2010. Company matching contributions are reflected in Column (i) in the Summary Compensation table.

Nonqualified Deferred Compensation – 2010

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 ESPP (discussed in the Narrative to the Pension Benefits table) and the 2004 Deferred Compensation Plan, described below. Effective January 1, 2009, the benefits provided by the registrant and all participant contributions under the ESPP were frozen.

Name (a)	Executive Contributions in Last FY ($) (1) (b)	Registrant Contributions in Last FY ($)(1) (c)	Aggregate Earnings in Last FY ($) (d)	Aggregate Withdrawals/ Distributions ($) (e)	Aggregate Balance at Last FYE ($) (f)
Craig O. Morrison					
ESPP	—	—	20,455	—	853,496
2004 DC Plan	—	—	—	—	1,169,875
William H. Carter					
ESPP	—	—	39,183	&m dash;	1,634,940
2004 DC Plan	—	&mda sh;	—	—	935,900
Joseph P. Bevilaqua					
ESPP ;	—	—	8,023		334,771
2004 DC Plan	—	—	—	—	389,958
Judith A. Sonnett		< /div>			
ESPP	—	—	1,832	—	76,459
Dale N. Plante	—	—	—	—	—

U.S. Executives' Supplemental Pension Plan ("E SPP")

Effective January 1, 2009, the benefits associated with this plan were frozen. This plan provided supplemental retirement benefits and voluntary employee deferral opportunities at the point that the terms of the Savings Plan are restricted by federal qualified plan compensation limits. The ESPP benefits are unfunded and paid from our general assets upon the associate's termination from the Company. Earnings are credited to the participant's accounts at a floating rate equivalent to a fixed income fund of the Savings Plan, as selected by the Company. Earnings are credited to the participant's account until the participant begins to receive benefit payments.

2004 Deferred Compensation Plan ("2004 DC Plan")

In 2004, in connection with the acquisition of the Company by Apollo, Messrs. Morrison, Carter and Bevilaqua deferred the receipt of compensation and were credited with a number of deferred stock units in Hexion LLC (Morrison- 241,211 units; Carter- 192,969 units; Bevilaqua- 80,403 units). At the time of the Momentive Combination, the deferred stock units were converted to units o f Momentive Holdco. These deferred stock units are held pursuant to the 2004 DC Plan and will be distributed upon their termination of employment or retirement.

Potential Payments Upon Termination of Employment

The following table and narrative describe payments our Named Executive Officers would have received had the individual been terminated at December 31, 2010.

Name	Cash Severance ($)	Continued Health Benefits ($)	Outplacement Services Allowance ($)
Craig O. Morrison	1,425,000	26,794	25,000
William H. Carter	1,371,200	19,674	25,000
Joseph P. Bevilaqua	825,000	14,472	25,000
Judith A. Sonnett	400,000	—	25,000
Dale N. Plante	499,500	18,399	25,000

Upon a termination of employment for any reason, we would distribute to Messrs. Morrison, Carter and Bevilaqua the Momentive Holdco common units credited to them under the 2004 DC Plan (Morrison- 241,211; Carter- 192,969; Bevilaqua- 80,403) as well as payment of benefits under the Supplemental Pension 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 uni ts, 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. Following their termination of employment for any reason, Messrs. Morrison, Carter, Bevilaqua, Sonnett and Plante would also receive payment of their pension benefits under the Pension and Supplemental Pension plans.

As noted above in the Narrative to the Outstanding Equity Awards Table, our Named Executive Officers may also be entitled to accelerated vesting of their outstanding equity awards under the 2004 Stock Plan and 2007 Long-Term Plan in connection with a sale of the Company or Momentive Holdco. Please see the Narrative to the Outstanding Equity Awards Tables above for additional information on the outstanding awards held by our Named Executive Officers at December 31, 2010 and the terms of these awards. There was no value in any of the stock options held by our Named Executive Officers at December 31, 2010 as the option exercise prices all exceeded the year-end unit value.

Ms. Sonnett holds 3,000 restricted stock units under the 2007 Long-Term Plan which are vested as of December 31, 2010, and which would be distributed to her upon termination of her employment. The aggregate value of the vested restricted stock units is $14,550 as of December 31, 2010. Ms. Sonnett also holds 3,000 restricted stock units under the 2007 Long-Term Plan which are not yet vested. The aggregate value of the unvested units is $14,550 at December 31, 2010.
The cash severance shown in the table above is based upon the executive's employment agreement, where applicable and as described in the Narrative to the Summary Compensation Table, or reflects the terms of MSC's severance guidelines in place on December 31, 2010. The severance amount shown for Ms. Sonnett is the low end of the range of severance for which she would be eligible under corporate severance guidelines, in light of her position and her length of service to the Company.

Please see the Compensation Discussion and Analysis section above for a discussion of how the foregoing payments and benefits were determined.

Director Compensation – Fiscal 2010

The table below summarizes the compensation we paid to non-employee Directors for the year ended December 31, 2010.

Name (a)	Fees Earned or Paid in Cash (b)	Stock Awards (c) (1)	Option Awards (#) (d)	Non-Equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)	All Other Compensation (#) (g)	Total ($) (h) (1)
Joshua J. Harris*	34,500	—	—	—	—	—	34,500
Scott M. Kleinman*	41,500	—	—	—	—	—	41,500
Marvin O. Schlanger*	37,500	—	—	—	—	—	37,500
Jan Secher*	36,500	—	—	—	—	—	36,500
David Sambur*	—	—	—	—	—	—	—
Robert V. Semin ara	38,500	—	—	—	—	—	38,500
Jordan C. Zaken	39,500	—	—	—	—	—	39,500

* Messrs. Harris, Kleinman, Schlanger and Secher served on our Board through September 30, 2010. Mr. Sambur joined our Board on October 1, 2010.

(1) At December 31, 2010, Messrs. Harris, Kleinman, Schlanger, Seminara, and Zaken held options covering 163,850; 163,850; 355,470; 28,141, and 28,141 common units, respectively, in Momentive Holdco. All of the options held by Mr. Schlanger and Mr. Zaken are fully vested. Of the options held by Messrs. Harris and Kleinman, 135,709 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 co mpany.

Narrative to Directors' Compensation Table

For the first three quarters of 2010, 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 was paid for board and committee meetings attended by teleconference. Directors who were also employees of the Company received no additional compensation for their services as Directors. Directors were eligible to receive equity-based awards from time to time on a discretionary basis.

On October 1, 2010, in connection with the Momentive Combination, we changed the composition of our Board of directors and terminated our Director Compensation program. At that time, Messrs. Harris, Kleinman, Schlanger, Seminara, Sambur and Zaken became members of the Board of Managers of Momentive Holdco and received director fees for their services to Momentive Holdco and its subsidiaries, which are partially funded by the Company. For fourth quarter 2010, the following director fees were earned for services provided to Momentive Holdco and its subsidiaries in addition to the amounts shown in the above table: Mr. Harris- $20,750; Mr. Kleinman-$22,750; Mr. Schlanger - $22,750; Mr. Seminara - $22,750; Mr. Sambur - $22,750; and Mr. Zaken- $24,750. We declared a dividend to fund Momentive Holdco for approximately 51% of this fourth quarter expense.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Zaken and Kleinman, whose names appear on the Compensation Committee Report above, are partners of Apollo Management, L.P., our controlling shareholder. Mr. Kleinman was appointed to the Compensation Committee in March 2009. 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 o ther 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, 2010.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Momentive Holdco is our ultimate parent company and indirectly owns 100% of our capital stock. The following table sets forth information regarding the beneficial ownership of Momentive Holdco common units, as of February 1, 2011, and shows the number of units and percentage owned by:

- < /div>each person known to beneficially own more than 5% of the common units of Momentive Holdco:
- each of Momentive Specialty's 2010 Name d Executive Officers;
- each member of the Board of Directors of Momentive Specialty, and
- all of the executive officers and members of the Board of Directors of Momentive Specialty as a group.

As of February 1, 2011, Momentive Holdco had 279,099,055 common units outstanding. The amounts and percentages of common units 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," whi ch 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 common units, and has not pledged any such units as security.

	Beneficial Ownership of Equity Securities	
Name of Beneficial Owner	**Amount of Benefitial Ownership**	**Percent of Class**
Apollo Management and affiliates[(1)]	249,755,890	89.50%
GE Capital Equity Investments, Inc.[(2)]	25,491,297	8.9%
Robert V. Seminara [(3)]	—	*
Jordan C. Zaken [(3) (4)]	28,141	*
David B. Sambur [(3)]	—	*
Craig O. Morrison [(5) (8)]	301,514	*
William H. Carter [(6) (8)]	241,211	*
Joseph P. Bevilaqua [(7)]	100,504	*
Dale N. Plante [(8)]	—	*
Judy Sonnett [(8) (9)]	3,000	*
All Directors and Executive Officers as a group (13 persons) [(10)]	1,091,924	*

* less than 1%

(1) Includes (i) 90,845,490 common units owned by Apollo Investment Fund VI, L.P. ("AIF VI"); (ii) 83,755,612 common units owned by AP Momentive Holdings LLC ("AP Momentive Holdings"); and (iii) 75,154,788 common units owned by AIF Hexion Holdings, L.P. ("AIF Hexion Holdings" and together with AIF VI and AP Momentive Holdings, the "Apollo Holders"). Apollo Advisors VI, L.P. ("Advisors VI") is the general partner of AIF VI, and Apollo Capital Management VI, LLC ("ACM VI") is the general partner of Advisors VI. Apollo Management VI, L.P. ("Management VI") is the manager of AP Momentive Holdings, and AIF VI Management, LLC ("AIF VI Management") is the general partner of Management VI. Apollo Management, L.P. ("Apollo Management") is the sole member and manager of AIF VI Management, and Apollo Management GP, LLC ("Management GP") is the general partner of Apollo Management. Apollo Management Holdings, L.P. ("Management Holdings") is the sole member and manager of Management GP, and Apollo Management Holdings GP, LLC ("Management Holdings GP") is the general partner of Management Holdings. AIF IV Hexion GP, LLC ("AIF IV Hexion GP") and AIF V Hexion GP, LLC ("AIF V Hexion GP") are the general partners of AIF Hexion Holdings. Apollo Investment Fund IV, L.P. and its parallel investment vehicle (collectively, "AIF IV") are the members of AIF IV Hexion GP, Apollo Advisors IV, L.P. ("Advisors IV") is the general partner of AIF IV, and Apollo Capital Management IV, Inc. ("ACM IV") is the general partner of Advisors IV. Apollo Investment Fund V, L.P. and its parallel investment vehicles (collectively, "AIF V") are the members of AIF V Hexion GP, Apollo Advisors V, L.P. ("Advisors V") is the general partner of AIF V, and Apollo Capital Management V, Inc. ("ACM V") is the g eneral partner of Advisors V. Apollo Principal Holdings I, L.P. ("Principal Holdings I") is the sole member or sole stockholder, as applicable, of each of ACM IV, ACM V and ACM VI, and Apollo Principal Holdings I GP, LLC ("Principal Holdings I GP") is the general partner of Principal Holdings I. Leon Black, Joshua Harris and Marc Rowan are the principal executive officers and managers of each of Management Holdings GP and Principal Holdings I GP. Each of Advisors VI, ACM VI, Management VI, AIF VI Management, Apollo Management, Management GP, Management Holdings, Management Holdings GP, AIF IV Hexion GP, AIF V Hexion GP, AIF IV, Advisors IV, ACM IV, AIF V, Advisors V, ACM V, Principal Holdings I, Principal Holdings I GP, and Messrs. Black, Harris and Rowan disclaims beneficial ownership of any common units of Momentive Holdco owned of record by the Apollo Holders, except to the extent of any pecuniary interest therein. Apollo also has voting power pursuant to proxies granted by cer tain unitholders. The address of each of the Apollo Holders, AIF IV Hexion GP, AIF V Hexion GP, AIF IV, Advisors IV, ACM IV, AIF V, Advisors V, ACM V, Advisors VI, ACM VI, Principal Holdings I, and Principal Holdings I GP is 1 Manhattanville Road, Suite 201, Purchase, New York 10577. The address of each of Management VI, AIF VI Management, Apollo Management, Management GP, Management Holdings, Management Holdings GP, and Messrs. Black, Harris and Rowan is 9 West 57th Street, 43rd Floor, New York, New York 10019.

(2)

Includes 6,003,363 shares issuable upon exercise of a warrant issued on December 4, 2006. Also includes 77,103 common units issuable upon the exercise of an option that is currently exercisable. The address of GE Capital Equity Investments, Inc. is 299 Park Ave., New York, NY 10171.

(3) The address for Messrs Seminara, Zaken and Sambur is c/o Apollo Management L.P., 9 West 57th Street, New York, New York 10019.

(4) Represents common units issuable upon the exercise of an option that is currently exercisable.

(5) Represents 301,514 units subject to option currently exercisable. Does not include 241,211 deferred units credited to Mr. Morrison's account.

(6) Represents 241 ,211 units subject to option currently exercisable. Does not include 192,969 deferred units credited to Mr. Carter's account.

(7) Represents 100,504 units subject to option currently exercisable. Does not include 80,403 deferred units credited to Mr. Bevilaqua's account. Mr. Bevilaqua's address is c/o momentive Specialty Chemicals BV, Seattleweg 17, Pernis-Rotterdam, The Netherlands 319SND.

(8) The address for Messrs. Morrison, Carter and Plante and Ms. Sonnett is c/o Momentive Specialty Chemicals Inc., 180 E. Broad St., Columbus, Ohio 43215.

(9) Represents 3,000 vested restricted units credited to Ms. Sonnett's account.

(10) Includes 915,440 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 611,122 deferred common stock units.

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 and our direct and indirect parent companies have in the past issued and may issue from time to time equity awards to our employees and directors that are denominated in or based upon the common units of our direct or ultimate parent. 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 15 in Item 8 and Item 11 of Part II and Part III, respectively, of this Annual Report on Form 10-K.

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, or may not be inconsistent with, the b est interests of the Company and its shareholders, especially while we are a “controlled company”.

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

The Company is subject to a seven - -year Amended and Restated Management Consulting Agreement with Apollo (the “Management Consulting Agreement”) that terminates on May 31, 2012 under which the Company receives certain structuring and advisory services from Apollo and its affiliates. The Management Consulting Agreement provides indemnification to Apollo, its affiliates and their directors, officers and representatives for potential losses arising from these services. Due to the current economic turndown, Apollo suspended its 2009 annual fees. Under these agreements, the Company paid annual fees of $3 for the years ended December 31, 2008 and 2007. During the year ended December 31, 2010 the Company recognized expense under the Management Consulting Agreement of $3.

Related Transactions resulting from Momentive Combination

On October 1, 2010, in connection with the closing of the Momentive Combination, the Company entered into a shared services agreement with MPM. Pursuant to the shared services agreement, the Company will provide to MPM, and MPM provides to the Company, certain services, including, but not limited to, executive and senior management, administrative support, human resources, information technology support, accounting, finance, legal and procurement services. The shared services agreement establishes certain criteria upon which the costs of such services will be allocated between the Company and MPM. Allocation of service costs not demonstrably attributable to either the Company or MPM will initially be 51% to the Company and 49% to MPM , except to the extent that 100% of any cost was demonstrably attributable to or for the benefit of either MPM or the Company, in which case the total cost was allocated 100% to such party. The Shared Services Agreement remains in effect until terminated according to its terms. MPM or the Company may terminate the agreement for convenience, without cause, by giving written notice not less than thirty (30) days prior to the effective date of termination. It is also anticipated that the Company and MPM will cooperate to achieve favorable pricing with respect to purchases of raw materials and logistics services. We expect that the Shared Services Agreement will result in significant synergies over its term.

Pursuant to this agreement, in the fourth quarter of 2010, the Company incurred approximately $42 of costs for shared services and MPM incurred approximately $43 of co sts for shared services (excluding, in each case, costs allocated 100% to one party). MPM billed the Company approximately $1 which represents a true-up payment to bring the percentage of total net incurred costs for shared services under the Shared Services Agreement to 51% for the Company and 49% for MPM. The true-up amount is included in Other operating expense, net, in the Consolidated Statement of Operations. The Company has accounts payable to MPM of $1 at December 31, 2010.

Transactions related to the Terminated Merger Agreement and Settlement with Huntsman

In connection with the terminated Huntsman merger and related litigation settlement agreement and release among the Company, Huntsman and other parties entered into on December 14, 2008 (the "Huntsman Settlement"), the Company paid Huntsman $225. The settlement payment was funded to the Company 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, 2010. As of December 31, 2010, the Company has not recovered any insurance proceeds related to the $225 settlement payment.

< font style="font-family:inherit;font-size:9pt;font-style:italic;">Other Financing Arrangements

Pursuant to the Huntsman settlement, certain affiliates of Apollo entered into a commitment letter with the Company and MSC Holdings pursuant to which they committed to purchase $200 million in preferred units and warrants of MSC Holdings 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 MSC Holdings or us on an interim basis. On October 1, 2010, at the time of the closing of the Momentive Combination, the commitment by Apollo to purchase $200 in preferred units of MSC Holdings and warrants to purchase common units of MSC Holdings was amended to become a commitment to purchase preferred units and warrants to purchase common units of Momentive Holdco. Momentive Holdco has agreed to contribute any proceeds from the issuance of preferred or common units under this agreement as a capital contribution to MSC Holdings, and MSC Holdings has agreed to contribute such amounts as a capital contribution to the Company.

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"). Interest expense incurred during the years ended December 31, 2010 and 2009 on the Term Loan was $3.

In December, September, June and March 2010, the Company entered into accounts receivable purchase and sale agreements to sell $67, $107, $100 and $100, respectively, 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 an independent third 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 for which the Company is paid a fee 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. The remaining amounts are paid to the Company after receipt of all collections on the purchased receivables. Other than amounts held i n the reserve account, the purchasers bear all credit risk on the purchased receivables.

Purchases and Sales of Products and Services with Apollo Affiliates

The Company sells products to certain Apollo affiliates and members of Momentive Holdco. These sales were $3, $2 and $7 for the years ended December 31, 2010, 2009 and 2008, respectively. Accounts receivable from these affiliates were less than $1 at both December 31, 2010 and 2009, respectively. The Company also purchases raw materials and services from certain Apollo affiliates. These purchases were $21, $8 and $3 for the years ended December 31, 2010, 2009 and 2008, respectively. The Company had accounts payable to Apollo a ffiliates of $1 and $2 at December 31, 2010 and 2009, respectively.

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 Securitie s 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 2010 and 2009 (in millions):

	PwC	
	2010	2009
Audit fees[(a)]	$ 4	$ 6
Tax fees[(b)]	—	1
Total fees	$ 4	$ 7

(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 Momentive International Holdings Cooperatief U.A. for the fiscal years ended December 31, 2010, 2009 and 2008 and Momentive Specialty Chemicals Canada, Inc., for the fiscal year ended December 31, 2009.

(b) Tax Fees. This category includes fees and expenses billed by PwC for domestic and international tax compliance and planning services and tax advice.

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 no n-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 and Tax Fees described at (a) through (b) above.

Table of Contents

PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) Consolidated Financial Statements – The financial statements and related notes of Momentive Specialty Chemicals, Inc., and the reports of independent registered public accounting firms are included a t 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 Momentive International Holdings Cooperatief U.A., 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:

		Incorporated by Reference				
Exhibit Number	**Exhibit Description**	**Form**	**File Number**	**Exhibit**	**Filing Date**	**Filed Herewith**
2.1†	Transaction Agreement dated as of April 22, 2005 among RPP Holdings, Resolution Specialty Materials Holdings LLC, BHI Acquisition Corp., BHI Merger Sub One, BHI Merger Sub Two Inc. and Borden Chemical Inc.	S-1	333-124287	2.1	7/15/2005	
2.2†*	SOC Resins Master Sale Agreement dated July 10, 2000 among Shell Oil Company, Resin Acquisition, LLC and Shell Epoxy Resins Inc.	S-4	333-57170	2.1	3/16/2001	
2.3†*	SPNV Resins Sale Agreement dated as of September 11, 2000 between Shell Petroleum N.V. and Shell Epoxy Resins Inc.	S-4	333-57170	2.2	3/16/2001	
2.4*	Assignment and Assumption Agreement dated November 13, 2000 between Shell Epoxy Resins Inc. and Shell Epoxy Resins LLC	S-4	333-57170	2.3< /font>	3/16/2001	
2.5*	Assignment and Assumption Agreement dated November 14, 2000 between Resin Acquisition, LLC and RPP Holdings LLC	S-4	333-57170	2.4	3/16/2001	
2.6	Agreement and Plan of Merger dated July 12, 2007 among Hexion Specialty Chemicals, Inc., Nimbus Merger Sub Inc. and Huntsman Corporation	8-K	001-00071	2.1	7/17/2007	
3.1	Restated Certificate of Incorporation of Hexion Specialty Chemicals, Inc. dated as of July 18, 2006	S-4	333-135482	3.5	8/1/2006	
3.2	Amended and Restated Bylaws of Hexion Specialty Chemicals, Inc. dated July 18, 2006	S-4	333-135482	3.6	8/1/2006	
3.3	Agreement of Combination with Momentive Performance Material Holdings Inc on September 11, 2010	8-K	001-00071	99.1	9/13/2010	
3.4	Certificate of Amendment to the Certificate of Incorporation, dated October 1, 2010 changing the name of the corporation to Momentive Specialty Chemicals Inc.	8-K	001-00071	3.1	10/1/2010	
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 8 3/8% Sinking Fund Debentures due 2016	S-3 10-Q	33-4381 001-00071	(4)(a) and (b) (4)(iv)	 8/14/1996	
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, the Second Supplemental Indenture dated as of February 1, 1993 and the Third Supplemental Indenture dated as of June 26, 1996, relating to the following Debentures and Notes:	S-3 10-Q	33-45770 001-00071	4(a) thru 4(d) (4)(iii)	 8/14/1996	
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 9 3/4% second-priority senior secured notes due 2014.	10-Q	001-00071	4.3	11/14/2006	
4.4	First Supplemental Indenture, dated as of October 23, 2 008, 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 9 3/4% Second Priority Senior Secured Notes due 2014 were issued	8-K	001-0071	4.1	10/24/2008	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File Number	Exhibit	Filing Date	Filed Herewith
4.5	Indenture, dated as of January 29, 2010, by and among Hexion Finance Escrow LLC, Hexion Escrow Corporation and Wilmington Trust FSB, as trustee.	8-K	001-00071	4.1	2/4/2010	
4.6	Supplemental Indenture, dated as of January 29, 2010, by and among Hexion U.S. Finance Corp., Hexion Nova Scotia Finance, ULC, the guarantors party thereto and Wilmington Trust FSB, as trustee.	8-K	001-00071	4.2	2/4/2010	
4.7	Supplemental Indenture, dated as of June 04, 2010, by and among NL COOP Holdings LLC,Hexion U.S. Finance Corp., Hexion Nova Scotia Finance, ULC, the guarantors party thereto and Wilmington Trust FSB, as trustee.	8-K	001-00071	4.1	6/9/2010	
4.8	Supplemental Indenture, dated as of June 04, 2010, by and among NL COOP Holdings LLC,Hexion U.S. Finance Corp., Hexion Nova Scotia Finance, ULC, the guarantors party thereto and Wilmington Trust FSB, as trustee.	8-K	001-00071	4.2	6/9/2010	
4.9	Indenture dated as of November 5, 2010 among Hexion U.S. Finance Corp., Hexion Nova Scotia Finance, ULC, the Company, the gu arantors named therein and Wilmington Trust Company, as trustee, related to the $574,016,000 9.0% second-priority senior secured floating rate notes due 2020.	8-K	001-00071	4.1	11/12/2010	
10.1‡	BHI Acquisition Corp. 2004 Deferred Compensation Plan	10-Q	001-00071	10(iv)	11/15/2004	
10.2‡	BHI Acquisition Corp. 2004 Stock Incentive Plan	10-Q	001-00071	10(v)	11/15/2004	
10.3*‡	Resolution Performance Products Inc. 2000 Stock Option Plan	S-4	333-57170	10.26	3/16/2001	
10.4*‡	Resolution Performance Products Inc. 2000 Non - Employee Directors Stock Option Plan	S-4	333-57170	10.27	3/16/2001	
10.5‡	Am ended and Restated Resolution Performance Products, Inc. Restricted Unit Plan	S-1	333-124287	10.34	9/19/2005	
10.6‡	Form of Non-Qualified Stock Option Agreement between BHI Acquisition Corp. and certain optionees	S-4	333-122826	10.12	2/14/2005	
10.7&Dagger ;	Resolution Specialty Materials Inc. 2004 Stock Option Plan	S-1	333-124287	10.52	7/15/2005	
10.8‡	Form of Nonqualified Stock Option Agreement for Resolution Specialty Materials Inc. 2004 Stock Option Plan	S-1	333-124287	10.53	7/15/2005	
10.9‡	Form of Nonqualified Stock Option Agreement for Resolution Performance Products Inc. 2000 Stock Option Plan	S-1	333-124287	10.54	7/15/2005	
10.10‡	Form of Nonqualified Stock Option Agreement for Resolution Performance Products Inc. 2000 Non-Employee Director Stock Option Plan	S-1	333-124287	10.55	7/15/2005	
10.11‡	Hexion LLC 2007 Long-Term Incentive Plan dated April 30, 2007	10-Q	001-00071	10.1	8/14/2007	
10.12	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	S-1	333-124287	10.63	7/15/2005	
10.13	Registration Rights Agreement dated as of May 31, 2005 be tween Hexion Specialty Chemicals, Inc. and Hexion LLC	S-1	333-124287	10.64	7/15/2005	
10.14‡	Amended and Restated Executives' Supplemental Pension Plan, dated as of September 7, 2005	8-K	001-00071	10	9/12/2005	
10.15	Advisory Directors Plan	10-K		10(viii)		
10.16‡	Hexion Specialty Chemicals, Inc. 2009 Leadership Long-Term Cash Incentive Plan	10-K	001-00071	10.21	3/11/2009	
10.18‡	Hexion Specialty Chemicals, Inc. 2009 Incentive Compensation Plan	10-K	001-00071	10.25	3/11/2009	
10.19‡	Hexion Specialty Chemicals, Inc. 2010 Incentive Compensation Plan	10-K	001-00071	10.2	3/9/2010	
10.21‡	Amended and Restated Employment Agreement dated as of August 12, 2004 between the Company and Craig O. Morrison	10-Q	001-00071	10(i)	11/15/2004	
10.22‡	Amended and Restated Employment Agreement dated as of August 12, 2004 between the Company and Joseph P. Bevilaqua	10-Q	001-00071	10(ii)	11/15/2004	
10.23‡	Summary of Terms of Employment between Hexion Specialty Chemicals, Inc. and Joseph P. Bevilaqua dated August 10, 2008	10-K	001-00071	10.23	3/9/2010	
10.24‡	International assignment agreement dated as of November 13, 2008 between the Company and Joseph P. Bevilaqua	10-K	001-00071	10.28	3/11/2009	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File Number	Exhibit	Filing Date	Filed Herewith
10.25‡	Amended and Restated Employment Agreement dated as of August 12, 2004 between the Company and William H. Carter.	10-Q	001-00071	10(iii)	11/15/2004	
10.26‡	Summary of Terms of Employment between Hexion Specialty Chemicals, Inc. and Judith A. Sonnett dated September 21, 2007	10-K	001-00071	10.29	3/9/2010	
10.27‡	Addition of Terms of Employment between Hexion Specialty Chemicals, Inc. and Dale N. Plante, Supplement to August 2008 Promotional Employment Offer dated as of July 16, 2009	10-K	001-00071	10.27	2/25/2011	X
10.28	Master Asset Conveyance and Facility Support Agreement, dated as of December 20, 2002, between Borden Chemical and Borden Chemicals and Plastics Operating Limited Partnership	10-K	001-00071	(10)(xxvi)	3/28/2003	
10.29	Environmental Servitude Agreement, dated as of December 20, 2002, between Borden Chemical and Borden Chemicals and Plastics Operating Limited Partnership	10-K	001-00071	(10)(xxvii)	3/28/2003	
10.30*	Intellectual Property Transfer and License Agreement and Contribution Agreement dated as of November 14, 2000 between Shell Oil Company and Shell Epoxy Resins LLC	S-4	333-57170	10.13	3/16/2001	
10.31*	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	S-4	333-57170	10.14	3/16/2001	
10.32*	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 Shell Epoxy Resins LLC	S-4	333-57170	10.19	3/16/2001	
10.33*	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.	S-4	333-57170	10.21	3/16/2001	
10.34*	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.	S-4	333-57170	10.22	3/16/2001	
10.35†	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.	10-K	001-00071	10.45	3/22/2007	
10.36*	Deer Park Ground Lease and Grant of Easements dated as of November 1, 2000 between Shell Oil Company and Shell Epoxy Resins LLC	S-4	333-57170	10.23	3/16/2001	
10.37*	Norco Ground Lease and Grant of Servitudes dated as of November 1, 2000 between Shell Oil Company and Shell Epoxy Resins LLC	S-4	333-57170	10.24	3/16/2001	
10.38*	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.	S-4	333-57170	10.25	3/16/2001	
10.39	Amended and Restated Management Consulting Agreement dated as of May 31, 2005 between Borden Chemical, Inc. and Apollo Management V, L.P.	S-1	333-124287	10.66	7/15/2005	
10.40	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	10-Q	001-00071	10.1	11/14/2006	
10.41	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.	10-Q	001-00071	10.2	11/14/2006	
10.42	Collateral Agreement dated as of November 3, 2006 among the Company and subsidiary parties thereto, and Wilmington Trust Company, as Collateral Agent.	10-K	001-00071	10.57	3/11/2009	
10.43	Second Amended and Restated Collateral Agreement dated as of November 3, 200 6 among Hexion LLC, the Company and subsidiary parties thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.	10-K	001-00071	10.58	3/11/2009	

Exhibit Number		Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.46	Second Amended and Restated Credit Agreement with exhibits and schedules dated as of November 3, 2006 among Hexion LLC, Hexion Specialty Chemicals, Inc., Hexion Specialty Chemicals Canada, Inc., H exion 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.	10-Q	001-00071	10.1	8/13/2009	
10.47	Incremental Facility Amendment and Amendment No. 1 with exhibits and schedules to the Second Amended and Restated Credit Agreement dated as of June 15, 2007 a mong 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	10-Q	001-00071	10.2	8/13/2009	
10.46	Second Incremental Facility Amendment with exhibits and schedules to the Second Amended and Restated Credit Agreement dated as of August 7, 2007 among Hexion LLC, Hexion Specialty Chemicals, Inc., Hexion Specialty Chemi cals 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	10-Q	001-00071	10.3	8/13/2009	
10.47	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 i ts affiliates	8-K	001-00071	10.1	12/15/2008	
10.48	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	8-K	001-00071	10.1	3/3/2009	
10.49	Credit Agreement with exhibits and schedules 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.	10-Q	001-00071	10.4	8/13/2009	
10.50	Indemnification Agreement dated as of Marc h 3, 2009 among Apollo Management, L.P. and subsidiary parties thereto, Hexion LLC, Hexion Specialty Chemicals, Inc. and Nimbus Merger Sub Inc.	8-K	001-00071	10.3	3/3/2009	
10.51	Amendment Agreement to Credit Agreement, dated as of January 25, 2010, 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 Subsidiary Loan Parties party thereto, the lenders party thereto and JPMorgan Ch ase Bank, N.A. as administrative agent.	8-K/A	001-00071	10.1	2/4/2010	
10.52	Registration Rights Agreement, dated as of January 29, 2010, by and among Hexion U.S. Finance Corp., Hexion Nova Scotia Finance, ULC, the guarantors party thereto and Credit Suisse Securities (USA) LLC, as representative of the initial purchasers.	8-K	001-00071	4.3	2/4/2010	
10.53	Third Amended and Restated Credit Agreement, dated as of January 29, 2010, among Hexion LLC, the Registrant, each subsidiary of the Registrant from time to time party thereto, the lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as administrative agent. (Incorporated by reference to the exhibit to the Registrant's Current Report on Form 8-K/A filed February 4, 2010.)	8-K/A	001-00071	10.1	2/4/2010	
10. 54	Intercreditor Agreement, dated as of January 29, 2010, by and among JPMorgan Chase Bank, as intercreditor agent, Wilmington Trust FSB, as trustee and collateral agent, Hexion LLC, the Registrant and certain subsidiaries of the Registrant. (Incorporated by reference to the exhibit to the Registrant's Current Report on Form 8-K/A filed February 4, 2010.)	8-K/A	001- 00071	10.1	2/4/2010	
10.55	Joinder and Supplement to Intercreditor Agreement, by and among Wilmington Trust FSB, as trustee under the Indenture, JPMorgan Chase Bank, as intercreditor agent, Hexion LLC, the Registrant and each subsidiary of the Registrant from time to time party thereto. (Exhibit A thereto incorporated by reference to exhibit 10.1 to the Registrant's Report on Form 10-Q filed November 14, 2006.)	8-K	001-00071	10.3	2/4/2010	
10.56	Notes Collateral Agreeme nt dated and effective as of January 29, 2010, among the Registrant, each Subsidiary Party thereto and Wilmington Trust FSB, as collateral agent.	8-K	001-00071	10.4	2/4/2010	
10.57	SUPPLEMENT dated as of June 4, 2010, to the U.S. Guarantee Agreement dated as of May 31, 2005, among HEXION LLC, a Delaware limited liability company, HEXION SPECIALTY CHEMICALS, INC., a New Jersey corporation, each Foreign Subsidiary Loan Party party thereto and JPMORGAN CHASE BANK, N.A., as Administrative Agent (in such capacity, the “Admini strative Agent”) for the Lenders (as defined therein).	8-K	001-00071	10.1	6/9/2010	

< /td>

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.58	SUPPLEMENT dated as of June 4, 2010, to the Foreign Guarantee Agreement dated as of May 31, 2005, among HEXION LLC, a Delaware limited liability company, HEXION SPECIALTY CHEMICALS, INC., a New Jersey corporation, each For eign Subsidiary Loan Party party thereto and JPMORGAN CHASE BANK, N.A., as Administrative Agent (in such capacity, the “Administrative Agent”) for the Lenders (as defined therein).	8-K	001-00071	10.2	6/9/2010	
10.59	SUPPLEMENT dated as of June 4, 2010, to the Third Amended and Restated Collateral Agreement dated as of January 29, 2010, 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 Applicable First Lien Representative (in such capacity, the “Applicable First Lien Representative”) for the Secured Parties (as defined therein).	8-K	001-00071	10.3	6/9/2010	
10.60	SUPPLEMENT dated as of June 4, 2010, to the Collateral Agreement dated as of January 29, 2010, among HEXION SPECIALTY CHEMICALS, INC., a New Jersey corporation, each Subsidiary Party party thereto and WILMINGTON TRUST FSB, as Collateral Agent (in such capacity, the “Collateral Agent”) for the Secured Parties (as defined t herein).	8-K	001-00071	10.4	6/9/2010	
10.61	SUPPLEMENT dated as of June 4, 2010, to the Collateral Agreement dated as of November 3, 2006, 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).	8-K	001-00071	10.5	6/9/2010	
10.62	Registration Rights Agreement dated as of November 5, 2010 among Hexion U.S. Finance Corp., Hexion Nova Scotia Finance ULC, the Company and subsidiary parties thereto and Credit Suisse Securities (USA) LLC, UBS Secutiries LLC, Deutsche Bank Securities Inc, Goldman Sachs & Co., BMO Capital Markets Corp and JPMorgan Securities, Inc. as initial purchasers.	8-K	001-00071	4.2	11/12/2010	
10.63	Registration Rights Agreement among Hexion U.S. Finance Corp. and Hexion Nova Scotia Finance, ULC and the Guarantors, propose to enter into a transaction pursuant to which Euro VI (BC) S.à r.l., a société à responsabilité limitée organized and existing under the laws of the Grand Duchy of Luxembourg (the “Holder”) will exchange its 9.75% Second-Priority Senior Secured Notes due 2014 for U.S. $134,016,000 principal amount of 9.00% Second-Priority Senior Secured Notes Due 2020 of the Issuers	8-K	001-00071	4.3	11/12/2010	
10.64	Supplement to Intercreditor Agreement, dated as of January 29, 2010, by and among JPMorgan Chase Bank, as intercreditor agent, Wilmington Trust FSB, as trustee and collateral agent, Hexion LLC, the Registrant and certain subsidiaries of the Registrant.	8-K	001-00071	10.1	11/12/2010	
10.65	Joinder and Supplement to Collateral Agreement dated November 3, 2006 among the Company and subsidiary parties thereto, and Wilmington Trust Company, as Collateral Agent.	8-K	001-00071	10.2	< div style="text-align:center;font-size:8pt;">11/12/2010	
10.66	Supplement, dated as of December 15, 2010 to the Foreign Guarantee Agreement, dated as of May 31, 2005 among Momentive Specialty Chemicals Holdings LLC, Momentive Specialty Chemicals Inc., each Foreign Subsidiary Loan Party party thereto and JP Morga n Chase Bank, as administrative agent for the Lenders.	8-K	001-00071	10.1	12/15/2010	
10.67	Shared Services agreement, dated as of October 1, 2010, by and among Hexion Specialty Chemicals, Inc. and Momentive Performance Materials Inc.,and the other Persons party hereto	10-K	001-00071	18.1		X
10.68	Purchase and Sale Agreement, dated November 30, 2010, by and between Momentive Specialty Chemicals Inc. and Harima Chemicals, Inc.	8-K	001-00071	2.01	2/4/2011	
18.1	Letter from PricewaterhouseCoopers, dated February 28, 2011 regarding preferability of a change in a ccounting principle	10-K	001-00071	18.1		X
21.1	List of Subsidiaries of the registrant					X
31.1	Rule 13a-14 Certifications					
	(a) Certificate of the Chief Executive Officer					X
	(b) Certificate of the Chief Financial Officer					X
32.1	Section 1350 Certifications					X

* Exhibit is incorporated by reference to the Resolution Performance Products Form S-4 filed 3/16/01.

† 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.

‡ Represents a management contract or compensatory plan or arrangement

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.

MOMENTIVE SPECIALTY CHEMICALS INC.

By /s/ William H. Carter
William H. Carter
Executive Vice President and Chief Financial Officer

Date: February 28, 2011

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.

Name	Title		Signature	Date
Craig O. Morrison	Director, President and Chief Executive Officer (Principal Executive Officer)		/s/ Craig O. Morrison	February 28, 2011
William H. Carter	Director, Executive Vice President and Chief Financial Off icer (Principal Financial and Principal Accounting Officer)		/s/ William H. Carter	February 28, 2011
Robert V. Seminara ;	Director	&n bsp;	/s/ Robert V. Seminara	February 28, 2011
Jordan C. Zaken	Director		/s/ Jordan C. Zaken	February 28, 2011
David B. Sambur	Director		/s/ David B. Sambur	February 28, 2011

MOMENTIVE INTERNATIONAL HOLDINGS COOPERATIEF U.A.
CONSOLIDATED STATEMENTS OF OPERATIONS

< tr>

	Year ended December 31,		
(In millions)	**2010**	**2009**	**2008**
Net sales	$ 2,714	$ 2,237	$ 3,362
Cost of sales	2,367	1,992	3,033
Gross profit	347	245	329
Selling, general and administrative expense	256	209	247
Terminated merger costs (See Note 2)	—	2	159
Integration costs (See Note 2)	—	—	10
Asset impairments (See Note 2)	—	11	13
Business realignment costs (See Note 2)	15	22	27
Other operating (income) expense, net	(3)	(1)	8
Operating income (loss)	79	2	(135)
Interest expense, net	39	31	65
Affiliated interest expense, net (See Note 10)	47	16	2
Other non-operating expense (income), net	24	1	(3)
Loss from continuing operations before income taxes and earnings from unconsolidated entities	(31)	(46)	(199)
Income tax expense (benefit) (See Note 15)	14	(16)	(5)
Loss from continuing operations before earnings from unconsolidated entities	(45)	(30)	(194)
Loss from unconsolidated entities, net of taxes	(1)	—	—
Loss from continuing operations	(46)	(30)	(194)
Net income (loss) from d iscontinued operations, net of taxes	4	(13)	(1 0)
Net loss	(42)	(43)	(204)
Net income attributable to noncontrolling interest	—	—	(1)
Net loss att ributable to Momentive International Holdings Cooperatief U.A.	$ (42)	$ (43)	$ (205)
Comprehensive loss attributable to Momentive International Holdings Cooperatief U.A.	$ (94)	$ (61)	$ (194)

See Notes to Consolidated Financial Statements

MOMENTIVE INTERNATIONAL HOLDINGS COOPERATIEF U.A.
CONSOLIDATED BALANCE SHEETS

< td style="vertical-align:bottom;background-color:#cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

< td style="vertical-align:top;background-color:#cceeff;padding-left:68px;padding-top:2px;padding-bottom:2px;padding-right:2px;">
Total liabilities

(In millions)		December 31, 2010		December 31, 2009
Assets				
Current assets				
Cash and cash equivalents (including restricted cash of $6 and $7, respectively) (See Note 2)		$ 84		$ 65
Short-term investments		6		10
Accounts receivable (net of allowance for doubtful accounts of $20 and $18, respectively)		388		323
Accounts receivable from affiliates (See Note 5)		63		65
Loans receivable from affiliates (See Note 10)		33		24
Inventories:				
Finished and in-process goods		128		111
Raw materials and supplies		71		56
Other current assets		49		48
Current assets of discontinued operations (See Note 3)		145		77
Total current assets		967	< font style="font-family:inherit;font-size:10pt;">	779
Long-term loans receivable from affiliates (See Note 10)	&n bsp;	20		424
Other assets		70		59
Property and equipment				
Land		49		56
Buildings		194		181
Machinery and equipment		1,238		1,250
		1,481		1,487
Less accumulated depreciation	< /div>	(714)		(656)
		767		831
Goodwill (See Note 7)		114		118
Other intangibles assets, net (See Note 7)		112		132
Noncurrent assets of discontinued operations (See Note 3)	< div style="overflow:hidden;font-size:10pt;">	—		61
Total assets		$ 2,050		$ 2,404
Liabilities and (Deficit) Equity				
Current liabilities				
Accounts and drafts payable		$ 246		$ 264
Accounts payable to affiliates (See Note 5)		189		42
Debt payable within one year (See Note 9)		57		62
Affiliated debt payable within one year (See Note 10)		79		92
Income taxes payable		20		22
Other current liabilities		116		107
Current liabilities of discontinued operations (See Note 3)		32		34
Total current liabilities		739		623
Long-term debt (See Note 9)		649		701
Affiliated long-term debt (See Note 10)		746		771
Deferred income taxes (See Note 15)		103		116
Long-term pension and post employment benefit obligations (See Note 13)		125		126
Other long-term liabilities		54		32
Noncurrent liabilities of discontinued operations (See Note 3)		—		8
		2,416		2,377
Commitments and contingencies (See Notes 9, 11 and 12)				
(Deficit) Equity				
Paid-in (deficit) capital		(132)		629
Loans receivable from parent		(87)		(549)
Accumulated other comprehensive (loss) income		(16)		36
Accumulated deficit		(134)		(92)
Total Momentive International Holdings Cooperatief U.A. shareholder's (deficit) equity		(369)		24
Noncontrolling interest		&nbs 3p;		3
Total (deficit) equity		(366)		27
Total liabilities and deficit		$ 2,050		$ 2,404

See Notes to Consolidated Financial Statements

MOMENTIVE INTERNATIONAL HOLDINGS COOPERATIEF U.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions) < /td>		Year ended December 31, 2010	2009	2008
Cash flows provided by operating activities				
Net loss		$ (42)	$ (43)	$ (204)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization		101	109	124
Allocations of corporate overhead, net (See Note 5)		14	16	16
Loss (gain) on disposal of assets, net of taxes		—	3	(3)
Settlement of foreign exchange guarantee agreement with parent (See Note 5)		13	—	—
Terminated merger expenses billed by parent (See Note 5)		—	—	140
Deferred tax benefit		(15)	(7)	(15)
Impairments and accelerated depreciation		2	13	27
Cash settlement of derivatives		—	—	37
Other non-cash adjustments		29	(12)	(20)
Net change in assets and liabilities:				
Accounts receivable		(85)	47	182
Inventories		(41)	70	44
Accounts and drafts payable	< font style="font-family:inherit;font-size:10pt;">	117	12	(159)
Income taxes payable		15	6	(6)
Other assets		2	(12)	3
Other liabilities		27	(29)	(41)
Net cash provided by operating activities		137	173 &nbs p;	125
Cash flows used in investing activities				
Capital expenditures		(66)	(92)	(73)
Capitalized interest		(1)	(5)	—
Proceeds from the sale of assets		7	—	7
Change in restricted cash		2	7	(9)
Proceeds from the sale of (purchases of) investments		4	(2)	2
Net cash used in investing activities		(54)	(92)	(73)
Cash flows used in financing activities	< div style="overflow:hidden;font-size:10pt;">			
Net short-term debt (repayments) borrowings		(8)	(15)	18
Borrowings of long-term debt		633	568	701
Repayments of long-term debt	< /div>	(663)	(692)	(531)
Affiliated loan (repayments) borrowings, net		(18)	15	(162)
Deferred financing fees paid		(8)	—	—
Cash settlement of derivatives		—	—	(37)
Common stock dividends paid		—	—	(2)
Net cash used in financing activities		(64)	(124)	(13)
Effect of exch ange rates on cash and cash equivalents		1	19	(20)
Increase (decrease) in cash and cash equivalents		20	(24)	19
Cash and cash equivalents at beginning of year		58	82	63
Cash and cash equivalents (unrestricted) at end of year		$ 78	$ 58	$ 82
Supplemental disclosures of cash flow information				
Cash paid for:				
Interest, net < /td>		$ 78	$ 38	$ 50
Income taxes paid (refunded), net		25	(9)	6
Non-cash investing and financing activity:			< /div>	
Distribution to parent—acquisition of subsidiaries previously combined (See Note 1)		(697)	—	—
Affiliate note assumed to acquire subsidiaries (See Note 1)		697	—	—
Distribution to parent—Settlement of foreign exchange guarantee agreement with parent		(78)	—	—
Accounts payable to a ffiliates reclassified to affiliated long-term debt		—	140	—

See Notes to Consolidated Financial Statements

Table of Contents

MOMENTIVE INTERNATIONAL HOLDINGS COOPERATIEF U.A.
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUI TY (DEFICIT) AND COMPREHENSIVE LOSS

(In millions)	Paid-in Capital	Loans Receivable from Parent	Accumulated Other Comprehensive Income (a)	Accumulated Deficit	Noncontrolling Interest	Total
Balance at December 31, 200 7	$ 597	$ (238)	$ 43	$ 158	$ 4	$ 564
Net (loss) income	—	—	—	(205)	1	(204)
Loss recognized in comprehensive income from pension and postretirement benefits, net of tax	—	—	< div style="text-align:left;font-(1size:9pt;">)	—	—	(1)
Translation adjustments	—	—	12	—	—	12
Comprehensive loss						(193)
Dividends declared	—	—	—	(2)	—	(2)
Net repayments from parent	—	30	—	—	—	30
Translation adjustment and other non-cash changes in principal	—< font style="font-family:inherit;font-size:10pt;">	(7)	—	—	—	(7)
Interest purchased from noncontrolling interest holder	—	—	—	—	(2)	(2)
Allocations of corporate overhead (See Note 5)	16	—	—	—	—	16
Balance at December 31, 2008	613	(215)	54	(49)	3	406
Net loss	—	—	—	(43)	—	(43)
Loss recognized in comprehensive income from pension and postretirement benefits, net of tax	—	—	(7)	—	—	(7)
Translation adjustments &n bsp;	—	—	(11)	—	—	(11)
Comprehensive loss						(61)
Net borrowings to parent	—	(319)	—	—	—	(319)
Translation adjustment and other non-cash changes in principal	—	(15)	—	—	—	(15)
Allocations of corporate overhead (See Note 5)	16	—	—	—	—	16
Balance at December 31, 2009	629	(549)	36	(92)	3	27
Net loss	—	—	—	(42)	—	(42)
Translation adjustments	— < font style="font-family:inherit;font-size:10pt;">	—	(52)	—	—	(52)
Comprehensive loss						(94)
Distribution to parent—acquisition of subsidiaries previously combined through assumption of note payable to parent (See Note 1 and Note 10) < /td>	(697)	466	—	—	— &nb sp;	(231)
Translation adjustment and other non-cash changes in principal	—	(4)	—	—	—	(4)
Distribution to parent—settlement of foreign exchange guarantee agreement with parent (See Note 5)	(78)	—	—	—	—	(78)
Allocations of corporate overhead (See Note 5)	14	—	— < /td>	—	—	14
Balance at December 31, 2010 < /td>	$ (132)	$ (87)	$ (16)	$ (134)	$ 3	$ (366)

(a) Accumulated other comprehensive income at December 31, 2010 represents $2 of net foreign currency translation losses and a $14 loss, 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 income at December 31, 2009 represents $50 of net foreign currency translation gains and a $14 loss, 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

Momentive International Holdings Cooperatief U.A.
Notes to Consolidated Financial Statements
(In millions)

1. Background and Basis of Presentation

On June 4, 2010, Momentive International Holdings Cooperatief U.A. ("CO-OP") was formed as a holding company f or the purpose of acquiring ownership in Momentive Specialty Chemicals B.V. ("MSC B.V.") and Momentive Specialty Chemicals Canada, Inc. ("MSC Canada"), and their respective subsidiaries. CO-OP was formed through capital contributions from Momentive Specialty Chemicals Inc. ("MSC") and NL CO-OP Holdings LLC, a subsidiary of MSC. CO-OP subsequently purchased from MSC 100% of its shares in Momentive Specialty Chemicals Holding B.V. ("MSC Holding B.V."), MSC B.V.'s parent, in exchange for CO-OP assuming a note payable from MSC to MSC B.V. The face value of the note payable assumed is equivalent to the fair value of MSC Holding B.V. and its consolidated subsidiaries and was in excess of the historical carrying value of the assets. As such, the Company's acquisition of the investment in MSC Holding B.V. and the excess by which the note payable assumed exceeded the carrying value have been recorded as a distribution to its parent and a reduction to Paid-in capital. See Note 10.

On December 15, 2010, in a series of transactions among certain subsidiaries of MSC, certain subsidiaries of CO-OP acquired the shares in National Borden Chemical Germany GmbH ("NBCG") and ownership in its respective subsidiaries and CO-OP acquired the shares in MSC Canada and ownership in its respective subsidiaries through a capital contribution from MSC and certain of MSC's subsidiaries.

Together CO-OP, through its investments in MSC Canada and MSC B.V. and its respective subsidiaries, (collectively referred to as the "Company"), is engaged in the manufacture and marketing of urea, phenolic, epoxy and epoxy specialty resins and coatings applications primarily u sed in forest and industrial and construction products and other specialty and industrial chemicals worldwide. At December 31, 2010, the Company's operations included 45 manufacturing facilities in Europe, North America, South America, Australia, New Zealand and Korea.

MSC serves global industrial markets through a broad range of thermoset technologies, specialty products and technical support for customers in a diverse range of applications and industries. MSC (formerly known as Hexion Specialty Chemicals, Inc.) was formed on May 31, 2005 from the combination of three Apollo Management, L.P. ("Apollo") controlled companies (the "Hexion Formation").

Prior to the format ion of the Company, and for all financial statement periods presented, all subsidiaries of the Company were considered entities under the common control of MSC as defined in the guidance for business combinations. As a result of the formation of the Company, these entities are presented in the accompanying financial statements retroactively on a combined basis. In addition, as all entities are under the common control of MSC, all entities have been accounted for on a historical cost basis consistent with the basis of MSC, and as such, the acquisition method of accounting has not been applied.

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 MSC, and for which no substantive participating rights are held by minority shareholders. Intercompany transactions and balances have been eliminated. Noncontrolling interests exist for the equity interests in subsidiaries that are not 100% owned by the Company. However, due to common ownership, MSC's 34% interest in Momentive Specialty Chemicals Sdn. Bhd. ("MSC Malaysia"), MSC's 20% interest in Hexion Quimica Argentina SA ("Hexion Argentina"), MSC's 5% interest in Quimica Borden Argentina ("Borden Argentina") and MSC's interest in New Nimbus KG ("Nimbus") are included within the Consolidated Financial Statements presented herein.

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 prevailing during the year. In addition, gains or losses related to the Company's affiliated loans payable and receivable denominated in a foreign currency other than the subsidiary's functional currency that are deemed to be permanently invested are also remeasured to cumulative translation. The effect of translation is accounted for as an adjustment to Equity and is included in Accumulated other comprehensive income. Transaction gains and losses are included as a component of net income. The Company recognized transaction gains of $7 for the year ended December 31, 2010 and losses of $1 and $22 for the years ended December 31, 20 09 and 2008, 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 accoun ts 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, 2010 and 2009, the Company had interest-bearing time deposits and other cash equivalent investments of $20 and $18, 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, 2010 and 2009, the Company had Brazilian real denominated U.S. dollar index investments of $6 and $10, respectively. These investments, which are classified as held-to-maturity 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 an d applicable manufacturing overheads, which are based on normal production capacity. 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 $4 and $5 at December 31, 2010 and 2009, 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 li ves 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 operating income. The Company capitalizes interest costs that are incurred during the construction of property and equipment. Depreciation expense was $89, $88 and $100 for the years ended December 31, 2010, 2009 and 2008, respectively.

Good will and Intangibles—The excess of purchase price over net tangible and identifiable intangible assets of businesses acquired is carried as Goodwill in 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 in 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 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. 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.

During the years ended December 31, 2009 and 2008, asset impairments of $11 and $13, respectively, were included in Asset impairments on the Consolidated Statements of Operations.

Long-Lived and Amortizable Intangible Assets

In 2009, the Company recorded impairment charges of $11 as a result of the Company's decision to indefinitely idle certain production lines and close certain R&D facilities. In 2008, the Company recorded an $8 charge for the impairment of tradenames from which cash flows are no longer generated.

Goodwill

The Company uses a probability weighted market and income approach t o 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. See Note 7.

Prior to 2010, the Company performed its annual impairment test at Dece mber 31. In 2010, the Company has changed the annual goodwill impairment testing date to October 1. The purpose of this change is to conform with the accounting policy and annual impairment testing date of MSC and MSC's parent's accounting acquirer, Momentive Performance Materials Holdings Inc. Accordingly, the Company considers this accounting change preferable. This change does not accelerate, delay, avoid or cause an impairment charge, nor does this change result in adjustments to previously issued financial statements. The annual goodwill impairment testing was performed as of October 1, 2010. Consideration was given to the period between the testing date and December 31, 2010, concluding that no facts or circumstances arose that would lead to a different conclusion as of December 31, 2010.

At October 1, 2010, the fair value of the remaining repor ting units exceeded the carrying amount of assets (including goodwill) and liabilities assigned to the reporting units. At December 31, 2009, the fair value of the remaining reporting units exceeded the carrying amount of assets (including goodwill) and liabilities assigned to the reporting units. In the fourth quarter of 2008, the Company recognized goodwill impairments in its Coatings reporting unit of $5.

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 MSC and is allocated a share of the related premiums. The Company records losses when a loss has been incurred and is estimable . See Note 5.

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 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 p ipeline, 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 in the Consolidated Statements of Operations. 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. Shippin g 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 $38, $34 and $38 for the years ended December 31, 2010, 2009 and 2008, 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 $2 and $159 for the years ended December 31, 2009 and 2008, respectively. These costs primarily represent legal, consulting, accounting and tax costs related to MSC's terminated Huntsman Corporation merger agreement and litigation. For the year ended December 31, 2008, the amount also includes costs billed by MSC to the Company, including costs associated with the write-off of previously deferred acquisition costs incurred by MSC. See Note 5.

Integration Costs—The Company incurred integration costs totaling $10 for the year ended December 31, 2008. 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. The Company records these expenses as incurred.

Business Realignment Costs—The Company incurred business realignment costs totaling $15, $22 and $27 for the years ended December 31, 2010, 2009 and 2008, respectively. These costs primarily represent expenses to implement productivity savings programs to reduce the Company's cost structure and align manufacturing capacity with current volume demands. See Note 4. For the year ended December 31, 2008, these costs also represent minor restructuring programs related to headcount reduction costs assoc iated with plant closures and divestitures.

Income Taxes—The Company files 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. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of the assets and li abilities. 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, the Company, for all periods presented. Reconciliations of tax rates are calculated at the statutory 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 Stateme nts 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.

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 eith er sales-type or financing-type transfers of financial assets based on the terms and conditions of each agreement. See Note 6.

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. The Company does not maintain any stock option plans. However, certain of the Company's employees have been granted MSC equity awards, and the Company is allocated a share of the related compensation expense. See Note 5.

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.

Corporate Overhead Allocations—In order to properly depict the financial results of the Company on a stand-alone basis, corporate controlled expenses incurred by MSC that are not reimbursed by the Company are allocated to the Company. The amounts are allocated on the basis of Net sales. Management believes that the amounts allocated in such a manner are reasonable and consistent. However, the amounts are not necessarily indicative of the costs that would have been incurred if the Company had operated independently. See Note 5.

Subsequent Events—The Company evaluates all subsequent events from December 31, 2010 through the date of issuance of its Consolidated Financial Statements.

Recently Issued Accounting Standards

Newly Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 166, *Accounting for Transfers of Financial Assets* which was codified in December 2009 as *Accounting Standards Update 2009-16: Accounting for Transfers of Financial Assets* ("ASU 2009-16"). ASU 2009-16 removes the concept of a qualifying special-purpose entity (“QSPE”) and as a result eliminates the scope exception for QSPE's. ASU 2009-16 also changes the c riteria for a transfer of financial assets to qualify as a sales-type transfer. The Company adopted ASU 2009-16 on January 1, 2010. The adoption of ASU 2009-16 did not have a material impact on the Company's Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* which was codified in December 2009 as *Accounting Standards Update 2009-17: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ("ASU 2009-17"). ASU 2009-17 amends current guidance requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity ("VIE"). The Company adopted ASU 2009-17 on January 1, 2010. The Company does not have the power to direct the activities that most significantly impact one of its VIE's economic performance, and therefore, the Company does not have a controlling financial interest in this VIE. As a result of the adoption of this guidance, the Company deconsolidated one of its VIE's from its Consolidated Financial Statements. The deconsolidation of this VIE did not have a material impact on the Company's Consolidated Financial Statements.

3. Discontinued Operations

On January 31, 2011, the Company sold its Inks and Adhesive Resins (“IAR”) business to Harima Chemicals Inc (the "Buyer") for a purchase price of $120. The Buyer also paid $14 for cash and $8 for working capital transferred to the Buyer at the time of closing as part of the purchase agreement, less indebtedness and pension plan liability transferred to the Buyer of $4. A subsequent adjustment to the purchase price may be made based upon the final settlement as defined by the Purchase Agreement.

Immediately prior to the sale, MSC completed a legal restruc turing to move all of the IAR businesses and entities to be owned by a subsidiary of the Company. The company acquired these assets, located primarily in the U.S. and China for the purchase price allocation as agreed upon with the Buyer.

In conjunction with the sale, as part of a Transitional Services Agreement, MSC and the Company will provide certain transitional services to the Buyer for a period of six months. The purpose of these services is to provide short-term assistance to the Buyer in assuming the operations of the IAR business. These services do not confer to MSC or the Company the ability to influence the operating or financial policies of the IAR business under its new ownership. MSC and the Company’s cash inflows and outflows from these services are expected to be insignificant during the transition period.

The portion of the IAR business held by the Company as of December 31, 2010 represent substantially all of the international operations of the IAR business. The IAR business is en gaged in the production of naturally derived resins and related products primarily used for the manufacture of printing inks, adhesives, synthetic rubber, specialty coatings and aroma chemicals. The international operations of the IAR business includes 9 manufacturing facilities in the Europe, South America and Asia-Pacific regions and had 2010 net sales of approximately $250 and pre-tax income of $8. The IAR business is reported as a discontinued operation as of December 31, 2010 and for all periods presented.

The Company has recorded an estimated loss on the sale of the IAR business of $1 for the year ended December 31, 2010, which is included in Net income from discontinued operations.

The aggregate carrying value of the IAR business was $113 as of December 31, 2010. The major classes of assets and liabilities of discontinued operations included in the Consolidated Balance Sheets are as follows:

		December 31, 2010	December 31, 2009
Assets:			
Accounts Receivable		$ 51	$ 41
Inventories		34	30
Other current assets		5	6
Total current assets		90	77
Property and equipment, net		45	49
Other intangible assets, net		6	7
Other assets	< div style="overflow:hidden;font-size:10pt;">	4	& 5nbsp;
Total noncurrent assets		55	61
Total assets of discontinued operations		$ 145	$ 138
			& nbsp;
Liabilities:			
Accounts and drafts payable		$ 18	$ 20
Other current liabilities		6	14
Total current liabilities		24	34
Long-term debt		4	4
Other long-term liabilities		4	4
Total noncurrent liabilities		8	8
Total liabilities of discontinued operations		$ 32	$ 42

4. Productivity Program

At December 31, 2010, the Company has in-process productivity savings expected to be achieved over the remaining life of the p rojects as part of MSC's overall productivity savings initiatives.

The following table summarizes restructuring information by type of cost:

	Workforce reductions		Site closure costs		Other projects	Total
Restructuring costs expected to be incurred	$ 34		$ 8		$ 5	$ 47
Cumulative restructuring costs incurred at December 31, 2010	$ 34		$ 3		$ 4	$ 41
Accrued liability at December 31, 2007	$ —		$ —		$ —	$ —
Restructuring charges	10		—		—	10
Accrued liability at December 31, 2008	10		—		—	10
Restructuring charges	16		—		2	18
Payments	(9)		—		(2)	(11)
Accrued liability at December 31, 2009	17		—		—	17
Restructuring charges	8		3		2	13
Payments	(18)		(3)		(2)	(23)
Foreign currency translation	(1)		—		—	(1)
Accrued liability at December 31, 2010	$ 6		$ —		$ —	$ 6

Workforce reduction costs primarily relate to employee termination costs and are accounted for under the guidance for nonretirement postemployment benefits or as exit and disposal costs, as applicable. During the years ended December 31, 2010, 2009 and 2008 restructuring charges of $13, $18 and $10, respectively, were recorded in Business realignment costs on the Consolidated Statements o f Operations. At December 31, 2010 and 2009, the Company had accrued $6 and $17, respectively, for restructuring liabilities in Other current liabilities in the Consolidated Balance Sheets.

5. Related Party Transactions

Product Sales and Purchases

The Company sells finished goods and certain raw materials to MSC and certain of its subsidiaries. Total sales were $216, $179 and $198 for the years ended December 31, 2010, 2009 and 2008, respectively. The Company also purchases raw materials and finished goods from MSC and certain of its subsidiaries, which were $87, $67 and $132 for the years ended December 31, 2010, 2009 and 2008, respectively. In addition, the Company purchases raw materials and services from certain Apollo affiliates. These purchases were $2 for the year ended December 31, 2010. The Company had accounts payable to Apollo affiliates of less than $1 at December 31, 2010.

The Company believes that the terms of these transactions were not more favorable than could be obtained from an unaffiliated party. These transactions are included in Net sales and Cost of sales in the Consolidated Statements of Operations, accordingly.

Billed Allocated Expenses

MSC incurs various administrative and operating costs on behalf of the Company that are reimbursed. 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 were $62, $46 and $49 for the years ended December 31 2010, 2009 and 2008, respectively, and are primarily included within Selling, general and administrative expense in the Consolidated Statements of Operations.

MSC provides global services relating to procurement, productivity enhancement and health, safety and environmental issues to the Company. Beginning in 2008, MSC implemented a revenue-based royalty charge for these services. The Company's expense relating to these services totaled $45, $22 and $79 for the years ended December 31, 2010, 2009 and 2008, respectively, and are classified in Selling, general and administrative expense in the Consolidated Statements of Operations.

In addition, MSC maintains certain insurance policies that benefit the Company. Expenses pertaining to these policies, and allocated to the Company based upon sales, were $4, $6 and $7 for the years ended December 31, 2010, 2 009 and 2008, respectively, and are classified in Selling, general and administrative expense in the Consolidated Statements of Operations.

Terminated Huntsman Merger

The Company incurred Terminated merger costs of $159 for the year ended December 31, 2008 associated with the termination of MSC's merger with Huntsman Corporation which is comprised of the write-off of previously deferred acquisition costs and consulting, legal, tax and accounting costs. Of the $159, $140 represents amounts incurred by MSC and billed to MSC B.V., as MSC B.V. was to be the acquiring entity party to the merger agreement and such costs were incurred by MSC on the Company's behalf. In 2009, the $140 due to MSC was con verted to a loan.

Foreign exchange gain/loss agreement

In December 2010, the Company entered into a foreign exchange gain/loss guarantee agreement with MSC whereby MSC agreed to hold the Company neutral for any foreign exchange gains or los ses incurred by the Company for income tax purposes associated with certain of its affiliated loans. The agreement was effective retroactive for all of 2010 and terminated at the end of 2010. The settlement of the agreement resulted in approximately a $91 payable to MSC. The losses incurred by the Company attributable to the period January 1, 2010 through the inception of the agreement of $78 have been recorded as a deemed distribution to MSC, and the losses incurred from the contract's inception through the end of 2010 of $13 have been recorded within Other non-operating expense, net in the Consolidated Statement of Operations. The Company is currently evaluating a similar agreement with its parent for 2011.

At December 31, 2010 and 2009, the Company had affiliated receivables of $63 and $65, respectively, and affiliated payables of $189 and $ 42, respectively, pertaining to the related party transactions described above.

Unbilled Allocated Corporate Controlled Expenses

In addition to direct charges, MSC provides certain administrative services that are not reimbursed by the Company. 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, $2 and $3 for each of the years ended December 31, 2010, 2009 and 2008, respectively, and is included in Financ e 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 in the Consolidated Statements of Operations with the offsetting credit recorded in Equity. There is no income tax provided on these amounts because they are not deductible.

The following table summarizes these allocations for the years ended December 31:

	2010	2009	2008
Executive group	$ 6	$ 4	$ 2
Environmental, health and safety services	3	2	3
Finance	5	10	11 < div style="text-align:left;">
Total	$ 14	$ 16	$ 16

See Note 10 for a description of the Company’s affiliated financing and investing activities.

6. Transfers of Financial Assets

The Company's Brazilian subsidiary regularly enters into accounts receivable factoring arrangements with its local banks for purposes of accelerating collection of its receivables. Under the terms of the agreements, the receivables are sold at a discount with the Company retaining the underlying related credit risk. Further, the assets are not isolated in the event of bankruptcy on the part of the subsidiary. As such, th ese transfers are accounted for as financing-type transfers and reported as secured borrowings (see Note 9). Approximately $1 and $8 of borrowings under these arrangements are outstanding at December 31, 2010 and 2009, respectively. Accordingly, the corresponding related cash flows are classified as financing activities within Net short-term debt (repayments) borrowings in the Consolidated Statements of Cash Flows.

7. Goodwill and Other Intangible Assets

The gross carrying amount and accumulated impairments of goodwill consist of the following as of December 31:

2010				2009			
Gross Carrying Amount	Accumulated Impairments	Accumulated Foreign Currency Translation	Net Book Value	Gross Carrying Amount	Accumulated Impairments	Accumulated Foreign Currency Translation	Net Book Value
$ 106	$ (5)	$ & 13nbsp;	$ 114	$ 106	$ (5)	$ 17	$ 118

The changes in the carrying amount of goodwill for the years ended December 31, 2010 and 2009 are as follows:

	Total
Goodwill balance at December 31, 2008	$ 110
Purchase accounting adjustments	1
Foreign currency translation	7
Goodwill balance at December 31, 2009	$ 118
Foreign currency translation	(4)
Goodwill balance at December 31, 2010	$ 114

Goodwill impairment charges for the ye ar ended December 31, 2008 of $5 were recognized in the Coatings reporting unit as a result of the continued weakness in the housing and construction markets and competitive pressures in this reporting unit 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 balance in the Coatings reporting unit has been impaired as the implied fair value of the reporting units' goodwill was zero.

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

	2010			2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Intangible assets:						
Patents and technology	$ 65	$ (22)	$ 43	$ 65	$ (13)	$ 52
Customer lists and contracts	78	(26)	52	82	(21)	61
Other	19	(2)	17	19	—	19
	$ 162	$ (50)	$ 112	$ 166	$ (34)	$ 132

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, 2010, 2009 and 2008 was $12, $14 and $15, respectively.

Estimated annual intangible amortization expense for 2011 through 2015 is as follows:

2011	$ 11
2012	10
2013	10
2014	10
2015	10

8. Financial Instruments and Fair Value Disclosures

Fair value measurement provisions establish 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. This guidance 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.

Recurring Fai r Value Measurements

Following is a summary of assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
December 31, 2010				
Derivative liabilities	$ —	$ (3)	$ —	$ (3)
December 31, 2009				
Derivative liabilities	$ —	$ (6)	$ —	$ (6)

Non-recurring Fair Value Measurements

Following is a summary of losses as a result of the Company measuring assets at fair value on a non-recurring basis during the year ended December 31, 2009:

	Year ended December 31, 2009
Long-lived assets held and used	$ (9)
Long-lived assets held for sale	(1)
Long-lived assets held for disposal/abandonment	(1)
Total	$ (11)

As part of the Company's productivity initiatives, the Company decided to indefinitely idle certain production lines. Long-lived assets with a carrying value of $18 w ere written down to fair value of $7, resulting in an impairment charge of $11 for the year ended December 31, 2009. These long-lived assets were valued based on appraisals from third parties or using discounted cash flow analysis based on assumptions that market participants would use. Key inputs in the model included projected revenues and manufacturing costs associated with these long-lived assets.

Derivative Financial Instruments

The following table summarizes the Company's derivative financial instruments as of December 31, which are recorded as Other current liabilities in the Consolidated Balance Sheets:

< td style="vertical-align:bottom;background-color:#cceeff;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;border-bottom:3px double #000000;">

(6

	2010				2009			
	Average Days to Maturity	Average Contract Rate	Notional Amount	Fair Value Asset (Liability)	Average Days to Maturity	Average Contract Rate	Notional Amount	Fair&nb sp;Value Asset (Liability)
Foriegn Exchange and Interest Rate Swaps								
Cross-currency and Interest Rate Swap	273	1.2038	$ 25	$ (3)	638	1.2038	$ 25	$ (5)
Interest Rate Swap								
Australia Multi-Currency Term	364	—	22	—	729	—	23	(1)
Total				$ (3)				$)

The following table summarizes gains and losses recognized on the Company's derivative financial instruments:

	Amount of Gain (Loss) Recognized in Income for the year ended December 31:			Location of Gain (Loss) Recognized in Income on Derivative
	2010	2009	2008	
Foreign Exchange and Interest Rate Swaps			&nb sp;	
Cross-Currency and Interest Rate Swap	$ 2	$ (1)	$ 26	Other non-operating expense, net
Interest Rate Swap				&n bsp;
Interest swap – Australia Multi-Currency Term	—	—	(2)	Other non-operating expense, net
Total	$ 2	$ (1)	$ 24	

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 counter-parties to the Company's forward contra cts are financial institutions with investment grade ratings. The Company does not apply hedge accounting to these derivative instruments.

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.

The Company calculates the fair value of its derivative liabilities using quot ed 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.

In 2005, the Company entered into a three-year $289 cross-currency and interest rate swap agreement structured for a 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 o n 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 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 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 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 4.6% and 5.5% and received a weighted average interest rate of 2.8% and 3.4% on these amended swap agreements in 2010 and 2009, respectively.

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 effe ctively 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 Contracts

The Company hedges a portion of its natural gas purchases for certain manufact uring plants. The Company enters into fixed price forward contracts for the purchase of natural gas to offset the risk associated with increases in the prices of the underlying commodities. The Company does not apply hedge accounting to these derivative instruments.

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:

	2010		2009	
	Carrying Amount < /td>	Fair Value	Carrying Amount	Fair Value
Debt	$ 706	$ 696	$ 763	$ 686

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
;

9. Debt and Lease Obligations

Debt outstanding at December 31 follows:

	2010		2009	
	Long Term	Due Within One Year	Long Term	Due Within One Year
MSC Senior Secured Credit Facilities:		< /div>		
Revolving facility due 2011 at 3.0% at December 31, 2009	$ &n —bsp;	$ —	$ 36	$ —
Floating rate term loans due 2013 at 2.7% and 2.6% at December 31, 2010 and 2009, respectively	189	1	574	6
Floating rate term loans due 2015 at 4.1% at December 31, 2010	373	5	—	—
Other Borrowings:				
Australia Multi-Currency Term / Working Capital Facility due 2012 at 4.5% and 4.1% at December 31, 2010 and 2009, respectively	38	10	44	9
Brazilian bank loans, various maturities through 2017, variable interest, 9.8% and 10.6% at December 31, 2010 and 2009, respectively	33	37	30	35
Capital Leases and Other	16	3	17	4
Secured borrowings (See Note 6)	—	1	—	8
Total debt	$ 649	$ 57	$ 701	$ 62

2010 Refinancing Activities

January Refinancing Transaction

In late December 2009 and January 2010, MSC renewed its revolving facility commitments from lenders under the Senior Secured Credit Facility, which will take effect upon the May 31, 2011 maturity of the existing revolving facility commitments. Under the new commitments, the Company's European subsidiaries are able to borrow an aggregate maximum of $111, while the Company's Canadian operating subsidiary may borrow a maximum of $45. The new commitments will mature 91 days prior to the May 5, 2013 maturity date of the term loans under the Senior Secured Credit Facility. The new revolving loans, which cannot be drawn until the existing revolving credit facility matures, will bear interest at a rate of LIBOR plus 4.50%. The extension also includes a 2.00% ticking fee to be paid quarterly on committed amounts until the revolver facility is effective. The terms and conditions of MSC's existing revolving credit facility will r emain in effect, and are unaltered by the new extension, including but not limited to the interest rate.

In January 2010, MSC amended its Senior Secured Credit Facilities. Under the amendment and restatement, MSC extended the maturity of approximately $957 of its term loans from May 5, 2013 to May 5, 2015 and increased the interest rate with respect to such term loans from LIBOR plus 2.25% to LIBOR plus 3.75%. MSC B.V. is a party to approximately $382 of the extended maturity term loans.

The interes t rates for term loans to MSC under the amended Senior Secured Credit Facilities are based on, at MSC's option, (a) adjusted LIBOR plus 2.25% for term loans maturing 2013 and 3.75% for term loans maturing 2015 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% for term loans maturing 2013 and 2.25% for term loans maturing 2015. Interest rates for term loans to MSC B.V. are at the Company's option; (a) EURO LIBOR plus 2.25% for term loans maturing 2013 or 3.75% for term loans maturing 2015 or (b) the rate quoted by JPMCB as its base rate for those loans plus 0.75% for term loans maturing 2013 and 2.25% for term loans maturing 2015.

Senior Secured Credit Facilities of MSC

Certain of the Company's subsidiaries, MSC B.V., MSC Canada and MSC's UK subsidiary, are eligible to participate in MSC's amended Senior Secured Credit Facilities.

Under MSC's amended five-year $225 revolving facility, MSC B.V. is able to borrow an aggregate maximum of $125, while MSC Canada may borrow a ma ximum of $50. As of December 31, 2009, the Company had $36 outstanding under the MSC revolving facilities.

Under MSC's amended seven-year $2,300 term loan facility, MSC B.V. is party to approximately $580 in term loans. The interest rates for term loans to MSC under the amended Senior Secured Credit Facilities are based on, at MSC'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%.

In addition, the terms of MSC's amended Senior Secured Credit Facilities include a seven-year $50 synthetic letter of credit facility (“LOC”). The amended Sen ior Secured Credit Facilities also 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.

The amended Senior Secured Credit Facilities of MSC are collateralized by substantially all the assets of MSC, including the Company, subject to certain exceptions. Cross collateral guarantees exist whereby MSC is a guarantor of the Company's borrowings under the amended Senior Secured Credit Facilities; while the Company's subsidiaries guarantee against any default by MSC. The amended Senior Secured Credit Facilities contain, among other provisions, restrictive covenants regarding indebtedness, payments and distributions, mergers and acquisitions, asset sales, affiliate tr ansactions, 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. In addition, the Senior Secured Credit Facilities of MSC contain cross-acceleration and cross default provisions. Accordingly, certain foreign borrowing defaults under other debt agreements could result in certain of the Company's outstanding debt becoming immediately due and payable. As of December 31, 2010, the Company was in compliance with all terms of its outstanding indebtedness. In addition, MSC was in compliance with all terms under its Senior Secured Credit Facility.

Other Borrowings

The Australian Multi-Currency Term / Working Capital Facility is a five year facility maturing in January 2012. Interest rates for the facility are equal to the 90 day Australian or New Zealand Bank Bill Rates plus an applicable margin. The interest rate on approximately $30 of this facility is effectively fixed at a rate of 6.6% through the use of interest rate swap agreements.

The Brazilian bank loans represent various bank loans primarily for working capital purposes and to finance plant expansions.

In addition to available borrowings under the amended Senior Secured Credit Facilities, the Company has available borrowings under various international credit facilities. At December 31, 2010, under these international credit facilities the Company had $71 available to fund working capital needs and capital expenditures. While these facilities are primarily unsecured, portions of the lines are collateralized by equipment and cash and short term investments at December 31, 2010.

Aggregate maturities of total non-affiliated debt and minimum annual rentals under operating leases at December 31, 2010, for the Company are as follows:

Year	**Non-affiliated Debt**	**Minimum Rentals Under Operating Leases**
2011	$ 57	$ 9
2012	53	7
2013	201	6
2014	10	5
2015	374	5
2016 and beyond	11	16
	$ 706	$ 48

The Company’s operating leases consist primarily of vehicle, equipment and land and buildings. Rental expense amounted to $10 for the years ended December 31, 2010, 2009 and 2008, respectively.

10. Affiliated Financing

The following table summarizes the Company's outstanding loans receivable and loans payable with related parties as of December 31:

	2010			2009		
	Long Term	Due Within One Year	Interest expense (income)	Long Term	Due Within One Year	Interest expense (income)
Affiliated debt payable:						
Loan payable to MSC due 2010 at 7.5% at December 31, 2009	$ —	$ —	$ 5	$ 165	$ —	$ 6
Loan payable to MSC due 2020 at 9.0% at December 31, 2010	340	—	1	—	—	—
Loan payable due to Hexion NSF due 2018 at 10% and 10.8% at Dec ember 31, 2010 and 2009, respectively	102	—	54	509	—	50
Other loans due to MSC and affiliates at 4.68% and 4.76% at December 31, 2010 and 2009, respectively	304	79	6	97	92	8
Total affiliated debt payable	$ 746	$ 79	$ 66	$ 771	$ 92	$ 64
Affiliated debt receivable:						
Loan receivable from MSC due 2011 at a weighted average interest rate of 3.8% at December 31, 20 09	$ —	$ —	$ (12)	$ 793	$ —	$ (40)
Loan receivable from MSC due 2012 at 3.9%	64	—	(4)	133	—	(6)
Other loans due from MSC and affiliates at 4.1% and at 5.2% December 31, 2010 and 2009, respectively	43	33	(3)	47	24	(2)
Total affiliated debt receivable	$ 107	$ 33	(19)	$ 973	$ 24	(48)

Transactions associated with the formation of CO-OP

In conjunction with the formation of CO-OP, the Company purchased from MSC 100% of its shares in MSC Holding B.V., in exchange for CO-OP assuming a note payable from MSC to MSC B.V. (the "Note"). Approximately $793 and $69 of amounts due from MSC and loans payable of $165 due to MSC were assigned and effectively settled upon CO-OP assuming the Note from MSC to MSC B.V. The face value of the note payable assumed is equivalent to the fair value of MSC Holding B.V. and its consolidated subsidiaries and was in excess of the historical carrying value of the assets. As such, the Company's acquisition of the shares in MSC Holding B.V. and the excess by which the note payable assumed exceeded the carrying value of the shares in MSC Holding B.V. have been recorded as a distribution to its parent and reflected as a reduction to Paid-in deficit in the Statement of Shareholder's Deficit. Approximat ely $466 of the loans payable assumed by CO-OP as a result of the formation of CO-OP represent amounts that were reported as a reduction of equity as of December 31, 2009 as further described in the discussion on balance sheet classification below.

MSC Canada has outstanding balances of CDN $102, or $102, at December 31, 2010 and CDN $532, or $509, at December 31, 2009 due to MSC's subsidiary, Hexion Nova Scotia Finance, ULC (“Hexion NSF”) related to the acquisition of certain international subsidiaries from MSC and the acquisition of Bakelite Aktiengesellschaft. In conjunction with the issuance of this note, MSC entered into a common share forward subscription agreement with Momentive Canada requiring MSC to subscribe to shares of MSC Canada stock ("Stock Subscription Agreement").

In November 2010, in conjunction with Hexion NSF's refinancing of its second priority senior secured fixed notes, the Company and Hexion NSF agreed to amend the interest rate from 10.8% to 10% and extend the maturity date to November 15, 2020. As consideration, Hexion NSF billed the Company $18, which has been included in Other non-operating expense, net in the Consolidated Statement of Operations.

In conjunction with CO-OP's acquisition of NBC Germany, CO-OP issued a note payable to MSC Canada of 254€, or $340, at December 31, 2010. In turn, MSC Canada assigned this note to Hexion NSF in partial settlement of its note payable to Hexion NSF. Interest expense related to this note totaled $1 for the year ended December 31, 2010. This partial settlement triggered the requirement of MSC to subscribe to shares in MSC Canada under the Stock Subscription Agreement, which was subsequently waived by MSC Canada.

Balance sheet classification

Of the outstanding loans receivable as of December 31, 2010 and 2009, $87 and $549, respectively, represent amounts receivable from MSC that are not expected to be repaid for the foreseeable future. As MSC is the Company's parent, these amounts have been recorded as a reduction of equity in the Consolidated Balance Sheets. The remaining outstanding balances are included within Affiliated debt payable due within one year and Affiliated long-term debt within the Consolidated Balance Sheets.

The total outstanding loan balances are included within Affiliated debt payable within one year and Affiliate long-term debt within the Consolidated Balance Sheets.

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)& nbsp;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. Addition ally, 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, 2010 and 2009 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 following table summarizes all probable environmental remediation, indemnification and r estoration liabilities, including related legal expenses, at December 31, 2010 and 2009.

;	Number of Sites		Liability		Range of Reasonably Possible Costs	
Site Description	**December 31, 2010**	**December 31, 2009**	**December 31, 2010**	**December 31, 2009**	**Low**	**High**
Currently-owned	10	11< /div>	$ 5	$ 7	$ 3	$ 8
Formerly-owned:						
Remediation	1	1	—	—	—	—
Monitoring only	2	2	—	—	—	1
	13	14	$ 5	$ 7	$ 3	$ 9

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 dif fer materially from these estimates. At December 31, 2010 and 2009, $5 and $7, respectively, has been included in Other current liabilities in the Consolidated Balance Sheets with the remaining amount included in Other long-term liabilities.

At six of these locations, the Company is conducting environmental remediation and restoration under business realignment programs due to closure of the sites. 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 $6 at December 31, 2010 and 2009 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 has pledged certain properties and assets in Brazil during the pendency of the Annulment action in lieu of paying the assessment. In September 2010, in the Company's favor, the Court adopted its appointed expert's report finding that the transactions in question were intercompany loans. Sao Paulo has mandatory appeal rights but the Court's decision based on the facts is likely to be upheld and therefore, the Company does not believe a loss contingency is probable. At December 31, 2010 the amount of the assessment, including tax, penalties, monetary correction and interest, is 66 Brazilian reais, or approximately $40.

Environmental Institution of Paraná IAP—On August 25, 2009, Governo Do Paraná and the Environmental Institution of Paraná IAP, an environmental agency of the Brazilian government, provided Momentive Quimica Industria, our Brazilian subsidiary, with notice of a potential fine of up to $11 in connection with alleged environmental damages to the Port of Paranagua caused in November 2004 by an oil spill from a shipping vessel carrying methanol purchased by MSC. The investigation as to the cause of the accident has not been finalized. In early October 2009, MSC was granted an injunction precluding the imposition of any fines or penalties by the Paraná IAP. In November 2010, the Court lifted its injunction; however, the Company appealed in order to preclude the IAP from levying any fines or penalties. The Company continues to believe it has a strong defense and does not believe a loss contingency is probable. At December 31, 2010, the amount of the assessment, including tax, penalties, monetary correction and interest, is 22 Brazilian reais, or approximately $13.

Other Commitments and Contingencies

The Company entered into contractual agreements with 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 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 are 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.

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

Year	Minimum Annual Purchase Commitments	
2011	$	178
2012		114
2013		95
2014		32
2015		17
2016 and beyond		87
Total minimum payments		523
Less: Amount representing interest		(57)
Present value of minimum payments	$	466

13. Pension and Non-Pension Postretirement Benefit Plans

Certain of the Company's subsidiaries sponsor defined benefit pension plans covering certain employees primarily in Canada, Netherlands, Germany, France, Belgium a nd Malaysia. Depending on the plan, benefits are based on eligible compensation and/or years of credited service. The Company also sponsors defined contribution plans in some locations. Non-pension postretirement benefit plans are also provided to employees in Canada and to certain employees in the Netherlands. The Canadian plan provides retirees and their dependents with medical and life insurance benefits, which are supplemental benefits to the respective provincial healthcare plan in Canada. The Netherlands' plan provides a lump sum payment at retirement.

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	
	2010	2009	2010	2009
Change in Benefit Obligation				
Benefit obligation at beginning of year	$ 308	$ 282	$ 5	$ 4
Service cost	8	8	—	—
Interest cost	15	16	—	—
Actuarial losses (gains)	3	—	1	—
Foreign currency exchange rate changes	(19)	10	—	1
Benefits paid	(8)	(8)	—	—
Plan curtailments/settlements	—	(1)	—	—
Employee contributions	1	1	—	—
Transfers in	—	—	—	—
Benefit obligation at end of year	308	308	6	5
Change in Plan Assets				
Fair value of plan assets at beginning of year	189	162	—	—
Actual return on plan assets	14	7	—	—
Employer contribution	17	21	—	—
Foreign currency exchange rate changes	(12)	6	—	—
Benefits paid	< font style="font-family:inherit;font-size:9pt;">(8)	(8)	—	—
Employee contributions	1	1	—	—
Transfe rs in	—	—	—	—
Fair value of plan assets at end of year	201	189	—	—
Funded status of the plan at end of year	$ (107)	$ (119)	$ (6)	$ (5)

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

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Amounts recognized in the Consolidated Balance Sheets at December 31 consist of:				
Noncurrent assets	$ 15	$ 6	$ —	$ —
Other current liabilities	(4)	(4)	—	—
Long-term pension obligations	(118)	(121)	(6)	(5)
Accumulated other comprehensive (income) loss	16	16	(2)	(2)
Net amounts recognized	$ (91)	$ (103)	$ (8)	$ (7)
Amounts recognized in Accumulated other comprehensive loss at December 31 consist of:				
Net actuarial (gain) loss	$ 12	$ 11	$ (1)	$ (2)
Net prior service cost (benefit)	6		(1)	(1)
Deferred income tax es	(2)	(2)	—	1
Net amounts recognized	$ 16	$ 16	$ (2)	$ (2)
Accumulated benefit obligation	$ 293	$ 295		
Accumulated benefit obligation for funded plans	$ 181	$ 179		
Pension plans with underfunded or non-funded accumulated benefit obligations at December 31:				
Aggregate projected benefit obligation	$ 129	$ 131		
Aggregate accumulated benefit obligation	123	125	< /div>	
Aggregate fair value of plan assets	8	7		
Pension plans with projected benefit obligations in excess of plan assets at December 31:				
Aggregate projected benefit obligation	$ 135	$ 137		
Aggregate fair value of plan assets	$ 13	$ 12		

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

	Pension Benefits			Postretirement benefits		
	2010	2009	2008	2010	2009	2008
Service cost	$ 8	$ 8	$ 8	$ —	$ —	$ —
Interest cost on projected benefit obligation	15	16	16	—	—	—
Expected return on assets	(11)	(10)	(9)	—	—	—
Amortization of prior service cost	1	1< /div>	1	—	—	—
Recognized actuarial gain	—	(1)	—	—	—	(1)
Curtailment loss	—	1	—	—	—	—
Settlement gain	—	—	—	—	(1)	—
Net expense	$ 13	$ 15	$ 16	$ —	$ (1)	$ (1)

The curtailment loss recognized on pension benefits during the year ended December 31, 2009 related to the impact of planned workforce reductions on a pension plan in the Netherlands. The settlement gain recognized during the year ended December 31, 2009 for postretirement plans resulted from lump sum payments made under the Company's plan offered to certain associates in the Netherlands.

The following amounts were recognized in other comprehensive income d uring the year ended December 31, 2010:

	Pension Benefits	Postretirement Benefits	Total
Net actuarial losses arising during the year	$ 1	$ 1	$ 2
Amortization of prior service (cost) benefit	(1)	—	(1)
Amortization of net gains	—	—	—
Loss recognized in other comprehensive income	—	1	1
Deferred income taxes	—	(1)	(1)
Loss recognized in other comprehensive income, net of tax	$ —	$ —	$ —

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 are as follows:

	Pension Benefits	Postretirement Benefits	Total
Prior service cost	$ 1	$ —	$ 1
Net actuarial gain	—	—	—

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. For the European plans, these assumptions are set by country, as the plans within these countries have similar demographics, and are impacted by the same regional economic trends and statutory requirements.

The discount rates selected reflect the rate at which pension obligations could be effectively settled. The Company selects 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 plan's 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	
	2010	2009	2010	2009
Discount rate	5.5%	5.5%	5.6%	6.3%
Rate of increase in future compensation levels	3.3%	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	—	—	7.2	7.4%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	—	—	4.5%	4.4%
Year that the rate reaches the ultimate tr end rate	—	—	2030	< div style="text-align:right;font-size:9pt;">2029

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		
	2010	2009	2008	2010	2009	2008
Discount rate	5.5%	5.8%	5.5%	6.3%	7.1%	5.5
Rate of increase in future compensation levels	3.3%	3.3%	3.3%			
Expected long-term rate of return on plan assets	5.8%	5.8 %	5.8%			

A one-percentage-point change in the assumed health care cost trend rates would change the projected benefit obligation for postretirement benefits by $1 and service cost and interest cost by a negligible amount.

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 measurem ents 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.

The Company observes local regulations and customs regarding 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
	2010	2009	2011
Weighted average allocations of European pension plan assets at December 31:			
Equity securities	14%	< font style="font-family:inherit;font-13size:9pt;">%	21%
Debt securities	82%	87%	79%
Cash, short-term investments and other	4%	—	—
	100%	100%	100%

Fair Value of Plan Assets

Fair value me asurement provisions establish 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. This guidance 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 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 equity securities are primarily in pooled asset and mutual funds and are valued based on underlying net asset value multiplied by the number of shares held.
- Level 3: Unobservable inputs, for example, inputs derived through extrapolation or interpolation that cannot be corroborated by observable market data.

The following table prese nts pension plan investments measured at fair value on a recurring basis as of December 31, 2010 and 2009:

	Fair Value Measurements Using								
	2010				2009				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)		Total
U.S. equity[a]	$ —	$ 19	$ —	$ 19	$ —	$ 9	$ —		$ 9
European equity[a]	—	—	—	—	—	7	—		7
Other international equity[a]	—	5	—	5	—	5	—		5
Debt securities/fixed income[a]	—	106	—	106< /font>	—	111	—	< font style="font-family:inherit;font-size:10pt;">	111
Liability driven investments[b][d]	—	56	—	56	—	45	—		45
Balanced pooled funds[a][e]	—	8	—	8	—	7	—		7
Pooled insurance products w/ fixed income gua rantee[a]	— < /font>	5	—	5	—	5	—		5
Cash, money market and other[c]	—	2	—	2	—	—	—		—
Total	$ —	$ 201	$ —	$ 201	$ —	$ 189	$ —		$ 189

(a) < font style="font-family:inherit;font-size:7pt;text-align:left;">Level 2 equity securities in pooled asset funds and are valued based on underlying net asset value multiplied by the number of shares held.

(b) Level 2 fixed income securities are valued using a market approach that includes various valuation techniques and sources, primarily using matrix/market corroborated pricing based on observable inputs including yield curves and indices.

(c) Cash, money market and other securities include mutual funds, certificates of deposit and other short-term cash investments for which the share price is $1 or book value is assumed to equal fair value due to the short duration of the investment term.

(d) Liability driven investments consist of a series of funds designed to provide returns matched to expected future cash flows, and include approximately 70% investments in fixed income securities targeting returns in line with 3-month euribor in the medium term, and 30% swaps, with an underlying portfolio of bonds and cash to counterbalance changes in the value of the swaps.

(e) The fund provides a mix of approximately 60% equity and 40% fixed income securities that achieves the targ et asset mix for the plan.

Projections of Plan Contributions and Benefit Payments

The Company expects to make contributions totaling $11 to its defined benefit pension plans in 2011.

Estimated future plan benefit payments as of December 31, 2010 are as follows:

	Pension Benefits	Postretirement Benefits
2011	$ 8	$ —
2012	9	—
2013	9	1
2014	11	—
2015	11	1
2016 to 2020	72	2

Defined Contribution and Other Plans

The Company sponsors a number of defined contribution plans for its employees in various countries. For most plans, employee contributions are voluntary, and the Company provides contributions ranging from 2% to 10%. Total charges to operations for matching contributions under these plans were $3, $3 and $4 for the years ended December 31, 2010, 2009 and 2008, respectively.

The Company's German subsidiaries offer a government subsidized early retirement program to eligible employees called an Altersteilzeit Plan. The German government provides a subsidy in certain cases where the participant is replaced with a qualifying candidate. This subsidy has been discontinued for employees electing participation in the program after December 31, 2009. The Company has liabilities for these arrangements totaling $7 and $4 for the years ended December 31, 2010 and 2009, respectively. The Company incurred expense for these plans for the years ended December 31, 2010, 2009 and 2008 of $4, $1 and $2, respectively.

Also included in the Consolidated Balance Sheets at December 31, 2010 and 2009 are other post-employment benefit obligations primarily relating to liabilities for jubilee benefit plans offered to certain European employees of $4 and $4, respectively.

14. Shareholder’s (Deficit) Equity

Shareholder's equity reflects the common equity of the Company with all of the common equity of its subsidiaries eliminated, except for the equity of Hexion Argentina, representing MSC's 20% interest; MSC Malaysia, representing MSC's 34% interest; Borden Argentina, representing MSC's 5% interest an d Nimbus, representing MSC's interest as of December 31, 2010 and 2009.

The Company's acquisition of the shares in MSC Holding B.V. and the excess by which the note payable assumed exceeded the carrying value of the shares in MSC Holding B.V. have been recorded as a distribution to its parent and reflected as a $697 reduction to Paid-in capital in the Statement of Shareholder's Deficit.

The Company incurred a loss of $78 associated with the termination of a foreign exchange gain/loss guarantee agreement with its parent attributable to the period from January 1, 2010 until the inception of the agreeme nt in December 2010. This amount has been recorded as a deemed distribution to MSC.

15. Income Taxes

Income tax expense (benefit) for the CO-OP for the years ended December 31 is as follows:

Deferred

	2010	2009	2008
Current			
Federal and provincial	$ 22	$ (4)	$ (11)
Foreign	9	—	19
Total current	31	(4)	8
Federal and provincial	(17)	(4)	1
Foreign	—	(8)	(14)
Total deferred	(17)	(12)	(13)
Income tax expense (benefit)	$ 14	$ (16)	$ (5)

A reconciliation of the CO-OP's combined differences between income taxes computed at the Dutch federal statutory tax rate of 25.5% and provisions for income taxes for the years ended December 31 are as follows:

	2010	2009	2008
Income taxes computed at federal statutory tax rate	$ (8)	$ (12)	$ (51)
Foreign rate differentials	(12< /div>)	(7)	2
Losses and other expenses not deductible for tax	23	6	40
Increase in the taxes due to changes in valuation allowance	11	2	4
Additional tax benefit on foreign unrepatriated earnings	1	—	—
Changes in enacted tax rate s	(1)	—	—
Adjustment of prior estimates and other	— < /td>	(5)	—
Income tax expense (benefit)	$ 14	$ (16)	$ (5)

The domestic and foreign components of CO-OP's income (loss) before income taxes for the years ended December 31 is as follows:

< td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

	2010	2009	2008
Domestic	$ (70)	$ (51)	$ (192)
Foreign	39	5	(7)
	$ (31)	$ (46)	$ (199)

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, 2010 and 2009, are as follows:

	2010	2009
Assets		
Non-pension post-employement	$ 1	$ 1
Accrued and other expenses	14	26
Net operating loss and credit carryforwards	43	36
Pension liabilities	7	9
Gross deferred tax assets	65	72
Valuation allowance	< font style="font-family:inherit;font-size:9pt;">(36)	(22)
Net deferred tax asset	29	50
Liabilities		
Property, plant and equipment	(75)	(93)
Unrepatriated earnings of foreign subsidiaries	(33)	(33)
Intangibles	(1)	(17)
Gross deferred tax liabilities	(109)	(143)
Net deferred tax liability	$ (80)	$ (93)

The following table summarizes the presentation of the net deferred tax liability on the CO-OP's balance sheets at December 31:

Assets	**2010**		**2009**
Current deferred income taxes (Other current assets)	$ 17		$ 11
Long-term deferred income taxes (Other assets)	6		16
Liabilities			
Current deferred income taxes (Other current liabilites)	—		(4)
Long-term deferred income taxes	(103)		(116)
Net deferred tax liability	$ (80)	</td>	$ (93)

CO-OP 's deferred tax assets primarily include domestic and foreign net operating loss carryforwards. As of December 31, 2010, the domestic net operating loss carryforwards available are $48, which expire starting 2018. The foreign net operating loss carryforwards available are $110, related primarily to France, Germany, and the U.K. These net operating loss carryforwards have an unlimited carryover and do not expire. A valuation allowance of $36 has been provided against these foreign attributes.

CO-OP is no longer subject to federal examinations in the Netherlands for years before December 31, 2007. CO-OP 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, CO-OP is subject to examinations by taxing authorities throughout the world, including major jurisdictions such as Australia, Brazil, Canada, Germany, Italy, Korea, and the U.K.

CO-OP 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, CO-OP will adjust its reserves accordingly to reflect these settlements

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount o f unrecognized tax benefits is as follows:

	2010	**2009**
Balance at beginning of year	$ 42	$ 45
Additions based on tax positions related to the current year	23	1
Additions for tax positions of prior years	1	2
Reductions for tax positions of prior years	—	(6)
Balance at end of year	$ 66	$ 42

During the year ended December 31, 2010, the company increased its amount of unrecognized tax benefits by $24 for various intercompany transactions related to current year tax positions and prior year changes in estimates. CO-OP did not recognize any interest or penalties for the years ended December 31, 2010 and 2009. CO-OP does not have any interest and penalties accrued at December 31, 2010 and 2009, respectively.

$66 of unrecognized tax benefits, if recognized, would affect the effective tax rate. CO-OP anticipates recognizing up to $38 of the total amount of the unrecognized tax benefits within the next 12 months as a result of negotiations with domestic and foreign jurisdictions.

Report of Independent Registered Public Accounting Firm

To the Board of Managers of
Momentive International Holdings Cooperatief U.A.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholder's equity and comprehensive loss and of cash flows present fairly, in all material respects, the financial position of Momentive International Holdings Cooperatief U.A. and its subsidiaries (the Company) at December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010 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 requ ire 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 5 to the financial statements, the Company has entered into significant transactions with Momentive Specialty Chemicals Inc. Due to the significance of the related party transactions, the accompanying financial statements may not be indicative of the operating results and cas h flows of the Company had it operated as a standalone entity.

PricewaterhouseCoopers LLP
Columbus, Ohio
February 28, 2011

Exhibit 10.68

EXECUTION VERSION

SHARED SERVICES AGREEMENT

by and among

HEXION SPECIALTY CHEMICALS, INC.,

MOMENTIVE PERFORMANCE MATERIALS INC.,

and

the other Persons party hereto

Dated as of October 1, 2010

Table of Contents

EXIBITS

SHARED SERVICES AGREEMENT

This Shared Services Agreement is dated as of October 1, 2010 (the " Effective Date") and is made and entered into by and among Hexion Specialty Chemicals, Inc., a New Jersey corporation (together with its subsidiaries, either referred to as a "Service Provider" or "Recipient" of a specific Service or "Hexion"), Momentive Performance Materials Inc., a Delaware corporation, and those direct or indirect subsidiaries of MPM Inc. that are set forth on the signature pages hereto (collectively, either referred to as a "Service Provider" or "Recipient" of a specific Service or "Momentive"). Capitali zed terms have the meanings set forth in Article I.

RECITALS

A. Pursuant to the Combination Agreement, dated as of September 11, 2010 (the "Transaction Agreement"), by and between Hexion LLC, a Delaware limited liability company and sole stockholder of Hexion ("Hexion L LC"), and Momentive Performance Materials Holdings Inc., a Delaware corporation and sole stockholder of Momentive ("MPM Holdings"), Hexion LLC and MPM Holdings entered into a series of transactions that resulted in each of Hexion LLC and MPM Holdings becoming a wholly-owned subsidiary of Momentive Performance Materials Holdings LLC, a Delaware limited liability company (the "Transaction").

B. In connection with the Transaction, and in order to recognize economies of scale and generate cost savings for each of Hexion and Momentive that otherwise would be unavailable, the parties hereto desire to enter into this Agreement in order that each may provide and/or receive certain services from the other, and in order to provide for a mechanism by which the costs of such service provision are to be allocated, in each case on the terms and subject to the conditions set forth herein.

C. This Agreement constitutes the Shared Services Agreement referred to in Section 5.11 of the Transaction Agreement.

NOW, THEREFORE, in consideration of the mutual promises contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and with the intention of being bound by this Agreement, the parties stipulate and agree as follows:

ARTICLE I
DEFINITIONS

1.01 Definitions. Capitalized terms not otherwise defined herein have the meanings set forth in the Transaction Agreement. As used in this Agreement, the following terms have the following meanings unless the context otherwise requires:

"Actual Cost" means, with respect to any period hereunder, one hundred percent (100%) of the actual, out of pocket expenses of a party (including fully burdened employee cost and overhead costs allocated to the relevant cost center in accordance with the historical practices of such party) actually paid or expected to be paid within the three (3) months following such period (without duplication of any Actual Costs previously allocated between the parties), calculated in accordance with the accounting policies, principles, practices and procedures approved, from time to time, by the Steering Committee, caused by, incurred or otherwise arising from or rel ating to the Services during such period.

"Agreement" means this Shared Services Agreement as originally executed and as amended, modified, supplemented, or restated from time to time, as the context may require.

"Allocation Percentage" shall initially mean 51% to Hexion and 49% to Momentive.

"Business Days" means all weekdays except those that are official holidays of employees of the United States government. Unless specifically stated as "Business Days," a reference in this Agreement to "days" means calendar days.

"Capital Expenditure" means any expenditure, or series of related expenditures, in excess of $1 million made by either Hexion or Momentive to the extent in furtherance of the provision of Services under this Agreement that is required to be capitaliz ed in accordance with United States generally accepted accounting principles, as in effect as of the date or for the period, as the case may be, implicated by the relevant provision of this Agreement.

"Effective Date" is defined in the caption.

"Estimated Monthly Allocation Payment" is defined in Section 5.03 .

"Event of Default" is defined in Section 9.01.

"Exchange Rate" means, with respect to a particular currency for a particular day and a particular party, the rate of exchange used in the preparation of the financial statements of such party for the most recent month for which financial statements are then available.

"Functional Services" means all Services other than Raw Materials/Logistics Services.

"Functional Services Costs" means the Actual Cost of Functional Services, including the Actual Costs of the employees of either

Hexion or Momentive who perform Raw Materials/Logistics Services.

"Hexion" is defined in the caption.

"Hexion LLC" is defined in the recitals.

"Hexion Marks" is defined in Section 3.05(b)

"Hexion-Provided Services" is defined in Section 3.01.

"including" shall mean including without limitation.

"Momentive" is defined in the caption.

"Momentive-Provided Services& rdquo; is defined in Section 3.01.

"Monthly Report" is defined in Section 5.04.

"MPM Holdings" is defined in the recit als.

"MPM" is defined in Section 3.05(a)

"MPM Inc." is defined in the caption.

"MPM Marks" is defined in Section 3.05(a)

"Person" means any individual, partnership, limited partnership, limited liability company, corporation, unincorporated association, joint venture or other entity.

"Quarterly Reconciliation Payment" is defined in Section 5.05(a).

"Raw Materials/Logistics Services" means the procurement of Raw Materials and Logistics by a Service Provider hereunder.

"Raw Materials and Logistics" means raw materials and logistics services, including supplies, freight, equipment and electricity, and indirect costs of such raw materials and logistics services, including packaging, uniforms and pallets, in the case of any of the foregoing, required by or used in connection with the business of either or both of Hexion and Momentive, but excluding the Actual Costs of the empl oyees of either Hexion or Momentive who perform Raw Materials/Logistics Services and allocated overhead associated with the performance of such services, which, for the avoidance of doubt, shall be treated as Functional Services Costs hereunder.

"Recipient" means Hexion or Momentive, as applicable, with respect to such party's receipt of a particular Service.

"Service Provider" means Hexion or M omentive, as applicable, with respect to such party's provision of a particular Service.

"Services" is defined in Section 3.01.

"Steering Committee" is defined in Section&nbs p;3.04.

"Tax" or "Taxes" means (i) all federal, state, local and foreign sales, use, value-added, gross receipts, privilege, utility, infrastructure maintenance, property, excise and similar levies, duties and other similar tax-like charges lawfully levied by a duly constituted taxing authority against or upon the Services; (ii) any penalties, interest or other additions to any such taxes; and (iii) any tax-related surcharges or fees that are related to the Services and authorized by applicable tarif fs.

"Term" is defined in Section 2.01.

"Transaction" is defined in the recitals.

"Transaction Agreement" is defined in the recitals.

"Unavoidable Delays" is defined in Section 13.08.

ARTICLE II

TERM

2.01 Term. The term of this Agreement (the "Term") shall commence upon the Effective Date and shall continue for five (5) years from the Effective Date (the "Initial Term") and any renewal terms as provided in the following sentence, unless otherwise terminated in accordance with Article X. Upon the expiration of the Initial Term, this Agreement shall automatically renew for successive renewal terms of one (1) year each, absent contrary notice from either party given not less than thirty (30) days prior to such expiration.

ARTICLE III
APPOI NTMENT; SERVICES

3.01 Services.

(a) During the Term, (i) Hexion hereby engages Momentive to provide, and Momentive hereby accepts such appointment and undertakes to provide or cause to be provided to Hexion, certain services in the categories identified in Exhibit A hereof as from time to time may be added to or deleted therefrom pursuant to this Agreement (collectively, the "Momentive-Provided Services") and (ii) Momentive hereby engages Hexion to provide, and Hexion hereby accepts such appointment and undertakes to provide or cause to be provided to Momentive, certain services in the categories identified in Exhibit A hereof as from time to time may be added to or deleted therefrom pursuant to this Agreement (collectively, the "Hexion-Provided Services", and together with the Momentive-Provided Services, the "Services").

(b) Each of Hexion and Momentive acknowledges and agrees that each will assist the other in obtaining favorable pricing with respect to purchases of Raw Materials and Logistics from third party suppliers. Any Actual Costs incurred by either Hexion or Momentive in assisting the other in this respect shall be allocated pursuant to Section 5.01.

3.02 Changes to Services.

(c) The parties may agree to modify the terms and conditions of Service Provider's performance of any Service in order to reflect new procedures, processes or other methods of providing such Service. The parties will negotiate in good faith the terms and conditions upon which Service Provider would be willing to implement such change.

(d) Notwithstanding any provision of this Agreement to the contrary, Servi ce Provider may make: (i) changes to the process of performing a particular Service that do not adversely affect the benefits to Recipient of Service Provider's provision or quality of such Service in any material respect or increase Recipient's cost for such Service; (ii) emergency changes in the manner in which a particular Service is provided on a temporary and short-term basis; and/or (iii) changes to a particular Service in order to comply with applicable law or regulatory requirements, in each case without obtaining the prior consent of Recipient.

3.03 Additional Services. Recipient may, from time to time, request add itional services that are not listed in Exhibit A. The parties agree to negotiate in good faith the terms and conditions by which Service Provider would be willing to perform such additional services.

3.04 Steering Committee. In order to monitor, coordinate and facilitate implementation of the terms and conditions of this Agreement, Hexion and Momentive shall establish a "Steering Committee" consisting of at least one executive officer from each of Hexion and Momentive and whereby each of Hexion and Momentive is equally represented. The initial Steering Committee representatives shall be Bill Carter and Kevin McGuire for Hexion and Anthony Greene and Momentive's current Financial Planning and Analysis ("FP&A") leader for Momentive. The Steering Committee representatives shall meet at least quarterly (or more frequently if needed or reasonably requested by a representative) during the Term to determine the Services to be provided and the payments to be made pursuant to Article V. Such determination with respect to the Services to be provided shall include t he scope, manner, level, and place or places where such Services shall be provided. If the members of the Steering Committee are unable (whether by majority vote or in such other manner as the members of the Steering Committee decide) to determine whether a Service is to be provided, or the scope, manner, level and place or places at which such Service shall be provided, such Service shall not be provided until such time as the members of the Steering Committee determine the relevant matters, including as contemplated in Article XII. The Steering Committee representative(s) for each party shall stay reasonably apprised of the activities of the employees, agents and contractors of such party who are providing or receiving the Services in order to maximize efficiency in the provision and receipt of the Services.

3.05 Certain Intellectual Property Matters.

(e) Hexion hereby acknowledges and agrees that Momentive and its subsidiaries (collectively, "MPM") have certain intellectual property and common law rights associated with the word "Momentive" and all related trademarks, service marks, brand names, logos, certification marks, assumed names and trade names, including the Momentive styl ized logo, colors, and other indicia as used in connection with the name and business of MPM (collectively, "MPM Marks"). During the Term (and during any transition period provided in Section 10.04), MPM hereby agrees not to, and to cause its respective controlled affiliates not to, assert any claims against Hexion, Hexion LLC and their respective controlled affiliates with respect to the use of the word "Momentive" or any MPM Mark in their respective names, businesses and products and services; provided, such use shall be substantially consistent with the trademark practices and quality standards of MPM so as not to weaken the value of the MPM Marks. Such use, and all goodwill associated with such use, shall in ure to the benefit of MPM. MPM shall have the right to monitor the quality of the products and services bearing the MPM Marks provided by Hexion, including any promotional materials for the same. The MPM Marks shall remain the exclusive property of MPM.

(f) Momentive hereby acknowledges and agrees that Hexion has certain intellectual property and common law rights associated with the word "Hexion" and all related trademarks, service marks, brand names, logos, certification marks, assumed names and trade names, including the Hexion stylized logo, colors, and other indicia as used in connection with the name and business of Hexion (collectively, "Hexion Marks"). During the Term (and during any transition period provided in Section 10.04), Hexion hereby agrees not to, and to cause its respective controlled affiliates not to, assert any claims against Momentive, MPM Holdings and their respective controlled affiliates with respect to the use of the word "Hexion" or any Hexion Mark in their respective names, businesses and products and services; provided, that such use shall be substantially consistent with the trademark practices and quality standards of Hexion so as not to weaken the value of the Hexion Marks. Such use, and all goodwill associated with such use, shall inure to the benefit of Hexion. Hexion shall have the right to monitor the quality of the products and services bearing the Hexion Marks provided by Momentive, including any promotional materials for the same. The Hexion Marks shall remain the exclusive property of Hexion.

ARTICLE IV
PERFORMANCE OF SERVICES
& nbsp;

4.01 Standards. Service Provider shall perform the Services in a commercially reasonable manner, using its commercially reasonable efforts to provide the Services in the same manner as if Service Provider was providing such Services for its own account. Actions taken by Service Provider in good faith consistent with the foregoing shall not constitute a breach of this Agreement unless such action materially violates an express provision of this Agreement.

4.02 Employees. Service Provider shall determine the fitness and qualifications of all employees performing the Services. Service Provider shall hire, supervise, direct the work of, and discharge all such employees. Service Provider shall determine the wages and conditions of employment of all such employees. All wages, bonuses, compensation, benefits, termination or severance expenses or liabilities, pension fund contribution obligations or liabilities, and other costs, benefits, expenses or liabilities and entitlements of or in connection with employees employed in connection with provision of the Services shall be Service Provider's responsibility; provided, that such items shall be Functional Services Costs and will be taken into account as such for purposes of Article V.

4.03 Independent Contractors. Service Provider may hire consultants, independent contractors, or subcontractors, including Affiliates, to perform all or any part of a Service hereunder. Service Provider will remain fully responsible for the performance of its obligations under this Agreement, and Service Provider will be responsible for payments due to its independent contractors, which payments shall be included in the Actual Costs allocated pursuant to Section 5.01.

4.04 No Joint Venture or Partnership. Service Provider shall perform all Services provided pursuant to this Agreement as an independent contractor to Recipient and not as an employee, stockholder, partner, joint venturer, landlord, agent or representative of Recipient. In no event shall Service Provider be deemed in breach of its obligations hereunder solely by reason of (i) the failure of the financial performance of the Recipient's business to meet Recipient expectations or income projections or a ny operating budget or annual plans, (ii) the acts of Recipient's employees, (iii) the institution of litigation or the entry of judgments against Recipient or the Recipient's business, or (iv) any other acts or omissions not otherwise constituting a material breach of this Agreement, it being the intention and agreement of the parties that Service Provider's sole obligation hereunder shall be to act in conformity with the standard set forth in Section 4.01.

4.05 Affiliate Transactions . The fact that Service Provider or an Affiliate thereof, or a stockholder, director, officer, member, or employee of Service Provider or an Affiliate thereof, is employed by, or is directly or indirectly interested in or connected with, any Person which may be employed by Recipient to render or perform a service, or from which Service Provider may purchase any property, shall not prohibit Service Provider from employing such Person or otherwise dealing with such Person.

4.06 Cooperation. Hexion and Momentive shall cooperate fully with each other during the Term to procure and maintain all licenses and operating permits and to facilitate each party's performance of this Agreement. Recipient shall at its own expense cooperate fully with Service Provider by promptly providing reasonable assistance, resources and access (including the provision of access to its personnel, computer systems, data, equipment and other information) as is necessary to the performance by Service Provider of its obligations hereunder and as may be reasonably requested by Service Provider from time to time.

ARTICLE V
COST ALLOCATION

5.01 Allocation Formula.

(g) Functional Services Costs shall be allocated as follows:

(i) To the extent 100% of such item is demonstrably attributable to or for the benefit of Hexion or Momentive, 100% of such item shall be allocated to Hexion or Momentive, as applicable; and

(ii) All other portions of any item that cannot be allocated pursuant to clause (a) above shall be allocated in accordance with the Allocation Percentage.

(h) With respect to any Capital Expenditure made or to be made by a Service Provider, the Steering Committee, following consultation with Hexion and Momentive, shall determine whether the cost of such Capital Expenditure should be allocated between Hexion and Momentive based on the Allocation Percentage or otherwise and based on the Steering Committee's reasonable, good faith estimate of the respective anticipated usage of the assets underlying such Capital Expenditure, and, if at all, how such Capital Expenditure shall be allocated be tween them (including whether any portion of such Capital Expenditure is to be currently billed to either party), based on the estimate of such usage, the parties' relative costs of capital and respective hurdle rates and any other similar factors deemed relevant by the Steering Committee.

(i) No less often than annually, the Steering Committee shall meet to evaluate and determine whether the Allocation Percentage then in existence accurately and equitably reflects the performance and use of Services by Hexion and Momentive (for the avoidance of doubt, such determination shall be based on the relative benefits obtained or expected to be obtained from such Services and the relative costs incurred and expected to be incurred in the performance of such Services and not solely based on how Hexion and Momentive's respective cost structures have or may have changed since the Effective Date (and not at all based on any changes in cost structures resulting from the transactions and arrangements contemplated hereby)). The Steering Committee shall undertake to evaluate the Services being performed and used and shall make a determination as to whether the Allocation Percentage then in existence requires adjustment. Each of Hexion and Momentive shall cooperate with the Steering Committee in the aforementioned process including making appropriate personnel and materials available to the Ste ering Committee. In the event that either Hexion or Momentive disagrees with the Allocation Percentage determined by the Steering Committee, the dispute resolution procedures set forth in Article XII shall apply.

5.02 Non-Cash Cost Allocation. Any non-cash costs or expenses caused by, incurred or otherwise arising from or relating to the Services shall be allocated to Hexion and Momentive for financial statement purposes only, without any corresponding cash reimbursement required, in accor dance with generally accepted accounting principles, based on the Allocation Percentage principles described in Section 5.01 hereof.

5.03 Monthly Estimate Statements. Prior to the first day of each quarter during the Term, the Steering Committee, with such assistance from Hexion and Momentive as the Steering Committee shall request, shall (i) estimate (or calculate, as applicable) the (x) Actual Cost of each Service Provider in respect of Services to be provided by it for each month duri ng such quarter, and (y) cost shares of each of the parties as calculated pursuant to this Article V and the estimated net cost share payment, if any, that will be owed by either Hexion or Momentive, as applicable, to the other party (the "Estimated Monthly Allocation Payment") for each month during such quarter and (ii) direct the applicable Service Provider to prepare and issue invoices for each Estimated Monthly Allocation Payment to be paid by the other party, which invoices shall be delivered on the first day of each month during such quarter (or as promptly as practicable thereafter). Within ten (10) days of delivery of an invoice for the Estimated Monthly Allocation Payment, the applicable Recipient shall promptl y make payment of the Estimated Monthly Allocation Payment. Hexion and Momentive, as applicable, may elect to cause all or a portion of the Estimated Monthly Allocation Payment to be satisfied by one or more of their subsidiaries, including, in the case of Hexion, those subsidiaries listed on Exhibit B and, in the case of Momentive, those subsidiaries listed on Exhibit C, which, for the avoidance of doubt, may include settlement in non-U.S. jurisdictions in currency other than U.S. dollars converted at the Exchange Rate for the applicable Recipient.

5.04 Quarterly Statements. Within thirty (30) days following the end of each quarter during the Term, each Service Provider shall furnish the Steering Committee with a written statement with respect to the Actual Cost of such Service Provider in respect of Services provided by it during such quarter, setting forth (i) the cost allocation determined pursuant to Section 5.01(a), (ii) the cost allocation determined pursuant to Section 5.02, and (iii) the amounts paid pursuant to Section 5.03 hereof, together with such other data and information necessary to complete the items described in Section 5.05 hereof (hereinafter referred to as the "Quarterly Report").

5.05 Determination and Payment.

(j) Within twenty (20) days of the submission of the Quarterly Report described in Section 5.04 hereof, the Steering Committee shall (i) determine the cost share of each of the parties as calculated pursuant to this Article V for such quarter, the amount of the Estimated Monthly Allocation Payments made by each of the parties to the other during such quarter and the resultant net cost share payment, if any, owed by either Hexion or Momentive, as applicable, to the other party for such quarter (the "Quarterl y Reconciliation Payment"); and (ii) direct the applicable Service Provider to prepare and issue an invoice for such Quarterly Reconciliation Payment to the other party. Any dispute among members of the Steering Committee that cannot be settled by majority vote shall be settled pursuant to Article XII.

(k) Within fifteen (15) days of the determination by the Steering Committee of the Quarterly Reconciliation Payment, either Hexion or Momentive may dispute such determination by giving written notice specifying in reasonable detail the nature of such dispute. Any such dispute shall be settled pursuant to Article XII.

(l) Within fifteen (15) days of delivery of the invoice for the Quarterly Reconciliation Payment described in Section 5.05(a), if a valid dispute notice has not been delivered in accordance with Section 5.05(b), the applicable Recipient shall promptly make payment of the Quarterly Reconciliation Payment. Hexion and Momentive, as applicable, may elect to cause all or a portion of the Quarterly Re conciliation Payment to be satisfied by one or more of their subsidiaries, including, in the case of Hexion, those subsidiaries listed on Exhibit B and, in the case of Momentive, those subsidiaries listed on Exhibit C, which, for the avoidance of doubt, may include settlement in non-U.S. jurisdictions in currency other than U.S. dollars converted at the Exchange Rate for Hexion or Momentive, as applicable.

5.06 Taxes.

(m) Recipient is responsible for and will pay all Taxes applicable to the Services provided to Recipient; provided, that such payments by Recipient to Service Provider will be made in a manner that is the most tax-efficient and that does not otherwise negatively impact Service Provider; and provided, further, that Service Provider will n ot be subject to any liability for Taxes applicable to the Services as a result of such payment by Recipient. Service Provider will collect such Tax from Recipient in the same manner it collects such Taxes from other customers in the ordinary course of Service Provider's business, but in no event prior to the time it invoices Recipient for the Services with respect to which such Taxes are levied. Recipient may provide Service Provider with a certificate evidencing its exemption from payment of or liability for such Taxes.

(n) Service Provider will promptly reimburse Recipient for any Taxes collected from Recipient and refunded to Service Provider. In the event a Tax is assessed against Service Provider that is solely the responsibility of Recipient and Recipient desires to protest such assessment, Recipie nt will submit to Service Provider a statement of the issues and arguments requesting that Service Provider grant Recipient the authority to prosecute the protest in Service Provider's name. Service Provider's authorization will not be unreasonably withheld. Recipient will finance, manage, control and determine the strategy for such protest while keeping Service Provider reasonably informed of the proceedings. However, the authorization will be periodically reviewed by Service Provider to determine any adverse impact on Service Provider, and Service Provider will have the right to reasonably withdraw such authority at any time. Upon notice by Service Provider that it is so withdrawing such authority, Recipient will expeditiously terminate all proceedings. Any adverse consequences suffered by Recipient as a result of the withdrawal will be submitted to arbitration pursuant to Article XII. Any contest for Taxes brought by Recipient may not result in any lien attaching to any property or rights of Service Provider or otherwise jeopardize Service Provider's interests or rights in any of its property. Recipient agrees to indemnify Service Provider for all costs and expenses, losses, damages, claims, causes of action and liabilities (including reasonable attorneys' fees, disbursements and expenses of litigation) that Service Provider incurs as a result of any such contest by Recipient.

(o) The provisions of this Section 5.06 will govern the treatment of all Taxes arising as a result of or in connection with this Agreement notwithstanding any other Article of this Agreement to the contrary.

ARTICLE VI
COMPLIANCE WITH LAWS

Each of Hexion and Momentive agrees to comply in all material respects with all applicable laws, rules, regulations and orders of any federal, state, county, city, local, supranational (including those of the European Communities) or foreign governmental, administrative or regulatory authority, agency or body in any jurisdiction in which such party conducts business in relation to the Services provided and matters that are the subject of this Agreement.

ARTICLE V11
REPRESENTATIONS AND WARRANTIES

7.01 Representations and Warranties of Hexion

(a) Hexion represents and warrants that it is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey, that Hexion has full corporate power and authority to enter into this Agreement and perform its obligations hereunder, and that the officer of Hexion who executed this Agreement on behalf of Hexion is in fact an officer of Hexion and has been duly authorized by Hexion to execute this Agreement on its behalf.

(b) The execution, delivery and performance by Hexion of this Agreement have been duly authorized by all necessary action on the part of Hexion and no further action or approval is required in order to constitute this Agreement as the valid and binding obligations of Hexion, enforceable in accordance with its terms.

7.02 Representations and Warranties of Momentive

(c) Momentive represents and warrants that it is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, that Momentive has full corporate power and authority to enter into this Agreement and perform its obligations hereunder, and that the officer of Momentive who executed this Agreement on behalf of Momentive is in fact an officer of Momentive and has been duly authorized by Momentive to execute this Agreement on its behalf.

(d) The execution, delivery and performance by Momentive of this Agreement have been duly authorized by all necessary corporate action on the part of Momentive and no further action or approval is required in order to constitute this Agreement as the valid and binding obligations of Momentive, enforceable in accordance with its terms.

ARTICLE VIII
INDEMNITY

8.01 Indemnity by Service Provider. Service Provider shall indemnify, defend and hold harmless Recipient and its officers, directors and employees from and against any and all costs and expenses, losses, damages, claims, causes of action and liabilities (including reasonable attorneys' fees, disbursements and expenses of litigation) arising from, relating to, or in any way connected with the gross negligence or willful misconduct of Service Provider or any employee, contractor or agent of Service Provider, except to the extent directly or indirectly caused by any act or omission of Recipient.

8.02 Indemnity by Recipient. Recipient shall ind emnify, defend and hold harmless Service Provider and its officers, directors and employees from and against any and all costs and expenses, losses, damages, claims, causes of action and liabilities (including reasonable attorneys' fees, disbursements and expenses of litigation) arising from, relating to, or in any way connected with the gross negligence or willful misconduct of Recipient or any employee, contractor or agent of Recipient, except to the extent directly or indirectly caused by any act or omission of Service Provider.

8.03 Procedure. The party claiming indemnity shall promptly provide the other party with writ ten notice of any claim, action or demand for which indemnity is claimed. The indemnifying party shall be entitled to control the defense of any action; provided, that the indemnified party may participate in any such action with counsel of its choice at its own expense; and provided, further, that the indemnifying party shall not settle any claim, action or demand without the prior written consent of the indemnified party, such consent not to be unreasonably withheld or delayed. The indemnified party shall reasonably cooperate in the defense as the indemnifying party may request and at the indemnify ing party's expense.

8.04 Limitation on Indemnity. Notwithstanding anything contained herein to the contrary, (a) the liability of any party under this Agreement shall not exceed the benefits derived by such party under this Agreement and (b) in no event shall any party, its affiliates and/or its or their respective directors, officers, employees, representatives or agents be liable for any (i) indirect, incidental, special, exemplary, consequential or punitive damages or (ii) damages for, measured by or based on lost profits, diminution in value, multiple of earnings or other similar measure.

ARTICLE IX
DEFAULT

9.01 Definition. The occurrence of any one or more of the following events which is not cured within the time permitted shall constitute a default under this Agreement (hereinafter referred to as an "Event of Default") as to the party failing in the performance or effecting the breaching act.

9.02 Service Provider's Default. An Event of Default shall exist with respect to Service Provider if Service Provider shall fail to perform or comply with, in any material respect, any of the covenants, agreements, terms or conditions contai ned in this Agreement applicable to Service Provider and such failure shall continue for a period of thirty (30) days after written notice thereof from Recipient to Service Provider specifying in reasonable detail the nature of such failure, or, in the case such failure is of a nature that it cannot, with due diligence and good faith, be cured within thirty (30) days, if Service Provider fails to proceed promptly and with all due diligence and in good faith to cure the same and thereafter to prosecute the curing of such failure to completion with all due diligence within ninety (90) days after the initial delivery of written notice from the Recipient with respect to such failure.

9.03 Recipient's Default. An Event of Default shall exist with respect to Recipient if Recipient shall:

(p) unless subject to a good faith dispute hereunder, fail to make any monetary payment required under this Agreement on or before the due date recited herein and such failure continues for thirty (30) Business Days after written notice from Service Provider specifying such failure, or

(q) fail to perform or comply with, in any material respect, any of the other covenants, agreements, terms or conditions contained in this Agreement applicable to Recipient and such failure shall continue for a period of thirty (30) days after written notice thereof from Service Provider to Recipient specifying in reasonable detail the nature of such failure, or, in the case such failure is of a nature that it cannot, with due diligence and good faith, cure within thirty (30) days, if Recipient fails to proceed promptly and with all due diligence and in good faith to cure the same and thereafter to prosecute the curing of such failure to completion with all due diligence within ninety (90) days thereafter.

9.04 Bankruptcy

An Event of Default shall exist with respect to a party if such party:

(r) applies for or consents to the appointment of a receiver, trustee or liquidator of itself or any of its property;

(s) makes a general assignment for the benefit of creditors;

(t) is adj udicated bankrupt or insolvent; or

(u) files a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors, takes advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law, or admits the material allegations of a petition filed against it in any proceedings under any such law.

9.05 Reorganization/Receiver. An Event of De fault shall exist with respect to a party if an order, judgment or decree is entered by any court of competent jurisdiction approving a petition seeking reorganization of Hexion or Momentive, as the case may be, or appointing a receiver, trustee or liquidator of Hexion or Momentive, as the case may be, of all or a substantial part of any of the assets of Hexion or Momentive, as the case may be, and such order, judgment or decree continues unstayed and in effect for a period of sixty (60) days from the date of entry thereof.

9.06 Delays and Omissions. No delay or omission as to the exercise of any right or power accruing upon an y Event of Default shall impair the non-defaulting party's exercise of any right or power or shall be construed to be a waiver of any Event of Default or acquiescence therein.

ARTICLE X
TERMINATION

10.01 Terminating Events. This Agreement shall terminate between Hexion and Momentive at the written election of the non-defaulting party, upon the occurrence of an Event of Default under this Agreement when the time to cure has lapsed.

10.02 Termination for Convenience. Either Hexion or Momentive may terminate this Agreement for its convenience, without cause, by giving the other party written notice not less than thirty (30) days prior to the effective date of such termination.

10.03 Effect of Termination. Notwithstanding anything herein to the contrary, this Section 10.03 and Sections 10.04, and Article XIII (other than Section 13.08) shall survive any termination of this Agreement. Unless subject to a good faith dispute hereunder, within thirty (30) days after the termination of this Agreement, Recipient shall pay Service Provider all accrued and unpaid amounts due under this Agreement.

10.04 Transition Assistance. At the request of Recipient, upon a termination or non-renewal of this Agreement, Service Provider will provide reasonable assistance to Recipient necessary to transfer the applicable services provided hereunder to Recipient or Recipient's designated third party provider. Recipient shall pay Service Provider all of its reasonable costs for providing such transition assistance without mark-up, but including reasonable allocated overhead. In no event shall Service Provider be required to provide transition assistance for more than 180 days (subject to one successive renewal for an additional 180 day period at the election of Recipient) after termination.

ARTICLE XI
NOTICES

All notices provided for in this Agreement or related to this Agreement, which either party desires to serve on the other, shall be in writing and shall be considered delivered upon receipt. Any and all notices o r other papers or instruments related to this Agreement shall be sent by:

(a) by United States registered or certified mail (return receipt requested), postage prepaid, in an envelope properly sealed;
(b) by a facsimile transmission where written acknowledgment of receipt of such transmission is received and a copy of the transmission is mailed with postage prepaid; or
(c) a nationally recognized overnight delivery service;
provided for receipted delivery, addressed as follows:

Hexion:

Hexion Specialty Chemicals, Inc.
180 East Broad Street,
Columbus, OH 43215
Attention: General Counsel
Facsimile: (614) 225-2108< /div>

with a copy to:

O'Melveny & Myers LLP
7 Times Square
New York, NY 10036
Attention: John M. Scott
Facsimile: (212) 326-2019

Momentive:

Momentive Performance Materials Inc.
22 Corporate Woods Blvd.
Albany, NY 12211
Attention: General Counsel
Facsimile: (518) 533-4662

with a copy to:

Wachte ll, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
Attention: Andrew J. Nussbaum
Benjamin M. Roth
Facsimile: (212) 403-2000

Either Hexion or Momentive may change the address or name of addressee applicable to subsequent notices (including copies of said notices as hereinafter provided) or instruments or other papers to be served upon or delivered to the other party, by giving notice to the other party as aforesaid; <u>provided</u>, that notice of such change shall not be effective until the fifth (5th) day after mailing or facsimile transmission.

ARTICLE X11
DISPUTE RESOLUTION

12.01 <u>Resolution Procedure</u>. Each of Hexion and Momentive agrees to use its reasonable best efforts to resolve disputes under this Agreement by a negotiated resolution between the parties or as provided for in this <u>Article XII</u>.

12.02 <u>Exchange Of Written Statements</u>. In the event of a dispute under this Agreement, either Hexion or Momentive, on the one hand, may give a notice to the other party requesting that the Steering Committee in good faith try to resolve (but without any obli gation to resolve) such dispute. Not later than fifteen (15) days after said notice, each party shall submit to the other party a written statement setting forth such party's description of the dispute and of the respective positions of the parties on such dispute and such party's recommended resolution and the reasons why such party feels its recommended resolution is fair and equitable in light of the terms and spirit of this Agreement. Such statements represent part of a good-faith effort to resolve a dispute and as such, no statements prepared by a party pursuant to this <u>Section 12.02</u> may be introduced as evidence or used as an admission against interest in any arbitral or judicial resolution of such dispute.

12.03 Good Faith Negotiations. If the dispute continues unresolved for a period of seven (7) days (or such longer period as the Steering Committee may otherwise agree upon) after the simultaneous exchange of such written statements, then the Steering Committee shall promptly commence good-faith negotiations to resolve such dispute but without any obligation to resolve it. Any such meeting may be conducted by teleconference.

12.04 Determination Of Steering Committee. Not later than thirty (30) days after the commencement of good-faith negotiations, if the Steering Committee renders an agreed resolution on the matter in dispute, then both Hexion and Momentive shall be bound thereby. If the Steering Committee has not resolved the matter in dispute within thirty (30) days after the commencement of good-faith negotiations, either Hexion or Momentive may submit the dispute to arbitration in accordance with Section 12.05.

12.05 Disputes Submitted to Arbitration. Wherever any dispute arises between Hexion and Momentive, or among members of the Steering Committee, which is not otherwise resolved by the vote of a majority of the members of the Steering Committee or between the parties, the same shall be submitted to resolution by arbitration to be conducted in New York, New York, in accordance with the American Arbitration Association Rules then in force and the terms and conditions set forth in Sections 12.06 through 12.09.

12.06 Selection of Arbitrators. Either party shall have the right to submit such dispute to arbitration by delivery of written notice to the other party stating that the party delivering such notice desires to have the then unresolved controversy between Hexion and Momentive reviewed by a board of three (3) arbitrators. Said notice shall also set forth the identity of the person selected by the notifying party as its arbitrator, and shall detail the dispute between the parties and such party's suggested resolution. Within twenty (20) days after receipt of such notice, the other party shall designate a person to act as arbitrator and shall notify the party requesting arbitration of such designation, the name and address of the person so designated, and the suggested resolution of such dispute by such party. The two (2) arbitrators designated as aforesaid shall promptly select a third arbitrator, and if they are not able to agree on such third arbitrator, then either arbitrator, on five (5) days' notice in writing to the other, or both arbitrators, shall apply to the local arbitration authority to designate and appoint such third arbitrator. The two arbitrators selected by the parties shall then notify Hexion and Momentive in writing promptly upon the selection of the third arbitrator. If the party upon whom such written request for arbitration is served shall fail to designate its arbitrator within twenty (20) days after receipt of such notice, then the suggested resolution of the dispute as set forth in the written notice delive red by the party requesting such arbitration shall become the resolution thereof, and shall be binding on Hexion and Momentive hereunder.

12.07 Submission of Evidence. Within thirty (30) days following the date on which the parties shall have received notice of the appointment of the third arbitrator, the parties shall submit to the arbitrator so appointed a full statement of their respective positions and their reasons in support thereof, in writing, with copies delivered to the other party. Upon receipt of such written statement from the other party, the party receiving the same may file with the arbitrators a written rebut tal. Unless requested by the arbitrators, no hearing shall be required in connection with any such arbitration, and the arbitrators may elect to base their decisions on the written material submitted by the parties; provided, however, that the parties shall submit to hearings, and be prepared to provide testimony, by themselves or by witnesses called on their behalf, if so requested by the arbitrators.

12.08 De cisions of Arbitrators. Following receipt of the written materials from each party, and not later than 60 days from the final hearing held in connection with such arbitration, the arbitrators shall render their decision, which decision shall adopt either the position of Hexion or Momentive as previously submitted to the arbitrators, in full, without revision or alteration thereof, and without compromise. If more than one issue shall be submitted to the same arbitrators for resolution, each such issue shall be deemed a separate arbitration for all purposes hereof, such issues to be identified separately by the parties in their submission to arbitration, and each such issue shall be subject to a separate decision by the arbitrators.

12.09 Arbitration is Binding. The decision of a majority of the arbitrators shall be binding upon Hexion and Momentive and shall be enforceable in any court of competent jurisdiction. Such decision and award may allocate the costs of such arbitration to one of the parties, equally or disproportionately between the parties.

ARTICLE XIII
MISCELLANEOUS

13.01 Assignment. Neither Hexion nor Momentive shall assign this Agreement or any interest therein without the express prior written consent of the other party, which consent shall not be unreasonably withheld. Notwithstanding the preceding sentence, Hexion or Momentive may assign or transfer this Agreement to any Affiliate of such party; provided, that a counterpart original of such assignment is delivered to the other parties on or before the effective date of such assignment; and provided, further< /font>, that such Affiliate expressly assumes and agrees to be bound by all of the terms and conditions of this Agreement. Except as otherwise provided herein, each provision hereof shall extend to and shall, as the case may require, bind and inure to the benefit of the parties' permitted successors and assigns and legal representatives.

13.02 Construction. The language in all parts of this Agreement shall be in all cases construed simply according to its fair meaning, and not strictly for or against Hexion or Momentive. This Agreement shall be construed without regard to any pres umption or other rule requiring construction against the party causing the same to be drafted.

13.03 Governing Law. This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of New York without reference to its choice of law provisions.

13.04 Severability< font style="font-family:inherit;font-size:9pt;">. Should any portion of this Agreement be declared invalid or unenforceable, then such portion shall be deemed to be severed from this Agreement and shall not affect the remainder thereof.

13.05 Attorneys' Fe es. Should either party institute an action or proceeding to enforce any provisions hereof or for other relief due to an alleged breach of any provision of this Agreement, the prevailing party shall be entitled to receive from the other party all costs of the action or proceeding and reasonable attorneys' fees.

13.06 Entire Agreement. This Agreement covers in full each and every agreement of every kind or nature whatsoever between the parties hereto concerning this Agreement, and all preliminary negotiations and agreements, whether verbal or written, of whatsoever kind or n ature are merged herein. No oral agreement or implied covenant shall be held to vary the provisions hereof, any statute, law or custom to the contrary notwithstanding.

13.07 Counterparts. This Agreement may be executed in two or more counterparts and shall be deemed to have become effective when and only when all parties hereto have executed this Agreement, although it shall not be necessary that any single counterpart be signed by or on behalf of each of the parties hereto, and all such counterparts shall be deemed to constitute but one and the same instrument.

13.08 Force Majeure. Whenever this Agreement requires an act to be performed within a specified time period or to be completed diligently, such periods are subject to Unavoidable Delays. "Unavoidable Delays" are delays beyond the reasonable control of the party asserting the delay, and include delays caused by acts of God, acts of war, terrorist attack, civil commotions, riots, strikes, lockouts, acts of government in either its sovereign or contractual capacity, perturbation in telecommunications transmissions, inability to obtain suitable labor or materials, accident, fire, water damages, flood, earthquake, or other natural catastrophes. In the event of an Unavoidable Delay, the Recipient may either (i) perform any Services that Service Provider is unable to perform or (ii) contract with a third party to provide any such affected Service.

13.09 No Warranties. Service Provider shall use its best efforts to render the services contemplated by this Agreement in good faith to Recipient, but hereby explicitly disclaims any and all warranties, express or implied, except to the extent expressly provided herein.

13.10 Headings. Headings or captions have been inserted for convenience of reference only and are not to be construed or considered to be a part hereof and shall not in an way modify, restrict or amend any of the terms or provisions hereof.

13.11 Waiver. The waiver by one party of any default or breach of any of the provisions, covenants or conditions hereof of the part of the other party to be kept and performed shall not be a waiver of any preceding or subsequent breach or any other provisions, covenants or conditions contained herein.

13.12 Consent to Jurisdiction. The parties hereto agree that, other than an arbitration proceeding arising pursuant to Article XII, any legal action or proceeding with respect to or arising out of this Agreement may be brought in or removed to the courts of the State of N ew York located in the borough of Manhattan or of the United States of America for the Southern District of New York. By execution and delivery of this Agreement, the parties hereto accept, for themselves and in respect of their property, generally and unconditionally, the exclusive jurisdiction of the aforesaid courts. The parties hereto irrevocably consent to the service of process out of any of the aforementioned courts in any manner permitted by law. The parties hereto hereby waive any right to stay or dismiss any action or proceeding under or in connection with this Agreement brought before the foregoing courts on the basis of forum non-conveniens.

13.13 Waiver of Jury Trial. THE PARTIES HERETO HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS AGREEMENT AND THE RELATIONSHIP BETWEEN THE PARTIES HERETO THAT IS BEING ESTABLISHED. THE PARTIES HERETO ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT, AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. THE PARTIES HERETO FURTHER WARRANT AND REPRESENT THAT EACH HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

13.14 Third Party Beneficiaries. None of the obligations hereunder of either party shall run to or be enforceable by any party other than the parties to this Agreement and their respective successors and assigns in accordance with the provisions of this Agreement.

13.15 Amendments. This Agreement may be changed or modified only by an agreement in writing signed by the parties hereto, and no oral understandings shall be bin ding as between the parties.

*****

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date and year first above written.

HEXION SPECIALTY CHEMICALS, INC.

By: /s/ Authorized Person
Name:
Title:

MOMENTIVE PERFORMANCE MATERIALS INC.

By: /s/ Authorized Person
Name:
Title:

MOMENTIVE PERFORMANCE MATERIALS WORLDWIDE INC.

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS USA INC.

By: /s/ Authorized Person

Name:

Title:

JUNIPER BOND HOLDINGS I LLC

By: /s/ Authorized Person

Name:

Title:

JUNIPER BOND HOLDINGS II LLC

By: /s/ Authorized Person

Name:

Title:

-

JUNIPER BOND HOLDINGS III LLC

By: /s/ Authorized Person

Name:

Title:

JUNIPER BOND HOLDINGS IV LLC

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS QUARTZ, INC.

By: /s/ Authorized Person

Name:
Title:

MPM SILICONES, LLC

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS SOUTH AMERICA INC.

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS CHINA SPV INC.

By: /s/ Authorized Person

Name:

Title:

-

MOMENTIVE PERFORMANCE MATERIALS INDUSTRIA DE SILICONES LTDA

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS CANADA ULC

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS S. DE R.L. DE C.V.

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS AUSTRALIA PTY LTD

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS SHANGHAI CO LTD

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS (NANTONG) CO LTD

By: /s/ Authorized Person

Name:

Title:

SHANGHAI SONGJIANG MOMENTIVE PERFORMANCE MATERIALS CO LTD

By: /s/ Authorized Person

Name:

Title:

WUXI MOMENTIVE PERFORMANCE MATERIALS CO LTD

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS HONG KONG LTD

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS JAPAN LLC

By: /s/ Authorized Person

Name:

Title:

OHTA KAKO LLC

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS KOREA CO LTD

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE MALAYSIA SDN BHD

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS PTE LTD

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE SERVICES S. DE R.L. DE C.V.

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS LTD.

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS COMMERCIAL SERVICES GMBH

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS RUS LLC

By: /s/ Authorized Person

Name:

Title:

-

MOMENTIVE PERFORMANCE MATERIALS KIMYA SANAYI VE TICARET LIMITED SIRKETI

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS (PTY) LTD.

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS (SHANGHAI) MANAGEMENT CO., LTD.

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PER FORMANCE MATERIALS (SHANGHAI) TRADING CO., LTD.

By: /s/ Authorized Person

Name:

Title:

TA HOLDING PTE LTD

By: /s/ Authorized Person

Name:

Title:

NAUTILUS PACIFIC TWO PTE LTD

By: /s/ Authorized Person

Name:

Title:

NAUTILUS PACIFIC FOUR PTE LTD

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS ASIA PACIFIC PTE LTD

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS SINGAPORE PTE LTD

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS (THAILAND) LTD

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS BE NELUX BVBA

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS FRANCE SARL

By: /s/ Authorized Person

Name:

Title:

-

MOMENTIVE PERFORMANCE MATERIALS GMBH

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS HOLDING GMBH

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS QUARTZ GMBH

By: /s/ Authorized Person

Name:
Title:

MOMENTIVE PERFORMANCE MATERIALS (INDIA) PRIVATE LIMITED

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS ITALY SRL

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS SPECIALTIES SRL

By: /s/ Authorized Person

Name:

Title:

-

-

MOMENTIVE PERFORMANCE MATERIALS COMMERCIAL SERVICES SRL

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS SILICONES BV

By: /s/ Authorized Person

Name:

Title:

MOMENTIVE PERFORMANCE MATERIALS SUISSE SARL

By: /s/ Authorized Person

Name:

EXHIBIT A

SERVICES

Executive/Senior Management

Administrative Support

Treasury

Audit and Tax

Financial Services

Legal Affairs

Property Management

Accounting and Records

Credit and Collections

Accounts Payable

Financial Statements

IT/ERP

Investor and Public Relations

EHS

Engineering

Payroll

Risk Management

Insurance

Human Resources

Procurement of requirements of raw materials, supplies, freight, equipment, electricity, and insurance

Export Services

Contract Manufacturing

-

EXHIBIT B

HEXION SUBSIDIARIES

Asia Dekor Borden (Heyuan) Chemical Company Limited (50% Owned)
Asia Dekor Borden (Hong Kong) Chemical Company (50% Owned)
Bakelite Polymers U.K. Ltd.
Borden Chemical Foundry, LLC
Borden Chemical Holdings (Panama) S.A.
Borden Chemical International, Inc.
Borden Chemical Investments, Inc.
Borden Chemical UK Limited
Borden International Holdings Limited
Borden Luxembourg S.a r.l.
Fengkai Hexion Specialty Chemicals Co. Ltd. (70% Owned)
Fujian Nanping Hexion Specialty Chemicals Co., Ltd.
HA-International, LLC (50% Owned)
Hattrick (Barbados) Finco SRL
Hexion 2 U.S. Finance Corp.
Hexion CI Holding Company (China) LLC
Hexion Fengkai Holdings Limited
Hexion IAR Holding (HK) Limited
Hexion Nanping Holdings Limited
Hexion Nova Scotia Finance, ULC
Hexion Quimica Argentina SA
Hexion Quimica Industria e Comercio Ltda.
Hexion Quimica S.A.
Hexion Quimica Uruguay S/A
Hexion Shchekinoazot Holding B.V. (50% Owned)
Hexion Shchekinoazot OOO (50% Owned)
Hexion Specialty Chemicals (Caojing) Limited
Hexion Specialty Chemicals (Heyuan) Limited
Hexion Spec ialty Chemicals (N.Z.) Limited
Hexion Specialty Chemicals Asua SL
Hexion Specialty Chemicals B.V.
Hexion Specialty Chemicals Barbastro S.A.
Hexion Specialty Chemicals BVBA
Hexion Specialty Chemicals Canada, Inc.
Hexion Specialty Chemicals Finance BV
Hexion Specialty Chemicals Forest Products GmbH
Hexion Specialty Chemicals France SAS
Hexion Specialty Chemicals GmbH
Hexion Specialty Chemicals Holding B.V.
Hexion Specialty Chemicals Holding Germany GmbH
Hexion Specialty Chemicals Holdings (China) Limited
Hexion Specialty Chemicals Iberica, S.A.
Hexion Specialty Chemicals Italia S.p.A.
Hexion Specialty Chemicals Korea Company Limited
Hexion Specialty Chemicals Lda.
Hexion Specialty Chemicals Leuna GmbH
Hexion Specialty Chemicals Luxembourg s.a.r.l.
Hexion Specialty Chemicals Maastricht BV
Hexion Specialty Chemicals Management (Shanghai) Co., Ltd.
Hexion Specialty Chemicals Oy
Hexion Specialty Chemicals Pardubice S.r.o.
Hexion Specialty Chemicals Pty Ltd
Hexion Specialty Chemicals Research Belgium SA
Hexion Specialty Chemicals Rotterdam Ink B.V.
Hexion Specialty Chemicals S.A.
Hexion Specialty Chemicals S.r.l.
Hexion Specialty Chemicals Samusakorn Ltd.
Hexion Specialty Chemicals Sdn. Bhd.
Hexion Specialty Chemicals SG.Petani SDN. BHD.
Hexion Specialty Chemicals Singapore Pte. Ltd.
Hexion Specialty Chemicals Somersby Pty Ltd.

Hexion Specialty Chemicals Stanlow Limited
Hexion Specialty Chemicals Stuttgart GmbH
Hexion Specialty Chemic als Sweden AB
Hexion Specialty Chemicals UK Limited
Hexion Specialty Chemicals Wesseling GmbH
Hexion Specialty Chemicals, a.s.
Hexion Specialty UV Coatings (Shanghai) Limited
Hexion U.S. Finance Corp.
Hexion UV Coatings (Shanghai) Co., Ltd. (49.99% Owned)
HSC Capital Corporation
InfraTec Duisburg GmbH (70% Owned)
International Pine Products SA
Jiangsu Funing Hexion Specialty Chemicals Co. Ltd. (90% Owned)
Lawter International Inc.
National Borden Chemical Germany GmbH
New Nimbus GmbH & Co Kg
Oilfield Technology Group, Inc.
Resolution Research Nederland B.V.
Resolution Specialty Materials Rotterdam B.V.
Resolution Specialty Materials Sweden Holdings AB
RSM Europe B.V.
Tianjin Hexion Specialty Chemicals Co., Ltd.

EXHIBIT C

MOMENTIVE SUBSIDIARIES

Momentive Performance Materials Inc.
Momentive Pe rformance Materials Worldwide Inc.
Momentive Performance Materials USA Inc.
Juniper Bond Holdings I LLC
Juniper Bond Holdings II LLC
Juniper Bond Holdings III LLC
Juniper Bond Holdings IV LLC
Momentive Performance Materials Quartz, Inc.
MPM Silicones, LLC
Momentive Performance Materials South America Inc.
Momentive Performance Materials China SPV Inc.
Momentive Performance Materials Industria de Silicones Ltda
Momentive Performance Materials Canada ULC
Momentive Performance Materials S. de R.L. de C.V.
Momentive Performance Materials Australia Pty Ltd
Momentive Performance Materials Shanghai Co Ltd
Momentive Performance Materials (Nantong) Co Ltd
Momentive Fine Performance Materials (Shenzhen) Co Ltd
Shanghai Songjiang Momentive Performance Materials Co Ltd
Wuxi Momentive Performance Materials Co Ltd< /div>
Momentive Performance Materials Hong Kong Ltd
Momentive Performance Materials Japan LLC
Ohta Kako LLC
Momentive Performance Materials Korea Co Ltd
Momentive Malaysia Sdn Bhd
Momentive Performance Materials Pte Ltd
Momentive Services S. de R.L. de C.V.
Momentive Performance Materials Ltd.
Momentive Performance Materials Commercial Services GmbH
Momentive Performance Materials Rus LLC
Momentive Performance Materials Kimya Sanayi Ve Ticaret Limited Sirketi
Momentive Performance Materials (Pty) Ltd.
Momentive Performance Materials (Shanghai) Management Co., Ltd.
Momentive Performance Materials (Shanghai) Trading Co., Ltd.
TA Holding Pte Ltd
Nautilus Pacific Two Pte Ltd
Nautilus Pacific Four Pte Ltd
Momentive Performance Materials Asia Pacific Pte Ltd
Momentive Performance Materials Singapore Pte Ltd
Momentive Performance Materials (Thailand) Ltd
Momentive Performance Materials Benelux BVBA
Momentive Performance Materials France Sarl
Momentive Performance Materials GmbH
Momentive Performance Materials Holding GmbH
Momentive Performance Materials Quartz GmbH
Momentive Performance Materials (India) Private Limited
Momentive Performance Materials Italy Srl
Momentive Performance Materials Specialties Srl
Momentive Performance Materials Commercial Services Srl
Momentive Performance Materials Silicones BV
Momentive Performance Materials Suisse Sarl

Exhibit 10.70

HEXION SPECIALTY CHEMICALS, INC.
ADDITIONAL OF TERMS OF EMPLOYMENT
FOR DALE PLANTE

& nbsp;

Supplement to August 2008 Promotional Employment Offer

Immigration to U.S.:	The Company will pursue the application of a “green card” on your behalf effective immediately. However, the Company cannot guarantee the timing or issuance of a green card.
Termination of Employment:	Should your employment be terminated through no fault of your own, you will be eligible to receive 18 (eighteen) months of severance consistent with the Company's U.S. relocation policy. Should your employment be terminated through no fault of your own prior to August 2013, the Company will pay for the cost of relocating you and your family back to Canada from the U.S. per the Company's U.S. relocation policy.
Family Travel Allowance*:	The Company will provide you with a lump sum payment of $7,000 per calendar year through December 2013 for your immediate family members to travel between Canada and the United States. In ad dition, the Company will reimburse the cost of travel for you and your wife for bereavement leave related to immediate family members.
Temporary Housing:	The Company will cover th e cost of temporary U.S. housing for up to 90 (ninety) days.
	< /td>
Disturbance Allowance* as Off-set to relinquishing Company Car:	The Company will provide you a one time Distur bance Allowance of $20,000 USD. This allowance is for you to use as you need as part of your move from The Netherlands to the United States. You have already received $15,000 of this payment and will receive the remaining $5,000 no later than July 31, 2009.
Vacation:	Your vacation entitlement of 5 weeks will now be accrued annually on a calendar year basis. Any of the vacation carried over from 2008 can be taken through December 31, 2010.
Taxes:	Hexion agrees to cover the cost of tax preparation for 2009. In addition, we agree to jointly review your needs in 2010.
2009 Incentive Plan:	You have now been increased to participate in the 2009 Incentive Plan year at 70% of your $300,000 base salary effective Jan 1, 2009.
2008 Discretionary Incentive Award:	Additionally, you were approved to receive $24,824 as a Discretionary Incentive award to recognize your 2008 performance. This amount combined with your earned Incentive totaled a payment of $60,000 to you.
2009 Long Term Incentive:	You were approved by the Board to be eligible to receive up to 200% of your base salary in the 2009 Cash Based LTI plan.
Grandfathered Retirement Savings Plan - Company Match:	The Company will provide you a retroactive grandfathered 2% Company Match contribution (including gains/losses) to the new Deferred Compensation Plan from January 1, 2009 - April 1, 2009 (Company Match was frozen from April 1, 2009 - May1, 2010) and from May1, 2010 through the inception of the Plan. The Company will thereafter continue to grandfather this 2% Company Match with quarterly contributions to the deferred Compensation Plan.

*The aforementioned allowances shall be made in accordance with standard Hexion payroll procedures in the year in which the allowance is earned, and no later than March 15 of the year following the year in which the allowance is earned. This is in accordance with Internal Revenue Code Section 409A.

Exhibit 18.1

February 28, 2011

Board of Directors
Momentive Specialty Chemicals Inc.
180 East Broad Street
Columbus, Ohio 43215

Dear Directors:

We are providing this letter to you for inclusion as an exhibit to your Form 10-K filing pursuant to Item 601 of Regulation S-K.

We have audited the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 and issued our report thereon dated February 28, 2011. Note 2 to the financial statements describes a change of the Company's annual goodwill impairment test date from December 31 to October 1, which is considered a change in accounting principle. It should be understood that the preferability of one acceptable method of accounting over another for selecting the annual goodwill impairment test date has not been addressed in any authoritative accounting literature, and in expressing our concurrence below we have relied on management's determ ination that this change in accounting principle is preferable. Based on our reading of management's stated reasons and justification for this change in accounting principle in the Form 10-K, and our discussions with management as to their judgment about the relevant business planning factors relating to the change, we concur with management that such change represents, in the Company's circumstances, the adoption of a preferable accounting principle in conformity with Accounting Standards Codification 250, *Accounting Changes and Error Corrections*.

Very truly yours,

PricewaterhouseCoopers LLP

Exhibit 21.1

Subsidiaries of the Registrant
As of December 31, 2010

< td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

< td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

Germany

Subsidiary	Jurisdic tion	% Owned
Asia Dekor Borden (Heyuan) Chemical Company Limited	China	50%
Asia Dekor Borden (Hong Kong) Chemical Company	Hong Kong	50%
Borden Chemical Foundry, LLC	Delaware	100%
Borden Chemical Holdings (Panama) S.A.	Panama	100%
Borde n Chemical UK Limited	UK	100%
Borden International Holdings Limited	UK	100%
Borden Luxembourg S.a r.l.	Luxembourg	100%
HA-International, LLC	Delaware	50%
Hexion Nova Scotia Finance, ULC	Nova Scotia, Canada	100%
Hexion Quimica Argentina SA	Argentina	100%
Hexion Shchekinoazot Holding B.V.	Netherlands	50%
Hexion Shchekinoazot OOO	Russia	50 %
Hexion Specialty Chemicals BVBA	Belgium	100%
Hexion Specialty Chemicals Lda.	Portugal	100%
Hexion Specialty Chemicals Luxembourg s.a.r.l.	Luxembourg	100%
Hexion Specialty Chemicals Maastricht BV	The Netherlands	100%
Hexion Specialty Chemicals Management (Shanghai) Co., Ltd.	China	100%
Hexion Specialty Chemicals Uruguay S.A.	Uruguay	100%
Hexion Specialty UV Coatings (Shanghai) Limited	Hong Kong	100%
Hexion U.S. Finance Corp.	Delaware	100%
Hexion UV Coatings (Shanghai) Co., Ltd.	China	49.99%
HSC Capital Corporation	Delaware	100%
InfraTec Duisburg GmbH		70%
Lawter International Inc.	Delaware	100%
Momentive Shanxi Holdings Limited	Hong Kong	100%
Momentive CI Holding Company (China) LLC	Delaware	100%
Momen tive International Holdings Coöperatief U.A.	Netherlands	100%
Momentive International Inc.	Delaware	100%
Momentive Quimica do Brasil Ltda.	Brazil	100%
Momentive Quimica S. A.	Panama	< font style="font-family:inherit;font- 100size:10pt;">%
Momentive Specialty Chemicals (Caojing) Limited	Hong Kong	100%
Momentive Specialty Chemicals (Heyuan) Limited	Hong Kong	100%
Momentive Specialty Chemicals (N.Z.) Limited	New Zealand	100%
Momentive Specialty Chemicals Asua S.L.	Spain	100%
Momentive Specialty Chemicals B.V.	Netherlands	100%
Momentive Specialty Chemicals Barbastro S.A.	Spain	100%
Momentive Specialty Chemicals Canada Inc.	Canada	100%
Momentive Specialty Chemicals Europe B.V.	Netherlands	100%
Momentive Specialty Chemicals Finance B.V.	The Netherlands	100%
Momentive Specialty Chemicals Forest Products GmbH	Germany	100%
Momentive Specialty Chemicals France SAS	France	100%
Momentive Specialty Chemicals GmbH	Germany	100%

Subsidiary	Jurisdiction	% Owned
Momentive Specialty Chemicals GmbH & Co Kg	Germany	100%
Momentive Specialty Chemicals Holding B.V.	Netherlands	100%
Momentive Specialty Chemicals Holdings (China) Limited	Hong Kong	100%
Momentive Specialty Chemicals Iberica S.A.	Spain	100%
Momentive Specialty Chemicals Investments Inc.	Delaware	100%
Momentive Specialty Chemicals Italia S.P.A.	Italy	100%
Momentive Specialty Chemicals Korea Company Limited	Korea	100%
Momentive Specialty Chemicals Leuna GmbH	Germany	100%
Momentive Specialty Chemicals Oy	; Finland	100%
Momentive Specialty Chemicals Pardubice S.r.o.	Czech Republic	100%
Momentive Specialty Chemicals Pty Ltd	Australia	100%
Momentive Specialty Chemicals Research Belgium SA	</div> Belgium	100%
Momentive Specialty Chemicals S.A.	France	100%
Momentive Specialty Chemicals S.r.l.	Italy	100%
Momentive Specialty Chemicals Samutsakorn Ltd.	Thailand	100%
Momentive Specialty Chemicals Sdn. Bhd.	Malaysia	100%
Momentive Specialty Chemicals Singapore Pte. Ltd.	Singapore	100%
Momentive Specialty Chemicals Stanlow Limited	UK	100%
Momentive Specialty Chemicals Stuttgart GmbH	Germany	100%
Momentive Specialty Chemicals UK Limited	UK	100%
Momentive Specialty Chemicals Wesseling GmbH	Germany	100%
Momentive Specialty Chemica ls, a.s.	Czech Republic	100%
Momentive Specialty UV Coatings (Shanghai) Limited	China	49.99%
National Borden Chemical Germany GmbH	Germany	100%
New Nimbus GmbH & Co Kg	Germany	100%
NL Coop Holdings LLC	Delaware	100%
Oilfield Technology Group, Inc.	Delaware	100%
PT Hexion Specialty Chemicals	Indonesia	100%
Resolution Research Nederland B.V.	Netherlands	100%
Resolution Specialty Materials Rotterdam B.V.	Netherlands	100%
Sanwei Hexion Chemicals Company Limited	China	49%

Exhibit 31.1(a)

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 Momentive 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 peri od 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 su pervision, 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: February 28, 2011

/s/ Craig O. Morrison

Craig O. Morrison
Chief Executive Officer

Exhibit 31.1(b)

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 Momentive 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 peri od 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 sup ervision, 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: February 28, 2011

/s/ William H. Carter

William H. Carter

Chief Financial Officer

Exhibit 32.1

Certification Pursuant To
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 9 06 Of The Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Momentive Specialty Chemicals Inc. (the "Company") on Form 10-K for the period ended December 31, 2010 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	/s/ William H. Carter
Craig O. Morrison	William H. Carter
Chief Executive Office r	Chief Financial Officer
February 28, 2011	February 28, 2011

A signed original of this statement required by Section 906 has been provided to Momentive Specialty Chemicals Inc. and will be retained by Momentive Specialty Chemicals Inc. and furnished to the Securities and Exchange Commission or its staff upon request.