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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from to

Commission File Number 1-71

MOMENTIVE SPECIALTY CHEMICALS INC.
(Exact name of registrant as specified in its charter)

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

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

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

As a voluntary filer, the Company has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months.

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

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

MOMENTIVE SPECIALTY CHEMICALS INC.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
MOMENTIVE SPECIALTY CHEMICALS INC. (Unaudited)

(In millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
Net sales	$ 1,438	$ 1,156
Cost of sales	1,223	969
Gross profit	215	187
Selling, general and administrative expense	87	85
Push-down of income recovered by owner	—	(28)
Asset impairments	18	—
Other operating income, net	(18)	(2)
Operating income	128	132
Interest expense, net	65	72
Other non-operating expense, net	—	3
Income from continuing operations before income tax and earnings from unconsolidated entities	63	57
Income tax expense	—	13
Income from continuing operations before earnings from unconsolidated entities	63	44
Earnings from unconsolidated entities, net of taxes	3	2
Net income from continuing operations	66	46
Net (loss) income from discontinued operations, net of taxes	(3)	6
Net income	$ 63	$ 52
Comprehensive income (loss)	$ 84	$ (2)

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
MOMENTIVE SPECIALTY CHEMICALS INC. (Unaudited)

	Six Months Ended June 30,	
(In millions)	2011	2010
Net sales	$ 2,732	$ 2,203
Cost of sales	2,308	1,879
Gross profit	424	324
Selling, general and administrative expense	171	158
Push-down of income recovered by owner	—	(28)
Asset impairments	18	—
Other operating income, net	(13)	(3)
Operating income	248	197
Interest expense, net	129	135
Loss on extinguishment of debt	—	8
Other non-operating (income) expense, net	(2)	3
Income from continuing operations before income tax and earnings from unconsolidated entities	121	51
Income tax expense	3	17
Income from continuing operations before earnings from unconsolidated entities	118	34
Earnings from unconsolidated entities, net of taxes	6	4
Net income from continuing operations	124	38
Net income from discontinued operations, net of taxes	2	7
Net income	$ 126	$ 45
Comprehensive income (loss)	$ 177	$ (35)

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS
MOMENTIVE SPECIALTY CHEMICALS INC. (Unaudited)

(In millions, except share data)	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents (including restricted cash of $4 and $6, respectively)	$ 196	$ 186
Short-term investments	6	6
Accounts receivable (net of allowance for doubtful accounts of $22 and $24, respectively)	811	527
Inventories:		
Finished and in-process goods	346	266
Raw materials and supplies	139	109
Other current assets	86	79
Discontinued operations	—	243
Total current assets	1,584	1,416
Other assets, net	165	153
Property and equipment		
Land	83	78
Buildings	315	295
Machinery and equipment	2,404	2,244
	2,802	2,617
Less accumulated depreciation	(1,479)	(1,350)
	1,323	1,267
Goodwill	175	169
Other intangible assets, net	116	132
Total assets	$ 3,363	$ 3,137
Liabilities and Deficit		
Current liabilities		
Accounts and drafts payable	$ 579	$ 414
Debt payable within one year	89	82
Affiliated debt payable within one year	2	2
Interest payable	59	69
Income taxes payable	20	24
Accrued payroll and incentive compensation	62	65
Other current liabilities	143	150
Discontinued operations	—	59
Total current liabilities	954	865
Long-term liabilities		
Long-term debt	3,450	3,488
Affiliated long-term debt	100	100
Long-term pension and post employment benefit obligations	213	208
Deferred income taxes	107	110
Other long-term liabilities	156	160
Advance from affiliates	225	225
Total liabilities	5,205	5,156
Commitments and contingencies (See Note 7)		
Deficit		
Common stock—$0.01 par value; 300,000,000 shares authorized, 170,605,906 issued and 82,556,847 outstanding at June 30, 2011 and December 31, 2010	1	1
Paid-in capital	326	324
Treasury stock, at cost—88,049,059 shares	(296)	(296)
Note receivable from parent	(24)	(24)
Accumulated other comprehensive income	139	88
Accumulated deficit	(1,989)	(2,115)
Total Momentive Specialty Chemicals Inc. shareholder’s deficit	(1,843)	(2,022)
Noncontrolling interest	1	3
Total deficit	(1,842)	(2,019)
Total liabilities and deficit	$ 3,363	$ 3,137

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
MOMENTIVE SPECIALTY CHEMICALS INC. (Unaudited)

(In millions)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows used in operating activities		
Net income	$ 126	$ 45
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	86	86
Pushdown of income recovered by owner	—	(28)
Deferred tax (benefit) expense	(12)	2
Write-off of deferred financing fees	—	7
Non-cash asset impairments	18	—
Other non-cash adjustments	(5)	8
Net change in assets and liabilities:		
Accounts receivable	(218)	(236)
Inventories	(83)	(89)
Accounts and drafts payable	138	111
Income taxes payable	2	3
Other assets, current and non-current	18	(15)
Other liabilities, current and long-term	(113)	(2)
Net cash used in operating activities	(43)	(108)
Cash flows provided by (used in) investing activities		
Capital expenditures	(71)	(47)
Capitalized interest	—	(1)
Purchases of debt securities	—	(2)
Change in restricted cash	2	4
Deconsolidation of variable interest entities	—	(4)
(Funds remitted to) dividends from unconsolidated affiliates, net	(1)	3
Proceeds from sale of businesses, net of cash transferred	173	—
Proceeds from sale of assets	—	12
Net cash provided by (used in) investing activities	103	(35)
Cash flows (used in) provided by financing activities		
Net short-term debt repayments	(8)	—
Borrowings of long-term debt	409	1,379
Repayments of long-term debt	(451)	(1,222)
Long-term debt and credit facility financing fees	(1)	(33)
Net cash (used in) provided by financing activities	(51)	124
Effect of exchange rates on cash and cash equivalents	3	(4)
Increase (decrease) in cash and cash equivalents	12	(23)
Cash and cash equivalents (unrestricted) at beginning of period	180	135
Cash and cash equivalents (unrestricted) at end of period	$ 192	$ 112
Supplemental disclosures of cash flow information		
Cash paid for:		
Interest, net	$ 135	$ 97
Income taxes, net of cash refunds	12	20

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF DEFICIT AND COMPREHENSIVE INCOME
MOMENTIVE SPECIALTY CHEMICALS INC. (Unaudited)

(In millions)	Common Stock	Paid-in Capital	Treasury Stock	Note Receivable From Parent	Accumulated Other Comprehensive Income (a)	Accumulated Deficit	Total Momentive Specialty Chemicals Inc. Members' Deficit	Noncontrolling Interest	Total
Balance at December 31, 2010	$ 1	$ 324	$ (296)	$ (24)	$ 88	$ (2,115)	$ (2,022)	$ 3	$ (2,019)
Net income	—	—	—	—	—	126	126	—	126
Translation adjustments	—	—	—	—	51	—	51	—	51
Comprehensive income							177	—	177
Stock-based compensation expense	—	3	—	—	—	—	3	—	3
Distribution declared to parent	—	(1)	—	—	—	—	(1)	—	(1)
Divestiture of IAR business	—	—	—	—	—	—	—	(2)	(2)
Balance at June 30, 2011	$ 1	$ 326	$ (296)	$ (24)	$ 139	$ (1,989)	$ (1,843)	$ 1	$ (1,842)

(a) Accumulated other comprehensive income at June 30, 2011 represents $224 of net foreign currency translation gains, net of tax, $2 of net deferred losses on cash flow hedges and a $83 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, 2010 represents $173 of net foreign currency translation gains, net of tax, $2 of net deferred losses on cash flow hedges and a $83 unrealized loss, net of tax, related to net actuarial losses and prior service costs for the Company's defined benefit pension and postretirement benefit plans.

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(In millions, except share and common unit data)

1. Background and Basis of Presentation

Based in Columbus, Ohio, Momentive Specialty Chemicals Inc., (which may be referred to as "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. The Company's business is organized based on the products offered and the markets served. At June 30, 2011, the Company had two reportable segments: Epoxy, Phenolic and Coating Resins and Forest Products Resins.

The Company's direct parent is Momentive Specialty Chemicals Holdings LLC ("MSC Holdings"), a holding company and wholly owned subsidiary of Momentive Performance Materials Holdings LLC ("Momentive Holdings"), the ultimate parent entity of MSC. Momentive Holdings 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.

Basis of Presentation—The unaudited Condensed 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 (“VIEs”) in which the Company has a controlling financial interest. Intercompany accounts and transactions are eliminated in consolidation. In the opinion of management, all adjustments consisting of normal, recurring adjustments, except for the adoption of new accounting standards discussed in Note 2 below, considered necessary for a fair statement, have been included. Results for the interim periods are not necessarily indicative of results for the entire year.

Year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Pursuant to the rules and regulations of the Securities and Exchange Commission, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These unaudited financial statements should be read in conjunction with the audited financial statements and the accompanying notes included in the Company's most recent Annual Report on Form 10-K.

2. Summary of Significant Accounting Policies

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. Actual results could differ from these estimates.

Impairment—The Company reviews long-lived definite-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Recoverability is based on estimated undiscounted cash flows. Measurement of the loss, if any, is based on the difference between the carrying value and fair value.

During the three and six months ended June 30, 2011, as a result of the loss of a large customer that went out of business in the second quarter of 2011 and continued competitive pressures resulting in successive periods of negative cash flows associated with certain assets within the Company's European forest products business, the Company recorded impairments of $18 on certain of its long-lived assets in its Forest Products Resins segment.

Subsequent Events—The Company has evaluated events and transactions subsequent to June 30, 2011 through the time that it files its unaudited Condensed Consolidated Financial Statements.

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

Recently Issued Accounting Standards

Newly Adopted Accounting Standards

There were no newly issued accounting standards adopted by the Company in the first half of 2011.

Newly Issued Accounting Standards

In June 2011, the FASB issued *Accounting Standards Update No. 2011-05: Comprehensive Income* (“ASU 2011-05”). ASU 2011-05 amends current presentation guidance by eliminating the option for an entity to present the components of comprehensive income as part of the statement of changes in stockholder's equity and requires presentation of comprehensive income in a single continuous financial statement or in two separate but consecutive financial statements. The amendments in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 will be effective for the Company on January 1, 2012. The Company is currently assessing the impact of ASU 2011-05 to the presentation of its Statement of Comprehensive Income within its unaudited financial statements.

3. Discontinued Operations

North American Coatings and Composites Resins business

On May 31, 2011, the Company sold its North American coatings and composites resins (“CCR”) business to PCCR USA, Inc. ("PCCR"), a subsidiary of Investindustrial, a European investment group. The CCR business is engaged in the production of coating resins for architectural and original equipment manufacturers, alkyd resins, as well as composite resins for construction, transportation, consumer goods, marine and other applications and includes four manufacturing facilities in the United States.

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

For the three and six months ended June 30, 2011, the CCR business had net sales of $49 and $114, respectively and pre-tax loss of $3 and $3, respectively. The CCR business had net sales of $62 and $113, for the three and six months ended June 30, 2010, respectively and pre-tax loss of $0 and $1 for the three and six months ended June 30, 2010, respectively. The CCR business is reported as a discontinued operation for all periods presented and was previously included in the Coatings segment in 2010 and the Epoxy, Phenolic and Coating Resins segment beginning in 2011 as a result of the Company's change in reportable segments in the first quarter of 2011 (see Note 9).

In addition, the Company incurred approximately $1 and $2 of transaction and other costs for the three and six months ended June 30, 2011, respectively. The Company recorded a loss on sale of the CCR business of $1 in the three and six months ended June 30, 2011.

IAR business

On January 31, 2011, the Company sold its Inks and Adhesive Resins (“IAR”) business to Harima Chemicals Inc ("Harima") for a purchase price of $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 and includes 11 manufacturing facilities in the United States, Europe and the Asia-Pacific region.

Harima also paid $14 for cash and $8 for working capital transferred to Harima at the time of closing as part of the Purchase Agreement, less indebtedness and pension plan liability transferred to Harima of $4. In the first quarter of 2011, a subsequent adjustment to the purchase price of $2 was accrued based upon the final expected working capital settlement as defined by the Purchase Agreement.

In conjunction with the sale, as part of a Transitional Services Agreement, the Company is providing certain transitional services to Harima for a period of six months. The purpose of these services is to provide short-term assistance to Harima 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 had net sales of $31 and and pre-tax income of $6 for the six months ended June 30, 2011. For the three and six months ended June 30, 2010, the IAR business had net sales of $86 and $163, respectively and pre-tax income of $5 and $9, respectively. The IAR business is reported as a discontinued operation for all periods presented.

In addition, the Company incurred approximately $4 in transaction and other costs for the year ended December 31, 2010. The Company accrued a loss on sale of the IAR business of $1 in the fourth quarter of 2010.

The aggregate carrying values of the IAR and CCR businesses were $140 and $44, respectively, as of December 31, 2010. The major classes of assets and liabilities of discontinued operations included in the unaudited Condensed Consolidated Balance Sheets are as follows:

	December 31, 2010		
	IAR business	CCR business	Total Discontinued Operations
Assets:			
Accounts Receivable	$ 69	$ 20	$ 89
Inventories	42	21	63
Other current assets	6	1	7
Total current assets	117	42	159
Property and equipment, net	54	21	75
Other intangible assets, net	6	—	6
Other assets	3	—	3
Total noncurrent assets	63	21	84
Total assets of discontinued operations	$ 180	$ 63	$ 243
Liabilities:			
Accounts and drafts payable	$ 24	$ 16	$ 40
Other current liabilities	7	3	10
Total current liabilities	31	19	50
Long-term debt	4	—	4
Other long-term liabilities	5	—	5
Total noncurrent liabilities	9	—	9
Total liabilities of discontinued operations	$ 40	$ 19	$ 59

4. 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 with an automatic one year extension provided on an annual basis, unless notice to the contrary is given by either party. Under the Management Consulting Agreement, 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. Apollo is entitled to an annual fee equal to the greater of $3 or 2% of the Company's Adjusted EBITDA. Apollo elected to defer payment of any portion of the annual fee due in excess of $3 for the years ended December 31, 2011, 2010, 2008 and 2007. Due to the economic downturn, Apollo elected to waive payment of the 2009 fee in its entirety.

During the three and six months ended June 30, 2011, the Company recognized expense under the Management Consulting Agreement of $1 and $2, respectively. These amounts are included in Other operating expense, net in the Company’s unaudited Condensed Consolidated Statements of Operations.

Apollo Notes Registration Rights Agreements

On November 5, 2010, in connection with the issuance of the Company's 9.00% Second-Priority Senior Secured Notes due 2020, the Company entered into a separate registration rights agreement with Apollo. The registration rights agreements give Apollo the right to make three requests by written notice to the Company specifying the maximum aggregate principal amount of notes to be registered. The agreements require the Company to file a registration statement with respect to the notes it issued to Apollo as promptly as possible following receipt of each such notice. There are no cash or additional penalties under the registration rights agreements resulting from delays in registering the notes.

Shared Services Agreement

On October 1, 2010, the Company entered into a shared services agreement, as amended on March 17, 2011, with Momentive Performance Materials Inc. ("MPM"). Pursuant to the shared services agreement, the Company will provide to MPM, and MPM will provide to the Company, certain services, including, but not limited to, executive and senior management, administrative support, human resources, information technology support, accounting, finance, technology development, 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, during the six months ended June 30, 2011, the Company incurred approximately $94 of costs for shared services and MPM incurred approximately $83 of costs for shared services (excluding, in each case, costs allocated 100% to one party). During the six months ended June 30, 2011, the Company realized approximately $14 in cost savings as a result of the Shared Services Agreement. MSC billed MPM approximately $4 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 unaudited Condensed Consolidated Statements of Operations. The Company has accounts receivable from MPM of $4 at June 30, 2011 and accounts payable to MPM of $1 as of 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 only 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 June 30, 2011. As of June 30, 2011, the Company has not recovered any insurance proceeds related to the $225 settlement payment.

In addition, certain affiliates of Apollo have agreed to make a $200 investment in Momentive Holdings. 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 to purchase 28,785,935 common units of Momentive Holdings by December 31, 2011. The preferred units have an aggregate liquidation value equal to $200, plus accrued but unpaid distributions. Momentive Holdings 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.

In conjunction with and prior to the purchase of all the preferred shares and warrants, certain affiliates of Apollo also committed to provide liquidity facilities to 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, the Company has $100 in term loans outstanding with affiliates of Apollo which will mature on December 31, 2011, with interest at adjusted LIBOR plus 2.25%. The Company also has $2 outstanding with an affiliate of Apollo, which is due upon demand. The weighted average interest rate of affiliated borrowings at June 30, 2011 was 2.57%.

Purchase of MSC Holdings debt

In 2009, the Company purchased $180 in face value of the outstanding MSC Holdings LLC PIK Debt Facility for $24, including accrued interest. The loan receivable from MSC Holdings has been recorded at its acquisition value of $24 as a reduction of equity in the unaudited Condensed Consolidated Statement of Deficit and Comprehensive Income as MSC Holdings is the Company’s parent. In addition, at June 30, 2011 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 Holdings. These sales were less than $1 and $1 for the three months ended June 30, 2011 and 2010, respectively, and $1 for the six months ended June 30, 2011 and 2010. Accounts receivable from these affiliates were $1 and less than $1 at June 30, 2011 and December 31, 2010, respectively. The Company also purchases raw materials and services from certain Apollo affiliates. These purchases were $14 and $5 for the three months ended June 30, 2011 and 2010, respectively, and $20 and $7 for the six months ended June 30, 2011 and 2010, respectively. The Company had accounts payable to Apollo affiliates of $2 and $1 at June 30, 2011 and December 31, 2010, respectively.

Other Transactions and Arrangements

The Company sells finished goods to and purchases raw materials from its foundry joint venture between the Company and Delta-HA, Inc. ("HAI"). The Company also provides toll-manufacturing and other services to HAI. 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 unaudited Condensed Consolidated Financial Statements. However, any profit on these transactions is eliminated in the Company’s unaudited Condensed Consolidated Financial Statements to the extent of the Company’s 50% interest in HAI. Sales and services provided to HAI were $48 and $24 for the three months ended June 30, 2011 and 2010, respectively, and $77 and $45 for the six months ended June 30, 2011 and 2010, respectively. Accounts receivable from HAI were $21 and $13 at June 30, 2011 and December 31, 2010, respectively. Purchases from HAI were $32 and $36 for the three months ended June 30, 2011and 2010, respectively, and $46 for the six months ended June 30, 2011 and 2010. The Company had accounts payable to HAI of $7 and $2 at June 30, 2011 and December 31, 2010, respectively. Additionally, HAI declared a dividend of $5 and $4 in the three months ended June 30, 2011 and 2010, respectively. No amounts remain outstanding related to these previously declared dividends as of June 30, 2011.

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. The carrying value of HAI's assets were $51 and $44 at June 30, 2011 and December 31, 2010, respectively. The carrying value of HAI's liabilities were $27 and $22 at June 30, 2011 and December 31, 2010, respectively.

The Company has a loan receivable from its unconsolidated forest products joint venture in Russia of $4 as of June 30, 2011 and December 31, 2010.

5. Fair Value

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.

Recurring Fair Value Measurements

Following is a summary of assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total**
June 30, 2011				
Derivative liabilities	$ —	$ (9)	$ —	$ (9)
December 31, 2010				
Derivative liabilities	—	(10)	—	(10)

Level 1 primarily consists of financial instruments traded on exchange or futures markets. Level 2 includes those derivative instruments transacted primarily in over the counter markets.

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 June 30, 2011 and December 31, 2010, no adjustment was made by the Company to reduce its derivative liabilities for nonperformance risk.

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

Following is a summary of losses as a result of the Company measuring assets at fair value on a non-recurring basis during the three and six months ended June 30, 2011:

	Three months ended June 30, 2011	**Six months ended June 30, 2011**
Long-lived assets held and used	$ 18	$ 18

As a result of the loss of a large customer that went out of business in the second quarter of 2011 and continued competitive pressures resulting in successive periods of negative cash flows associated with certain assets within the Company's European forest products business, the Company has written down long-lived assets with a carrying value of $29 to fair value of $11, resulting in an impairment charge of $18 for the three and six months ended June 30, 2011. These assets were valued using a discounted cash flow analysis based on assumptions that market participants would use and incorporates probability-weighted cash flows based on the likelihood of various possible scenarios. Key inputs in the model included projected revenues, operating expenses, and asset usage charges associated with certain intangible assets.

Non-derivative Financial Instruments

The following table summarizes the carrying amount and fair value of the Company's non-derivative financial instruments:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt	$ 3,641	$ 3,627	$ 3,672	$ 3,708

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.

6. Derivative Instruments and Hedging Activities

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.

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.

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 January 2007, the Company entered into an interest rate swap agreement. This swap is designed to offset the cash flow variability that results from interest rate fluctuations on the Company's variable rate debt and matured in the first quarter of 2011. The Company previously accounted for the swap as a qualifying cash flow hedge.

In February 2007, the Company entered into interest rate swap agreements to offset the cash flow variability that results from interest rate fluctuations on the Company's Australian variable rate 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 . 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 became 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 hedges a portion of its electricity purchases for certain North American plants. The Company enters into forward contracts with fixed prices to hedge electricity pricing at these plants. Any unused electricity is net settled for cash each month based on the market electricity price versus the contract price. The Company also hedges a portion of its natural gas purchases for certain North American plants. The Company uses futures contracts to hedge natural gas pricing at these plants. The natural gas 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. The Company does not apply hedge accounting to these electricity or natural gas future contracts.

The following tables summarize the Company's derivative financial instruments:

Liability Derivatives	Balance Sheet Location	June 30, 2011 Notional Amount	June 30, 2011 Fair Value Liability	December 31, 2010 Notional Amount	December 31, 2010 Fair Value Liability
Derivatives designated as hedging instruments					
Interest Rate Swaps					
Interest swap – 2007	Other current liabilities	$ —	$ —	$ 375	$ (5)
Interest swap – 2010	Other current liabilities	350	(3)	350	(2)
Total derivatives designated as hedging instruments			$ (3)		$ (7)
Derivatives not designated as hedging instruments					
Foreign Exchange and Interest Rate Swaps					
Cross-Currency and Interest Rate Swap	Other current liabilities	$ 25	$ (5)	$ 25	$ (3)
Interest Rate Swap					
Interest swap – Australia Multi-Currency Term	Other current liabilities	22	—	22	—
Commodity Contracts					
Electricity contracts	Other current liabilities	3	(1)	4	—
Natural gas futures	Other current liabilities	2	—	2	—
Total derivatives not designated as hedging instruments			$ (6)		$ (3)

Derivatives in Cash Flow Hedging Relationship	Amount of Loss Recognized in OCI on Derivative for the three months ended: June 30, 2011	June 30, 2010	Location of Loss Reclassified from Accumulated OCI into Income	Amount of Loss Reclassified from Accumulated OCI into Income for the three months ended: June 30, 2011	June 30, 2010
Interest Rate Swaps					
Interest swap – 2007	$ —	$ —	Interest expense, net	$ —	$ (6)
Interest swap – 2010	(2)	—	Interest expense, net	(1)	—
Total	$ (2)	$ —		$ (1)	$ (6)

Derivatives in Cash Flow Hedging Relationship	Amount of Loss Recognized in OCI on Derivative for the six months ended: June 30, 2011	June 30, 2010	Location of Loss Reclassified from Accumulated OCI into Income	Amount of Loss Reclassified from Accumulated OCI into Income for the six months ended: June 30, 2011	June 30, 2010
Interest Rate Swaps					
Interest swap – 2007	$ —	$ (1)	Interest expense, net	$ —	$ (13)
Interest swap – 2010	(2)	—	Interest expense, net	(2)	—
Total	$ (2)	$ (1)		$ (2)	$ (13)

Derivatives Not Designated as Hedging Instruments	Amount of Gain Recognized in Income on Derivative for the three months ended: June 30, 2011	June 30, 2010	Location of Gain Recognized in Income on Derivative
Foreign Exchange and Interest Rate Swaps			
Cross-Currency and Interest Rate Swap	$ —	$ 2	Other non-operating expense, net
Interest Rate Swap			
Interest swap - Australia Multi-Currency Term	—	1	Other non-operating expense, net
Commodity Contracts			
Electricity contracts	(1)	1	Cost of sales
Natural gas futures	—	—	Cost of sales
Total	$ (1)	$ 4	

Derivatives Not Designated as Hedging Instruments	Amount of (Loss) Gain Recognized in Income on Derivative for the six months ended: June 30, 2011	June 30, 2010	Location of (Loss) Gain Recognized in Income on Derivative
Foreign Exchange and Interest Rate Swaps			
Cross-Currency and Interest Rate Swap	$ (2)	$ 4	Other non-operating expense, net
Interest Rate Swap			
Interest swap - Australia Multi-Currency Term	—	1	Other non-operating expense, net
Commodity Contracts			
Electricity contracts	(1)	1	Cost of sales
Natural gas futures	—	(1)	Cost of sales
Total	$ (3)	$ 5	

7. 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 June 30, 2011 and December 31, 2010:

	Number of Sites		Liability		Range of Reasonably Possible Costs	
Site Description	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	Low	High
Geismar, LA	1	1	$ 17	$ 17	$ 10	$ 25
Superfund and offsite landfills – allocated share:						
Less than 1%	28	29	1	1	1	2
Equal to or greater than 1%	12	12	7	7	6	13
Currently-owned	18	21	7	9	4	12
Formerly-owned:						
Remediation	10	10	1	1	1	10
Monitoring only	6	7	1	1	—	1
	75	80	$ 34	$ 36	$ 22	$ 63

These amounts include estimates for unasserted claims that the Company believes are probable of loss and reasonably estimable. The estimate of the range of reasonably possible costs is less certain than the estimates upon which the liabilities are based. To establish the upper end of a range, assumptions less favorable to the Company among the range of reasonably possible outcomes were used. As with any estimate, if facts or circumstances change, the final outcome could differ materially from these estimates. At June 30, 2011 and December 31, 2010, $10 and $10, respectively, has been included in Other current liabilities in the unaudited Condensed 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 June 30, 2011:

Geismar, LA Site—The Company formerly owned a basic chemicals and polyvinyl chloride business that was taken public as Borden Chemicals and Plastics Operating Limited Partnership ("BCPOLP") in 1987. The Company retained a 1% interest, the general partner interest and the liability for certain environmental matters after BCPOLP's formation. Under a Settlement Agreement approved by the United States Bankruptcy Court for the District of Delaware among the Company, BCPOLP, the United States Environmental Protection Agency and the Louisiana Department of Environmental Quality, the Company agreed to perform certain of BCPOLP's obligations for soil and groundwater contamination at BCPOLP's Geismar, Louisiana site. The Company bears the sole responsibility for these obligations because there are no other potentially responsible parties ("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 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 or more 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 $8 and $11 at June 30, 2011 and December 31, 2010, respectively, for all non-environmental legal defense costs incurred and settlement costs that it believes are probable and estimable. At June 30, 2011 and December 31, 2010, $4 and $5, respectively, have been included in Other current liabilities in the unaudited Condensed Consolidated Balance Sheets with the remaining amount included in Other long-term liabilities.

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

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 is probable. At June 30, 2011, the amount of the assessment, including tax, penalties, monetary correction and interest, is 67 Brazilian reais, or approximately $43.

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 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 $12 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 investigation as to the cause of the accident has not been finalized. In early October 2009, the Company was granted an injunction precluding the imposition of any fines or penalties by the Paraná IAP which was filed in November 2010. The Company has filed an appeal to preclude the Paraná IAP from levying any assessment, and still believes it has a strong defense and does not believe a loss is probable. At June 30, 2011, the amount of the assessment, including tax, penalties, monetary correction and interest, is 27 Brazilian reais, or approximately $17.

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 believes it has adequate reserves and that it is not reasonably possible that a loss exceeding amounts already reserved would be material. Furthermore, the Company has insurance to cover claims of these types.

8. Pension and Postretirement Expense

Following are the components of net pension and postretirement expense (benefit) recognized by the Company for the three and six months ended June 30, 2011 and 2010:

	Pension Benefits				Non-Pension Postretirement Benefits			
	Three Months Ended June 30,				Three Months Ended June 30,			
	2011		2010		2011		2010	
	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
Service cost	$ —	$ 2	$ 1	$ 2	$ —	$ —	$ —	$ —
Interest cost on projected benefit obligation	3	5	3	4	—	—	—	—
Expected return on assets	(4)	(3)	(4)	(3)	—	—	—	—
Amortization of prior service cost (benefit)	—	—	—	1	(2)	—	(2)	—
Recognized actuarial loss	2	—	2	—	—	—	—	—
Net expense (benefit)	$ 1	$ 4	$ 2	$ 4	$ (2)	$ —	$ (2)	$ —

	Pension Benefits				Non-Pension Postretirement Benefits			
	Six Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
	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
Service cost	$ 1	$ 4	$ 2	$ 4	$ —	$ —	$ —	$ —
Interest cost on projected benefit obligation	6	9	7	8	—	—	—	—
Expected return on assets	(8)	(6)	(8)	(6)	—	—	—	—
Amortization of prior service cost (benefit)	—	—	—	1	(5)	—	(5)	—
Recognized actuarial loss	4	—	4	—	—	—	—	—
Net expense (benefit)	$ 3	$ 7	$ 5	$ 7	$ (5)	$ —	$ (5)	$ —

9. Segment Information

In the first quarter of 2011, the Company completed the sale of the IAR business and moved the oversight and management of the coatings reporting unit into the Epoxy and Phenolic Resins Division, which was renamed the Epoxy, Phenolic and Coating Resins Division. These organizational and internal reporting changes caused the Company to re-evaluate its reportable segments. As a result of these changes, effective in the first quarter of 2011, the results of the Company's coatings reporting unit, which were previously reported in the Coatings segment, are included within the Epoxy, Phenolic and Coating Resins segment. The prior periods have been recast for comparability purposes. In addition, the Company has renamed its Formaldehyde and Forest Products Resins segment to Forest Products Resins. No changes were made to the product lines that comprise this segment.

The Company's business segments are based on the products that the Company offers and the markets that it serves. At June 30, 2011, the Company had two reportable segments: Epoxy, Phenolic and Coating Resins and Forest Products Resins. A summary of the major products of the Company's reportable segments follows:

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

In the second quarter of 2011, the Company sold its North American coatings and composites resins (“CCR”) business to PCCR USA, Inc. ("PCCR"), a subsidiary of Investindustrial, a European investment group. The CCR business was previously included in the Coatings segment in 2010 and the Epoxy, Phenolic and Coating Resins segment beginning in 2011 as a result of the change in the Company's reportable segments discussed above. The CCR business is reported as a discontinued operation for all periods presented.

Reportable Segments

Following are net sales and Segment EBITDA (earnings before interest, income taxes, depreciation and amortization) by reportable segment. Segment EBITDA is defined as EBITDA adjusted to exclude certain non-cash, other income and expenses and discontinued operations. 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.

Total assets by segment has been disclosed below due to the changes to the Company's reportable segments in the first half of 2011.

Net Sales to Unaffiliated Customers(1)(2):

	Three months ended June 30(1)(2)		Six months ended June 30(1)(2)	
	2011	2010	2011	2010
Epoxy, Phenolic and Coating Resins	$ 972	$ 735	$ 1,818	$ 1,395
Forest Products Resins	466	421	914	808
	$ 1,438	$ 1,156	$ 2,732	$ 2,203

Segment EBITDA :

	Three months ended June 30(2)		Six months ended June 30(2)	
	2011	2010	2011	2010
Epoxy, Phenolic and Coating Resins	$ 157	$ 120	$ 307	$ 205
Forest Products Resins	50	50	95	92
Corporate and Other	(18)	(15)	(35)	(26)

Total Assets(2):

	As of June 30, 2011	As of December 31, 2010
Epoxy, Phenolic and Coating Resins	$ 2,097	$ 1,815
Forest Products Resins	893	849
Corporate and Other	373	230
Discontinued Operations	—	243
	$ 3,363	$ 3,137

(1) Intersegment sales are not significant and, as such, are eliminated within the selling segment.
(2) The Company changed its reportable segments in the first quarter of 2011. Prior period balances have been recast to conform to the Company's current reportable segments and to exclude the results of the CCR business, which is reported as a discontinued operation for all periods presented.

Reconciliation of Segment EBITDA to Net Income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Segment EBITDA:				
Epoxy, Phenolic and Coating Resins	$ 157	$ 120	$ 307	$ 205
Forest Products Resins	50	50	95	92
Corporate and Other	(18)	(15)	(35)	(26)
Reconciliation:				
Items not included in Segment EBITDA				
Push-down of income recovered by owner	—	28	—	28
Asset impairments and other non-cash charges	(21)	(4)	(21)	(5)
Unusual items:				
Gain on divestiture of assets	2	2	1	1
Net (loss) income from discontinued operations	(3)	6	2	7
Other	4	(11)	(7)	(16)
Total unusual items	3	(3)	(4)	(8)
Total adjustments	(18)	21	(25)	15
Loss on extinguishment of debt	—	—	—	(8)
Interest expense, net	(65)	(72)	(129)	(135)
Income tax expense	—	(13)	(3)	(17)
Depreciation and amortization	(43)	(39)	(84)	(81)
Net income	$ 63	$ 52	$ 126	$ 45

Items not included in Segment EBITDA

Non-cash charges primarily represent stock-based compensation expense and unrealized derivative and foreign exchange gains and losses.

Not included in Segment EBITDA are certain non-cash and other income or expenses that are deemed by management to be unusual in nature. For the three and six months ended June 30, 2011, these items include asset impairments, business optimization expenses, retention program costs and realized foreign exchange gains and losses, offset by a gain recognized on the termination of an operator agreement with a customer. For the three and six months ended June 30, 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 the six months ended June 30, 2010, these items also consist of financing fees incurred as part of refinancing transaction in the first half of 2010, partially offset by insurance settlements related to previous litigation matters.

10. Stock Option Plans and Stock-Based Compensation

On February 23, 2011, the Compensation Committee of the Board of Managers of Momentive Holdings approved the Momentive Performance Materials Holdings LLC 2011 Equity Incentive Plan (the “2011 Equity Plan”). Under the 2011 Equity Plan, Momentive Holdings 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 Holdings. The unit options are options to purchase common units of Momentive Holdings. The awards contain restrictions on transferability and other typical terms and conditions.

The following is a summary of key terms of the stock-based awards granted to MSC employees under the 2011 Equity Plan on February 23, 2011:

Tranche	Units Granted	Vesting Terms	Option/Unit Term
Unit Options:			10 years
Tranche A Options	2,755,594	Time-vest ratably over 4 years; Accelerated vesting six months after a change of control event as defined by the 2011 Equity Plan	
Tranche B Options	1,377,787	Performance-based: Vest upon the earlier of i) two years from the achievement of the targeted common unit value and a realization event or ii) six months from a change of control event and the achievement of the targeted common unit value as defined by the 2011 Equity Plan	
Tranche C Options	1,377,787	Performance-based: Vest upon the earlier of i) one year from the achievement of the targeted common unit value and a realization event or ii) six months from a change in control event and the achievement of the targeted common unit value as defined by the 2011 Equity Plan	
Restricted Deferred Units ("RDUs"):			N/A
Tranche A RDUs	918,535	Time-vest ratably over 4 years; Accelerated vesting six months from a change in control event as defined by the 2011 Equity Plan	
Tranche B RDUs	459,258	Performance-based: Vest upon the earlier of i) two years from the achievement of the targeted common unit value and a realization event or ii) six months from a change of control event and the achievement of the targeted common unit value as defined by the 2011 Equity Plan	
Tranche C RDUs	459,258	Performance-based: Vest upon the earlier of i) one year from the achievement of the targeted common unit value and a realization event or ii) six months from a change in control event and the achievement of the targeted common unit value as defined by the 2011 Equity Plan	

Unit Options

The Tranche A Options were granted with an aggregate grant date fair value of approximately $6. The fair value of each option was estimated at the grant date using a Black-Scholes option pricing model. The assumptions used to estimate the fair value were a 2.21% risk-free interest rate, a 6.25 year expected life, a 37.4% expected volatility rate and a 0% dividend rate. Compensation cost of $1 and $2 related to these awards was recognized during the three and six months ended June 30, 2011, respectively.

The Tranche B and Tranche C Options were granted with performance and market conditions each with an aggregate grant date fair value of approximately $3. The fair value was estimated at the grant date using a Monte Carlo valuation method, which is a commonly accepted valuation model for awards with market and performance conditions. The Monte Carlo valuation method requires the use of a range of assumptions. The range of risk-free interest rates were 0.16% to 3.49%, expected volatility rates ranged from 34.5% to 41.5% and a 0% dividend rate. The expected life assumption is not used in the Monte Carlo valuation method, but the output of the model indicated a weighted-average expected life of 9.2 years. Compensation cost has not been recognized for the Tranche B and Tranche C Options during the three and six months ended June 30, 2011 because as of June 30, 2011, it is not probable the related options will vest. Compensation cost will be recognized over the service period once the satisfaction of the performance condition is probable.

Restricted Deferred Units

The Tranche A RDUs were granted with an aggregate grant date fair value of approximately $4. Compensation cost of less than $1 and $1 related to these awards was recognized during each of the three and six months ended June 30, 2011, respectively.

The Tranche B RDUs and Tranche C RDUs were granted each with an aggregate grant date fair value of approximately $2. The fair value was estimated at the grant date using the same Monte Carlo valuation method and assumptions. The RDU's have an indefinite life, thus the term used in the valuation model was 30 years, which resulted in a weighted-average expected life of 21.4 years. Compensation cost has not been recognized for the Tranche B RDUs and Tranche C RDUs during the three and six months ended June 30, 2011 because as of June 30, 2011, it is not probable the related restricted deferred units will vest. Compensation cost will be recognized over the service period once the satisfaction of the performance condition is probable.

Although the 2011 Equity Plan is issued by Momentive Holdings, the underlying compensation cost represents compensation costs paid for by Momentive Holdings on MSC's behalf, as a result of the employees' service to MSC. All compensation cost is recorded over the requisite service period on a graded-vesting basis and is included in Selling, general and administrative expense in the unaudited Condensed Consolidated Statements of Operations.

11. Other events

In the second quarter of 2011, the Company agreed to terminate an operator contract ("Contract") with a customer in response to the customer's desire to restructure certain of its manufacturing capacity. The customer agreed to pay the Company a one-time compensation payment of 16 euro, or approximately $23, of which 11 euro, or $15, was paid to the Company in the second quarter of 2011 with the remaining to be paid upon the Company's disabling of the related manufacturing assets. The compensation payment represents a contract termination penalty and payment for all unpaid minimum obligations incurred by the customer to date under the Contract. The Company recorded a net gain of $21 for the three and six months ended June 30, 2011 related to the termination of the Contract, which represents the full compensation payment net of the Company's estimated cost to disable the related manufacturing assets. The amount is recorded in Other operating income, net in the unaudited Condensed Consolidated Statements of Operations.

12. 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 Company; NL COOP Holdings LLC and Oilfield Technology Group, Inc.) and the combined non-guarantor subsidiaries, which includes all of the Company’s foreign subsidiaries.

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.
THREE MONTHS ENDED JUNE 30, 2011
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 617	$ —	$ —	$ 912	$ (91)	$ 1,438
Cost of sales	488	—	—	826	(91)	1,223
Gross profit	129	—	—	86	—	215
Selling, general and administrative expense	34	—	—	53	—	87
Asset impairments	—	—	—	18	—	18
Other operating income, net	(4)	—	—	(14)	—	(18)
Operating income	99	—	—	29	—	128
Interest expense, net	17	38	—	10	—	65
Intercompany interest expense (income)	35	(48)	—	13	—	—
Other non-operating (income) expense, net	(9)	—	—	9	—	—
Income (loss) from continuing operations before income tax, earnings from unconsolidated entities	56	10	—	(3)	—	63
Income tax (benefit) expense	(11)	1	—	10	—	—
Income (loss) from continuing operations before earnings from unconsolidated entities	67	9	—	(13)	—	63
Earnings from unconsolidated entities, net of taxes	(3)	—	(3)	—	9	3
Net income (loss) from continuing operations	64	9	(3)	(13)	9	66
Net loss from discontinued operations, net of tax	(1)	—	—	(2)	—	(3)
Net income (loss)	$ 63	$ 9	$ (3)	$ (15)	$ 9	$ 63

MOMENTIVE SPECIALTY CHEMICALS INC.
THREE MONTHS ENDED JUNE 30, 2010
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 534	$ —	$ —	$ 743	$ (121)	$ 1,156
Cost of sales	450	—	—	640	(121)	969
Gross profit	84	—	—	103	—	187
Selling, general and administrative expense	28	—	—	57	—	85
Push-down of income recovered by owner	(28)	—	—	—	—	(28)
Other operating income, net	—	—	—	(2)	—	(2)
Operating income	84	—	—	48	—	132
Interest expense, net	23	38	—	11	—	72
Intercompany interest expense (income)	34	(44)	—	10	—	—
Other non-operating (income) expense, net	(4)	2	—	5	—	3
Income from continuing operations before income tax, earnings from unconsolidated entities	31	4	—	22	—	57
Income tax expense	2	1	—	10	—	13
Income from continuing operations before earnings from unconsolidated entities	29	3	—	12	—	44
Earnings from unconsolidated entities, net of taxes	23	—	12	—	(33)	2
Net income from continuing operations	52	3	12	12	(33)	46
Net income from discontinued operations, net of tax	—	—	—	6	—	6
Net income	$ 52	$ 3	$ 12	$ 18	$ (33)	$ 52

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MOMENTIVE SPECIALTY CHEMICALS INC.
SIX MONTHS ENDED JUNE 30, 2011
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 1,180	$ —	$ —	$ 1,725	$ (173)	$ 2,732
Cost of sales	955	—	—	1,526	(173)	2,308
Gross profit	225	—	—	199	—	424
Selling, general and administrative expense	64	—	—	107	—	171
Asset impairments	—	—	—	18	—	18
Other operating (income) expense, net	(19)	—	—	6	—	(13)
Operating income	180	—	—	68	—	248
Interest expense, net	35	75	—	19	—	129
Intercompany interest expense (income)	64	(90)	—	26	—	—
Other non-operating (income) expense, net	(36)	—	(1)	35	—	(2)
Income (loss) from continuing operations before income tax, earnings from unconsolidated entities	117	15	1	(12)	—	121
Income tax (benefit) expense	(19)	2	—	20	—	3
Income (loss) from continuing operations before earnings from unconsolidated entities	136	13	1	(32)	—	118
Earnings from unconsolidated entities, net of taxes	8	—	15	—	(17)	6
Net income (loss) from continuing operations	144	13	16	(32)	(17)	124
Net (loss) income from discontinued operations, net of tax	(18)	—	—	20	—	2
Net income (loss)	$ 126	$ 13	$ 16	$ (12)	$ (17)	$ 126

MOMENTIVE SPECIALTY CHEMICALS INC.
SIX MONTHS ENDED JUNE 30, 2010
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (Unaudited)

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 993	$ —	$ —	$ 1,433	$ (223)	$ 2,203
Cost of sales	850	—	—	1,252	(223)	1,879
Gross profit	143	—	—	181	—	324
Selling, general and administrative expense	53	—	—	105	—	158
Push-down of income recovered by owner	(28)	—	—	—	—	(28)
Other operating (income) expense, net	(5)	—	—	2	—	(3)
Operating income	123	—	—	74	—	197
Interest expense, net	48	68	—	19	—	135
Intercompany interest expense (income)	63	(81)	—	18	—	—
Loss on extinguishment of debt	8	—	—	—	—	8
Other non-operating (income) expense, net	(6)	5	—	4	—	3
Income from continuing operations before income tax, earnings from unconsolidated entities	10	8	—	33	—	51
Income tax expense	3	1	—	13	—	17
Income from continuing operations before earnings from unconsolidated entities	7	7	—	20	—	34
Earnings from unconsolidated entities, net of taxes	39	—	13	—	(48)	4
Net income from continuing operations	46	7	13	20	(48)	38
Net (loss) income from discontinued operations, net of tax	(1)	—	—	8	—	7
Net income	$ 45	$ 7	$ 13	$ 28	$ (48)	$ 45

MOMENTIVE SPECIALTY CHEMICALS INC.
JUNE 30, 2011
CONDENSED CONSOLIDATING BALANCE SHEET (Unaudited)

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents (including restricted cash of $0 and $4, respectively)	$ 64	$ —	$ —	$ 132	$ —	$ 196
Short-term investments	—	—	—	6	—	6
Accounts receivable, net	238	—	—	573	—	811
Inventories:						
Finished and in-process goods	153	—	—	193	—	346
Raw materials and supplies	46	—	—	93	—	139
Other current assets	19	—	—	67	—	86
Total current assets	520	—	—	1,064	—	1,584
Other assets						
Other assets	9	39	41	95	(19)	165
	9	39	41	95	(19)	165
Property and equipment, net	514	—	—	809	—	1,323
Goodwill	93	—	—	82	—	175
Other intangible assets, net	62	—	—	54	—	116
Total assets	$ 1,198	$ 39	$ 41	$ 2,104	$ (19)	$ 3,363
Liabilities and (Deficit) Equity						
Current liabilities						
Accounts and drafts payable	$ 186	$ —	$ —	$ 393	$ —	$ 579
Intercompany accounts (receivable) payable	(169)	(42)	—	211	—	—
Debt payable within one year	17	—	—	72	—	89
Intercompany loans (receivable) payable	(36)	—	—	36	—	—
Loans payable to affiliates	2	—	—	—	—	2
Interest payable	13	44	—	2	—	59
Income taxes payable	—	2	—	18	—	20
Accrued payroll and incentive compensation	30	—	—	32	—	62
Other current liabilities	73	—	—	70	—	143
Total current liabilities	116	4	—	834	—	954
Long-term debt	1,143	1,687	—	620	—	3,450
Affiliated long-term debt	80	—	—	20	—	100
Intercompany loans payable (receivable)	1,259	(1,907)	(15)	663	—	—
Long-term pension and post employment benefit obligations	76	—	—	137	—	213
Deferred income taxes	25	2	—	80	—	107
Other long-term liabilities	117	6	—	33	—	156
Advance from affiliates	225	—	—	—	—	225
Total liabilities	3,041	(208)	(15)	2,387	—	5,205
Total Momentive Specialty Chemicals Inc. shareholders (deficit) equity	(1,843)	247	56	(284)	(19)	(1,843)
Noncontrolling interest	—	—	—	1	—	1
Total (deficit) equity	(1,843)	247	56	(283)	(19)	(1,842)
Total liabilities and (deficit) equity	$ 1,198	$ 39	$ 41	$ 2,104	$ (19)	$ 3,363

MOMENTIVE SPECIALTY CHEMICALS INC.
DECEMBER 31, 2010
CONDENSED CONSOLIDATING BALANCE SHEET

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents (including restricted cash of $0 and $6, respectively)	$ 56	$ —	$ —	$ 130	$ —	$ 186
Short-term investments	—	—	—	6	—	6
Accounts receivable, net	115	—	—	412	—	527
Inventories:						
Finished and in-process goods	122	—	—	144	—	266
Raw materials and supplies	35	—	—	74	—	109
Other current assets	31	—	—	48	—	79
Discontinued operations	102	—	—	141	—	243
Total current assets	461	—	—	955	—	1,416
Other assets						
Other assets	6	41	30	73	3	153
Property and equipment, net	497	—	—	770	—	1,267
Goodwill	93	—	—	76	—	169
Other intangible assets, net	62	—	—	70	—	132
Total assets	$ 1,119	$ 41	$ 30	$ 1,944	$ 3	$ 3,137
Liabilities and (Deficit) Equity						
Current liabilities						
Accounts and drafts payable	$ 137	$ —	$ —	$ 277	$ —	$ 414
Intercompany accounts (receivable) payable	(140)	(46)	—	186	—	—
Debt payable within one year	25	—	—	57	—	82
Intercompany loans (receivable) payable	(97)	—	—	97	—	—
Loans payable to affiliates	2	—	—	—	—	2
Interest payable	21	46	—	2	—	69
Income taxes payable	7	—	—	17	—	24
Accrued payroll and incentive compensation	28	—	—	37	—	65
Other current liabilities	90	—	—	60	—	150
Discontinued operations	37	—	—	22	—	59
Total current liabilities	110	—	—	755	—	865
Long-term debt	1,152	1,687	—	649	—	3,488
Affiliated long-term debt	80	—	—	20	—	100
Intercompany loans payable (receivable)	1,352	(1,887)	(15)	550	—	—
Long-term pension and post employment benefit obligations	83	—	—	125	—	208
Deferred income taxes	35	2	—	73	—	110
Other long-term liabilities	104	6	—	50	—	160
Advance from affiliates	225	—	—	—	—	225
Total liabilities	3,141	(192)	(15)	2,222	—	5,156
Total Momentive Specialty Chemicals Inc. shareholders (deficit) equity	(2,022)	233	45	(281)	3	(2,022)
Noncontrolling interest	—	—	—	3	—	3
Total (deficit) equity	(2,022)	233	45	(278)	3	(2,019)
Total liabilities and (deficit) equity	$ 1,119	$ 41	$ 30	$ 1,944	$ 3	$ 3,137

MOMENTIVE SPECIALTY CHEMICALS INC.
SIX MONTHS ENDED JUNE 30, 2011
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows (used in) provided by operating activities	$ (97)	$ —	$ 1	$ 53	$ —	$ (43)
Cash flows provided by (used in) investing activities						
Capital expenditures	(46)	—	—	(25)	—	(71)
Change in restricted cash	—	—	—	2	—	2
Funds remitted to unconsolidated affiliates, net of dividend	5	—	4	(5)	(5)	(1)
Dividend from subsidiary	51	—	—	—	(51)	—
Proceeds from sale of business, net of cash transferred	173	—	—	—	—	173
Proceeds from the return of capital from subsidiary	33	—	—	—	(33)	—
	216	—	4	(28)	(89)	103
Cash flows (used in) provided by financing activities						
Net short-term debt repayments	(8)	—	—	—	—	(8)
Borrowings of long-term debt	144	—	—	265	—	409
Repayments of long-term debt	(153)	—	—	(298)	—	(451)
Common stock dividends paid	—	(4)	(5)	(47)	56	—
Net intercompany loan (repayments)borrowings	(93)	4	—	89	—	—
Long-term debt and credit facility financing fees	(1)	—	—	—	—	(1)
Return of capital to parent	—	—	—	(33)	33	—
	(111)	—	(5)	(24)	89	(51)
Effect of exchange rates on cash and cash equivalents	—	—	—	3	—	3
Increase in cash and cash equivalents	8	—	—	4	—	12
Cash and cash equivalents (unrestricted) at beginning of period	56	—	—	124	—	180
Cash and cash equivalents (unrestricted) at end of period	$ 64	$ —	$ —	$ 128	$ —	$ 192

MOMENTIVE SPECIALTY CHEMICALS INC.
SIX MONTHS ENDED JUNE 30, 2010
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (Unaudited)

	Momentive Specialty Chemicals Inc.	Subsidiary Issuers	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows (used in) provided by operating activities	$ (232) (a)	$ 12	$ (5)	$ 117 (a)	$ —	$ (108)
Cash flows provided by (used in) investing activities						
Capital expenditures	(23)	—	—	(24)	—	(47)
Capitalized interest	—	—	—	(1)	—	(1)
Purchases of debt securities	—	—	—	(2)	—	(2)
Change in restricted cash	—	—	—	4	—	4
Proceeds from the return of capital from subsidiary	190 (a)	—	—	—	(190)	—
Deconsolidation of variable interest entities	—	—	—	(4)	—	(4)
Dividend from subsidiary	11	—	3	—	(11)	3
Proceeds from the sale of assets	6	—	—	6	—	12
	184	—	3	(21)	(201)	(35)
Cash flows provided by (used in) financing activities						
Net short-term debt (repayments) borrowings	(4)	—	—	4	—	—
Borrowings of long-term debt	130	993	—	256	—	1,379
Repayments of long-term debt	(939)	—	—	(283)	—	(1,222)
Return of capital to parent	—	—	—	(190) (a)	190	—
Net intercompany loan borrowings (repayments)	853	(973)	5	115	—	—
Long-term debt and credit facility financing fees	(1)	(24)	—	(8)	—	(33)
Payments of dividends on common stock	—	(8)	(3)	—	11	—
	39	(12)	2	(106)	201	124
Effect of exchange rates on cash and cash equivalents	—	—	—	(4)	—	(4)
Decrease in cash and cash equivalents	(9)	—	—	(14)	—	(23)
Cash and cash equivalents (unrestricted) at beginning of period	22	—	—	113	—	135
Cash and cash equivalents (unrestricted) at end of period	$ 13	$ —	$ —	$ 99	$ —	$ 112

(a) In both March and June 2010, Momentive Specialty Chemicals Inc. contributed receivables of $100 to a non-guarantor subsidiary as capital contributions, resulting in a non-cash transaction. During the six months ended June 30, 2010, the non-guarantor subsidiary sold $200 of the contributed receivables to affiliates of Apollo for net cash of $190. 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollar amounts in millions)

The following commentary should be read in conjunction with the audited financial statements and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Annual Report on Form 10-K.

Within the following discussion, unless otherwise stated, "the quarter ended June 30, 2011" and "the second quarter of 2011" refer to the three months ended June 30, 2011, and "the quarter ended June 30, 2010" and "the second quarter of 2010" refer to the three months ended June 30, 2010.

Forward-Looking and Cautionary Statements

Certain statements in this report, including without limitation, certain statements made under the caption "Overview and Outlook," are forward-looking statements within the meaning of and made pursuant to the safe harbor provisions 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, our management may from time to time make oral forward-looking statements. All statements, other than statements of historical facts, are forward-looking statements. Forward-looking statements may be identified by the words "believe," "expect," "anticipate," "project," "plan," "estimate," "may," "will," "could," "should," "seek" or "intend" and similar expressions. Forward-looking statements reflect our current expectations and assumptions regarding our business, the economy and other future events and conditions and are based on currently available financial, economic and competitive data and our current business plans. Actual results could vary materially depending on risks and uncertainties that may affect our operations, markets, services, prices and other factors as discussed in the Risk Factors section of this report and our other filings with the Securities and Exchange Commission (the "SEC"). While we believe our assumptions are reasonable, we caution you against relying on any forward-looking statements as it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, a weakening of global economic and financial conditions, interruptions in the supply of or increased cost of raw materials, changes in governmental regulations and related compliance and litigation costs, difficulties with the realization of cost savings in connection with our strategic initiatives, including transactions with our affiliate, Momentive Performance Materials Inc., pricing actions by our competitors that could affect our operating margins, the impact of our substantial indebtedness, our failure to comply with financial covenants under our credit facilities or other debt, and the other factors listed in the Risk Factors section of this report and in our other SEC filings. For a more detailed discussion of these and other risk factors, see the Risk Factors section in our most recent Annual Report on Form 10-K, our other filings made with the SEC and this report. All forward-looking statements are expressly qualified in their entirety by this cautionary notice. The forward-looking statements made by us speak only as of the date on which they are made. Factors or events that could cause our actual results to differ may emerge from time to time. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Overview and Outlook

Business Overview

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 serve, 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, Louisiana Pacific, Owens Corning, PPG Industries, Sumitomo, Valspar and Weyerhaeuser.

Momentive Combination and Shared Services Agreement

In October 2010, our parent, MSC Holdings and Momentive Performance Materials Holdings Inc., the parent company of Momentive Performance Materials Inc. ("MPM"), became subsidiaries of a newly formed holding company, Momentive Holdings. We refer to this transaction as the "Momentive Combination". In connection with the closing of the Momentive Combination, we entered into a shared services agreement with MPM, as amended on March 17, 2011, 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, technology development, 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. We expect to achieve a total of approximately $58 of cost savings in connection with the Shared Services Agreement and recent divestitures. Through June 30, 2011, we realized $27 of these savings on a run-rate basis, and anticipate fully realizing the remaining anticipated savings over the next 18 to 24 months.

Business Strategy

We believe that we have opportunities for growth through the following strategies:

- *Develop and Market New Products.* We will continue to expand our product offerings through research and development initiatives and research partnership formations with third parties. Through these innovation initiatives we will continue to create new generations of products and services which will drive revenue and earnings growth.

- *Expand Our Global Reach in Faster Growing Regions.* We intend to continue to grow internationally by expanding our product sales to our customers around the world. Specifically, we are focused on growing our business in markets in the high growth regions of Asia-Pacific, Eastern Europe, Latin America, India and the Middle East, where the usage of our products is increasing. Furthermore, by consolidating sales and distribution infrastructures via the Momentive Combination, we expect to accelerate the penetration of our high-end, value-added products into markets, thus further leveraging our research and applications efforts and existing global footprint.

- *Increase Shift to High-Margin Specialty Products.* We continue to proactively manage our product portfolio with a focus on specialty, high-margin applications and the reduction of our exposure to lower-margin products. As a result of this capital allocation strategy and strong end market growth underlying these specialty segments including energy and oilfield applications, they will continue to be a larger part of our broader portfolio. Consequently, we have witnessed a strong organic improvement in our profitability profile as a whole over the last several years which we believe will continue.

- *Continue Portfolio Optimization and Pursue Targeted Add-On Acquisitions and Joint Ventures.* The specialty chemicals and materials market is comprised of numerous small and mid-sized specialty companies focused on niche markets, as well as smaller divisions of large chemical conglomerates. As a large manufacturer of specialty chemicals and materials with leadership in the production of thermosets, we have a significant advantage in pursuing add-on acquisitions and joint ventures in areas that allow us to build upon our core strengths, expand our product, technology and geographic portfolio, and better serve our customers. We believe we can consummate a number of these acquisitions at relatively attractive valuations due to the scalability of our existing global operations and deal-related synergies. In addition, we have and will continue to monitor the strategic landscape for opportunistic divestments consistent with our broader specialty strategy. For example, we recently completed the sale of our global IAR business and CCR business.

- *Capitalize on the Momentive Combination to Grow Revenues and Realize Operational Efficiencies.* We believe the Momentive Combination will present opportunities to increase our revenues by leveraging each of ours and MPM’s respective global footprints and technology platforms. For example, in Asia, we anticipate being able to accelerate the penetration of our products. Further, we anticipate the Momentive Combination will provide opportunities to streamline our business and reduce our cost structure.

- *Generate free cash flow and deleverage.* We expect to generate strong free cash flow due to our size, advantaged cost structure, and reasonable ongoing capital expenditure requirements. Furthermore, we have demonstrated expertise in managing our working capital, which has been further augmented as a result of our increased sales from the Momentive Combination. Our strategy of generating significant free cash flow and deleveraging is complimented by our long-dated capital structure with no near-term maturities and strong liquidity position. This financial flexibility allows us to prudently balance deleveraging with our focus on growth and innovation.

Change in Reportable Segments

In the first quarter of 2011, we completed the sale of the IAR business and moved the oversight and management of the coatings reporting unit into the Epoxy and Phenolic Resins Division, which was renamed the Epoxy, Phenolic and Coating Resins Division. These organizational and internal reporting changes caused the Company to re-evaluate its reportable segments. As a result of these changes, effective in the first quarter of 2011, the results of the Company’s coatings reporting unit, which were previously reported in the Coatings segment, are included within the Epoxy, Phenolic and Coating Resins segment. The prior periods have been recast for comparability purposes. In addition, the Company has renamed its Formaldehyde and Forest Products Resins segment to Forest Products Resins. No changes were made to the product lines that comprise this segment.

The Company's business segments are based on the products that the Company offers and the markets that it serves. At June 30, 2011, the Company had two reportable segments: Epoxy, Phenolic and Coating Resins and Forest Products Resins. A summary of the major products of the Company's reportable segments follows:

- Epoxy, Phenolic and Coating Resins: epoxy specialty resins, oil field products, versatic acids and derivatives, basic epoxy resins and intermediates, phenolic specialty resins and molding compounds, polyester resins, acrylic resins and vinylic resins

- Forest Products Resins: forest products resins and formaldehyde applications

In the second quarter of 2011, the Company sold its North American coatings and composites resins ("CCR") business to PCCR USA, Inc. ("PCCR"), a subsidiary of Investindustrial, a European investment group. The CCR business was previously included in the Coatings segment in 2010 and the Epoxy, Phenolic and Coating Resins segment beginning in 2011 as a result of the change in the Company's reportable segments discussed above. The CCR business is reported as a discontinued operation for all periods presented.

First Half 2011 Overview

- Net sales increased 24% in the first half of 2011 as compared to the first half of 2010, due primarily to slightly increasing demand in the industrial, automotive, durable goods markets. Net sales also increased due to raw material-driven price increases to our customers.

- We experienced significantly higher profitability during the first half of 2011, as operating income increased $51, or 26% and segment EBITDA increased $96, or 35% in the first half of 2011 as compared to the first half of 2010. This increase was primarily due to the increase in volumes across several of our businesses and the pass through of raw material-driven price increases.

- In January 2011, we completed the sale of our global IAR business and in May 2011, we completed the sale of our North American-based Coatings and Composites business. Both divestitures will increase our profitability margins as a whole and will allow us to focus our financial resources towards growing specialty applications within our portfolio.

- In the first half of 2011, we realized approximately $14 in cost savings as a result of the shared services agreement with MPM. As of June 30, 2011, we have approximately $43 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 and recently completed divestitures.

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

Recently completed efforts include:

- Construction of a new manufacturing production line at our Cleburne, Texas facility within our oil field business, which began operations in the fourth quarter of 2010. The new production line provides resin coated proppants to fracturing service companies and operators in the oil and gas industry.

- Construction of a versatics manufacturing facility in Korea, which began operations in the second quarter of 2011. The new facility produces Cardura® monomers, a versatic acid derivative, used as a key raw material in environmentally advanced paints and coatings.

Future growth initiatives include:

- Construction of a new manufacturing production line at our Brady, Texas facility within our oil field business which is expected to be operational in the third quarter of 2011. The new production line will provide resin coated proppants to fracturing service companies and operators in the oil and gas industry.

- 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.

- A joint venture to construct a phenolic specialty resins manufacturing facility in China, which is expected to be operational by the second half of 2012. The new facility will produce a full range of specialty novolac and resole phenolic resins used in a diverse range of applications, including refractories, friction and abrasives to support the growing auto and consumer markets in China.

Short-term Outlook

Our business is impacted by general economic and industrial conditions, including housing starts, automotive builds, oil and natural gas drilling activity and general industrial production. Our business has both geographic and end market diversity which often reduces the impact of any one of these factors on our overall performance.

Although we previously anticipated continued modest economic recovery in 2011 versus 2010 to result in slightly higher volumes in many of our businesses, due to recent worldwide economic developments, the short-term outlook for the remainder of 2011 for our business is extremely difficult to predict. At this time, we believe the continued turmoil in the global financial markets, downgrade in the U.S. debt credit rating, ongoing debt crisis in Europe, tightness in the Chinese credit markets and lack of consumer confidence could lead to softness in demand for products within both of our reportable segments in the second half of 2011, particularly those within industrial, housing and automotive markets. It remains unclear to what extent these factors will ultimately impact the overall demand for our products. An additional economic downturn or postponement of modest economic recovery would have an adverse impact on our business and results of operations.

If the global economic environment weakens 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.

We remain optimistic about our position in the global markets when they do recover to more stable conditions.

We expect long-term raw material cost volatility to continue because of price movements of key feedstocks. To help mitigate raw material volatility, we have purchase and sale contracts and commercial arrangements 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. We anticipate that raw material volatility will stabilize for the remainder of 2011, and that the pricing actions we took in late 2010 and in 2011 will continue to compensate for the increase in raw materials and energy costs experienced in the first half of 2011, which should benefit our operating cash flows in the second half of 2011.

Matters Impacting Comparability of Results

Our unaudited Condensed 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.

Raw materials comprise 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 about half of our total raw material costs. Fluctuations in energy costs, such as volatility in the price of crude oil and related petrochemical products, as well as the cost of natural gas have historically caused volatility in our raw material and utility costs. The average prices of phenol, methanol and urea increased by approximately 15%, 23% and 37%, respectively, in the first half of 2011 compared to the first half of 2010. Passing through raw material price changes to customers can result in significant variances in sales comparisons from year to year.

Results of Operations

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net sales	$ 1,438	$ 1,156	$ 2,732	$ 2,203
Cost of sales	1,223	969	2,308	1,879
Gross profit	215	187	424	324
Selling, general & administrative expense	87	85	171	158
Push-down of income recovered by owner	—	(28)	—	(28)
Asset impairments	18	—	18	—
Other operating income, net	(18)	(2)	(13)	(3)
Operating income	128	132	248	197
Interest expense, net	65	72	129	135
Loss on extinguishment of debt	—	—	—	8
Other non-operating expense (income), net	—	3	(2)	3
Total non-operating expense	65	75	127	146
Income before income tax and earnings from unconsolidated entities	63	57	121	51
Income tax expense	—	13	3	17
Income before earnings from unconsolidated entities	63	44	118	34
Earnings from unconsolidated entities, net of taxes	3	2	6	4
Net income from continuing operations	66	46	124	38
Net (loss) income from discontinued operations, net of taxes	(3)	6	2	7
Net income	$ 63	$ 52	$ 126	$ 45

Three Months Ended June 30, 2011 vs. 2010

Sales

In the second quarter of 2011, net sales increased by $282, or 24%, compared with the second quarter of 2010. Volume increases across several of our product lines, including our oil field, phenolic specialty resins, base epoxy, and formaldehyde businesses and portions of our epoxy specialty business positively impacted sales by $46. These increases were primarily a result of improving demand in the industrial and durable goods markets and in oil and natural gas drilling activity but were offset by decreases in volumes in our European forest products business due to continued competitive pressures and the loss of a large customer in this business. The pass through of raw material-driven price increases in virtually all businesses positively impacted sales by $137. In addition, foreign currency translation positively impacted sales by $99, primarily as a result of the weakening of the U.S. dollar against the euro, Brazilian real, Australian dollar and Canadian dollar in the second quarter of 2011 compared to the second quarter of 2010.

Gross Profit

In the second quarter of 2011, gross profit increased by $28 compared with the second quarter of 2010 as a result of the increase in net sales as discussed above, but was partially offset by raw material price increases that were not fully passed on to customers.

Operating Income

In the second quarter of 2011, operating income decreased by $4 compared with the second quarter of 2010. The $28 impact of additional gross profit as discussed above was offset by $28 of push-down income recorded by the Company in the second quarter of 2010, related to insurance recoveries associated with previous legal settlements that did not recur in the second quarter of 2011. Selling, general and administrative costs increased by $2 due to higher compensation costs and integration costs related to the Momentive Combination. In the second quarter of 2011, we recorded asset impairments of $18 against certain long-lived assets within our Forest Products Resins segment. Other operating income, net increased by $16 primarily due to a $21 gain recognized in the second quarter of 2011 related to a compensation payment paid to us by a customer as consideration to terminate an operator agreement. This gain was partially offset by additional foreign exchange transaction losses, due to the weakening of the U.S. dollar against certain foreign currencies.

Non-Operating Expense

In the second quarter of 2011, total non-operating expense decreased by $10 compared with the second quarter of 2010, primarily due to lower interest rates on certain of our outstanding long-term debt due to the maturity of our January 2007 interest rate swap. Other non-operating expense, net decreased by $3 due to a decrease in foreign exchange transaction losses.

Income Tax (Benefit) Expense

In the second quarter of 2011, income tax expense decreased by $13 compared to the second quarter of 2010. This change is primarily due to a decrease in pre-tax income in certain foreign jurisdictions despite a significant increase in pre-tax income in the U.S. Income tax expense relates primarily to income from foreign operations, with tax on the profits in the U.S. being offset by reducing the valuation allowance on deferred tax assets expected to be utilized.

Six Months Ended June 30, 2011 vs. 2010

Sales

In the first half of 2011, net sales increased by $529, or 24%, compared with the first half of 2010. Volume increases across several of our product lines, including our oil field, phenolic specialty resins, base epoxy and formaldehyde businesses positively impacted sales by $125. These increases were primarily a result of improving demand in the industrial and durable goods markets and in oil and natural gas drilling activity. These increases were offset by decreases in volumes in our European forest products business due to the loss of a large customer in this business and the effects of natural disasters that adversely impacted demand for products within our Australia and New Zealand forest products business. The pass through of raw material-driven price increases in virtually all businesses positively impacted sales by $295. In addition, foreign currency translation positively impacted sales by $109, primarily as a result of the weakening of the U.S. dollar against the euro, Brazilian real, Australian dollar and Canadian dollar in the first half of 2011.

Gross Profit

In the first half of 2011, gross profit increased by $100 compared with the first half of 2010 as a result of the increase in net sales as discussed above.

Operating Income

In the first half of 2011, operating income increased by $51 compared with the first half of 2010. The primary driver of the increase was the increase in gross profit, as discussed above. This increase was partially offset by an increase in Selling, general and administrative costs of $13 due to higher compensation costs and integration costs related to the Momentive Combination. In addition, $28 of push-down income recorded by the Company in the second quarter of 2010, related to insurance recoveries associated with previous legal settlements did not recur in the second quarter of 2011. In the second quarter of 2011, we recorded asset impairments of $18 against certain long-lived assets within our Forest Products Resins segment. Other operating income, net increased by $10 primarily due to a $21 gain recognized in the second quarter of 2011 related to a compensation payment paid by a customer as consideration to terminate an operator agreement. This gain was partially offset by additional foreign exchange transaction losses, due to the weakening of the U.S. dollar against certain foreign currencies.

Non-Operating Expense

In the first half of 2011, total non-operating expense decreased by $19 compared with the first half of 2010. Approximately $9 of the decrease is due to deferred financing fees written-off and fees incurred related to refinancing transactions in the first half of 2010 that did not recur in the first half of 2011. Interest expense, net decreased by $6 due to lower effective interest rates on certain of our outstanding long-term debt due to the maturity of our January 2007 interest rate swap. Other non-operating expense, net decreased by $5, from expense of $3 to income of $2, primarily due to decreased foreign exchange transaction losses.

Income Tax Expense

In the first half of 2011, income tax expense decreased by $14 compared to the first half of 2010 primarily due to a decrease in pre-tax income in certain foreign jurisdictions despite a significant increase in pre-tax income in the U.S. Income tax expense relates primarily to income from foreign operations, with tax on the profits in the U.S. being offset by reducing the valuation allowance on deferred tax assets expected to be utilized.

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, other income and 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 results and allocate capital resources among segments. Segment EBITDA is also the profitability measure used to set management and executive incentive compensation goals.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net Sales to Unaffiliated Customers[(1)(2)]:				
Epoxy, Phenolic and Coating Resins	$ 972	$ 735	$ 1,818	$ 1,395
Forest Products Resins	466	421	914	808
	$ 1,438	$ 1,156	$ 2,732	$ 2,203
Segment EBITDA[(2)]:				
Epoxy, Phenolic and Coating Resins	$ 157	$ 120	$ 307	$ 205
Forest Products Resins	50	50	95	92
Corporate and Other	(18)	(15)	(35)	(26)

(1) Intersegment sales are not significant and, as such, are eliminated within the selling segment.
(2) The Company changed its reportable segments in the first quarter of 2011. Prior period balances have been recast to conform to the Company’s current reportable segments and to exclude the results of the CCR business, which is reported as a discontinued operation for all periods presented.

Three Months Ended June 30, 2011 vs. Three Months Ended June 30, 2010 Segment Results

Following is an analysis of the percentage change in sales by segment from the three months ended June 30, 2010 to the three months ended June 30, 2011:

	Volume	Price/Mix	Currency Translation	Total
Epoxy, Phenolic and Coating Resins	8 %	14%	10%	32%
Forest Products Resins	(3)%	7%	7%	11%

Epoxy, Phenolic and Coating Resins

Net sales in the second quarter of 2011 increased by $237, or 32%, when compared to the second quarter of 2010. Volume increases positively impacted sales by $58. Volumes increased primarily in our oil field, phenolic specialty resins and base epoxy businesses and in certain portions of our epoxy specialty business. The volume increases in our phenolic specialty resins, base epoxy and epoxy specialty businesses were attributable to general improvement within industrial markets. Volume increases in our oil field business was due primarily to increased demand as a result of increased oil and natural gas horizontal drilling activity. The pass through of higher raw material costs in virtually all businesses, coupled with continued capacity shortages in the market for our monomers business and positive mix in our base epoxy business resulted in positive pricing impacts of $108. The impact of foreign exchange translation on net sales resulted in positive impact of $71 due to the weakening of the U.S. dollar against the euro in the second quarter of 2011 compared to the second quarter of 2010.

Segment EBITDA in the second quarter of 2011 increased by $37 to $157 compared to the second quarter of 2010. The increase is primarily due to the volume, pricing and foreign exchange translation impacts discussed above. Segment EBITDA in the second quarter of 2011 was positively impacted by $9 for insurance proceeds received related to unplanned production line outages at certain facilities within our base epoxy business in the fourth quarter of 2010 and January 2011.

Forest Products Resins

Net sales in the second quarter of 2011 increased by $45, or 11%, when compared to the second quarter of 2010. A decrease in volumes negatively impacted sales by $12, driven partially by customers' rapid restocking of inventory levels in the second quarter of 2010 within our North American forest products resins businesses in anticipation of slight improvement in housing and construction markets, which occurred to a lesser extent in the second quarter of 2011. In addition, we experienced decreases in volumes in our European forest products business due to continued competitive pressures and the loss of a large customer in this business. These decreases were partially offset by increased volumes in our North American formaldehyde business increased due to improving industrial and consumer markets after the global economic downturn which began in late 2008 and continued into 2010. Higher raw material prices passed through to customers, partially offset by the impacts of product mix in our formaldehyde business, led to pricing increases of $29. In addition, we experienced favorable currency translation of $28 due the weakening of the U.S. dollar against the euro, Brazilian real, Australian dollar and Canadian dollar in the second quarter of 2011 compared to the second quarter of 2010.

Segment EBITDA in the second quarter of 2011 was flat when compared to the second quarter of 2010. Segment EBITDA increased due to the pricing and foreign exchange translation impacts discussed above, but was offset by a decrease in volumes as discussed above and increased raw material costs that were not fully passed on to customers.

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 $3 to $18 compared to the second quarter of 2010, primarily due to increased compensation costs and higher unallocated foreign exchange transaction losses.

Six Months Ended June 30, 2011 vs. Six Months Ended June 30, 2010 Segment Results

Following is an analysis of the percentage change in sales by segment from the six months ended June 30, 2010 to the six months ended June 30, 2011:

	Volume	Price/Mix	Currency Translation	Total
Epoxy, Phenolic and Coating Resins	9%	16%	5%	30%
Forest Products Resins	—%	8%	5%	13%

Epoxy, Phenolic and Coating Resins

Net sales in the first half of 2011 increased by $423, or 30%, when compared to the first half of 2010. Volume increases positively impacted sales by $125 as the global economy continued to stabilize. Volumes increased primarily in our oil field, phenolic specialty resins, and base epoxy businesses, and in certain portions of our epoxy specialty business. The volume increases in our phenolic specialty resins, base epoxy and epoxy specialty businesses were attributable to general improvement within industrial markets. Volume increases in our oil field business was due primarily to increased demand as a result of increased oil and natural gas horizontal drilling activity. The pass through of higher raw material costs in virtually all businesses, coupled with continued capacity shortages in the market for our monomers business and positive mix in our base epoxy business resulted in positive pricing impacts of $227. The impact of foreign exchange translation on net sales resulted in positive impacts of $71 due to the weakening of the U.S. dollar against the euro in the first half of 2011 compared to the first half of 2010.

Segment EBITDA in the first half of 2011 increased by $102 to $307 compared to the first half of 2010. The increase is primarily due to the volume, pricing and foreign exchange translation impacts discussed above. Segment EBITDA in the first half of 2011 was negatively impacted approximately $9 due to unplanned production line outages at certain facilities within our base epoxy business, net of insurance proceeds received related to the production outages.

Forest Products Resins

Net sales in the first half of 2011 increased by $106, or 13%, when compared to the first half of 2010. The impact of changes in volumes on net sales was virtually flat. Volumes in our North American formaldehyde business increased due to improving industrial and consumer markets after the global economic downturn which began in late 2008 and continued into 2010. This increase was offset by decreases in volumes in our European forest products business due to the loss of a large customer in this business and the effects of natural disasters that adversely impacted demand for products within our Australia and New Zealand forest products business. Higher raw material prices passed through to customers, partially offset by the impacts of product mix in our formaldehyde business, led to pricing increases of $68. In addition, we experienced favorable currency translation of $38 due the weakening of the U.S. dollar against the euro, Brazilian real, Australian dollar and Canadian dollar in the first half of 2011 compared to the first half of 2010.

Segment EBITDA in the first half of 2011 increased by $3 to $95 compared to the first half of 2010. The increase is primarily due to the volume, pricing and foreign exchange translation impacts discussed above, but was partially offset by increased raw material costs that were not fully passed on to customers.

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 $9 to $35 compared to the first half of 2010, primarily due to increased compensation costs and higher unallocated foreign exchange transaction losses.

Reconciliation of Segment EBITDA to Net Income:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Segment EBITDA:				
Epoxy, Phenolic and Coating Resins	$ 157	$ 120	$ 307	$ 205
Forest Products Resins	50	50	95	92
Corporate and Other	(18)	(15)	(35)	(26)
Reconciliation:				
Items not included in Segment EBITDA				
Push-down of income recovered by owner	—	28	—	28
Asset impairments and other non-cash charges	(21)	(4)	(21)	(5)
Unusual items:				
Gain on divestiture of assets	2	2	1	1
Net (loss) income from discontinued operations	(3)	6	2	7
Other	4	(11)	(7)	(16)
Total unusual items	3	(3)	(4)	(8)
Total adjustments	(18)	21	(25)	15
Loss on extinguishment of debt	—	—	—	(8)
Interest expense, net	(65)	(72)	(129)	(135)
Income tax benefit (expense)	—	(13)	(3)	(17)
Depreciation and amortization	(43)	(39)	(84)	(81)
Net income	$ 63	$ 52	$ 126	$ 45

Items not included in Segment EBITDA

Non-cash charges primarily represent stock-based compensation expense and unrealized derivative and foreign exchange gains and losses.

Not included in Segment EBITDA are certain non-cash and other income or expenses that are deemed by management to be unusual in nature. For the three and six months ended June 30, 2011, these items include asset impairments, business optimization expenses, retention program costs and realized foreign exchange gains and losses, offset by a gain recognized on the termination of an operator agreement with a customer. For the three and six months ended June 30, 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 the six months ended June 30, 2010, these items also consist of financing fees incurred as part of refinancing transaction in the first half of 2010, partially offset by insurance settlements related to previous litigation matters.

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 June 30, 2011, we had $3,539 of unaffiliated debt, including $89 of short-term debt and capital lease maturities. In addition, at June 30, 2011, we had $569 in liquidity including $192 of unrestricted cash and cash equivalents, $200 of borrowings available under our senior secured revolving credit facilities and $177 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 June 30, 2011 was $717, an increase of $229 from December 31, 2010. The increase was a result of higher volumes and production and increasing raw material costs. We were able to fund the increase in working capital through our existing liquidity as well as through the proceeds from the sale of the IAR business. To minimize the impact of net working capital on cash flows, we continue to negotiate and contractually extend payment terms whenever possible. 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. We anticipate that raw material volatility will generally stabilize for the remainder of 2011 and that the pricing actions we took in late 2010 and in 2011 will compensate for the increase in raw materials and energy costs experienced in the first half of 2011, which should benefit our operating cash flow in the second half of 2011.

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 June 30, 2011 the borrowings outstanding were $0.

Apollo Financing Commitment

Certain affiliates of Apollo have agreed to make a $200 investment in the Company. Certain affiliates of Apollo entered into a commitment letter with the Company pursuant to which they committed to purchase $200 in preferred units and warrants to purchase 28,785,935 common units of Momentive 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 Apollo Term Loan will mature on December 31, 2011. 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 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.

We feel that we are favorably positioned to maintain adequate liquidity through the remainder of 2011 and the foreseeable future to fund our ongoing 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.

Following are highlights from our unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30:

	2011	2010
(Uses) sources of cash:		
Operating activities	$ (43)	$ (108)
Investing activities	103	(35)
Financing activities	(51)	124
Effect of exchange rates on cash flow	3	(4)
Net change in cash and cash equivalents	$ 12	$ (23)

Operating Activities

In the first half of 2011, operations used $43 of cash. Net income of $126 included $87 of net non-cash items, of which $86 was for depreciation and amortization. Working capital (defined as accounts receivable and inventories less accounts and drafts payable) used $163 which was driven by higher sales volumes and increased sales pricing driven by raw material price increases. Changes in other assets and liabilities and income taxes payable used $93 due to the payout of prior year incentive compensation programs and the timing of when items were expensed versus paid.

In the first half of 2010, operations used $108 of cash. Net income of $45 included $75 of net non-cash and non-operating expense items, of which $28 was for the non-cash pushdown of the recovery of 2008 owner expense, offset by $86 for depreciation and amortization. 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 $228 due primarily to increased accounts receivable, which resulted from the higher sales volumes and increased pricing. The impact of increases in inventory and accounts payable from higher production volumes and increasing raw material costs substantially offset each other.

Investing Activities

In the first half of 2011, investing activities provided $103. We generated cash of $173 from the sale of our IAR and CCR businesses, and spent $71 for capital expenditures, which primarily relates to plant expansions and improvements.

In the first half of 2010, investing activities used $35. We spent $48 for capital expenditures (including capitalized interest). Of the $48 in capital expenditures, approximately $9 relates to our productivity savings initiatives while the remaining amount relates primarily to plant expansions and improvements. We used cash of $2 to purchase marketable securities and generated $12 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 a new accounting standard for consolidation of variable interest entities.

Financing Activities

In the first half of 2011, financing activities used $51. This consisted of net long-term debt repayments and credit facility fees of $43 and net-short term debt repayments of $8.

In the first half of 2010, financing activities provided $124. Net long-term debt borrowings of $157 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 and pay-down of our revolving line of credit as part of refinancing transactions in the first half of 2010. $33 was used to pay for financing fees related to these refinancing transactions and the extension of the revolving line of credit facility.

Covenant Compliance

The instruments that govern our indebtedness contain, among other 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 our 8.875% Senior Secured Notes and Second-Priority Senior Secured 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 last 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 certain non-recurring items. Adjusted EBITDA is calculated on a pro-forma basis, and also includes expected future cost savings from business optimization programs, including those related to acquisitions, including the Hexion Formation, and other synergy and productivity programs. As we are highly leveraged, we believe that including the supplemental adjustments that are made to calculate Adjusted EBITDA provides additional information to investors about our ability to comply with our financial covenants and to obtain additional debt in the future. Adjusted EBITDA and Fixed Charges are not defined terms under GAAP. Adjusted EBITDA is not a measure of financial condition, liquidity or profitability, and should not be considered as an alternative to net income (loss) determined in accordance with GAAP or operating cash flows determined in accordance with GAAP. Additionally, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not take into account certain items such as interest and principal payments on our indebtedness, depreciation and amortization expense (because we use capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue), working capital needs, tax payments (because the payment of taxes is part of our operations, it is a necessary element of our costs and ability to operate), non-recurring expenses and capital expenditures. Fixed Charges should not be considered an alternative to interest expense.

As of June 30, 2011, we were in compliance with all financial covenants that govern our senior secured credit facilities, including our senior secured debt to Adjusted EBITDA ratio. 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.

	June 30, 2011 LTM Period
Reconciliation of Net Income to Adjusted EBITDA	
Net income	$ 295
Income taxes	21
Loss on extinguishment of debt	22
Interest expense, net	270
Depreciation and amortization	167
EBITDA	775
Adjustments to EBITDA:	
Push-down of income recovered by owner [1]	(135)
Asset impairments and other non-cash charges[2]	21
Unusual items:	
Loss on divestiture of assets	3
Net loss from discontinued operations [3]	8
Business realignments [4]	19
Other [5]	27
Total unusual items	57
Productivity program savings [6]	9
Savings from shared services agreement[7]	43
Adjusted EBITDA	$ 770
Fixed charges [8]	$ 242
Ratio of Adjusted EBITDA to Fixed Charges [9]	3.18

(1) Represents the non-cash push-down of insurance recoveries by our owner related to the $200 termination settlement payment that was pushed down and treated as an expense of the Company in 2008.

(2) Represents asset impairments, stock-based compensation and unrealized foreign exchange and derivative activity.

(3) Represents the results of the IAR business and CCR 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, and certain intercompany or non-operational realized foreign currency activity.

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

(7) Primarily represents pro forma impact of expected savings from the shared services agreement with MPM in conjunction with the

Momentive Combination.

(8) Reflects pro forma interest expense based on interest rates at July 18, 2011 as if the Company's refinancings in November 2010 had taken place at the beginning of the period.

(9) We are required to have an Adjusted EBITDA to Fixed Charges ratio of greater than 2.0 to 1.0 to be able to incur additional indebtedness under our indenture for the Second Priority Senior Secured Notes. As of June 30, 2011, the Company was able to satisfy this test and incur additional indebtedness under this indenture.

Recently Issued Accounting Standards

Newly Adopted Accounting Standards

There were no newly issued accounting standards in the first half of 2011 applicable to the Company's unaudited Condensed Consolidated Financial Statements.

Newly Issued Accounting Standards

In June 2011, the FASB issued *Accounting Standards Update No. 2011-05: Comprehensive Income* (“ASU 2011-05”). ASU 2011-05 amends current presentation guidance by eliminating the option for an entity to present the components of comprehensive income as part of the statement of changes in stockholder's equity and requires presentation of comprehensive income in a single continuous financial statement or in two separate but consecutive financial statements. The amendments in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 will be effective for the Company on January 1, 2012. The Company is currently assessing the impact of ASU 2011-05 to the presentation of its Statement of Comprehensive Income within its unaudited Condensed Consolidated Financial Statements.

Critical Accounting Estimates

While the Company continues to remain in full valuation allowance against our deferred income tax assets in various taxing jurisdictions as of June 30, 2011, due to the current and continued growth of earnings in these jurisdictions, it is reasonably possible that the company could release a portion of these valuation allowances to income over the next 12 months as a result of positive evidence to support the realization of such assets.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material developments during the first half of 2011 on the matters we have previously disclosed about quantitative and qualitative market risk in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4T. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, 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 June 30, 2011.

Changes in Internal Controls

There have been no changes in the Company’s internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II

Item 1. Legal Proceedings

There have been no material developments during the second quarter of 2011 in any of the ongoing legal proceedings that are included in our Annual Report on Form 10-K for the year ended December 31, 2010 and our Quarterly Report on Form 10-Q for the period ended March 31, 2011.

Item 1A. Risk Factors

Following are our revised and restated 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 global economic conditions weaken again, it will negatively impact our business, results of operations and financial condition.

Global economic and financial market conditions, including severe market disruptions in late 2008 and 2009 and the potential for a significant and prolonged global economic downturn, have impacted or could impact our business operations in a number of ways including, but not limited to, the following:

- reduced demand in key customer segments, such as automotive, building, construction and electronics, compared to prior years;
- payment delays by customers and reduced demand for our products caused by customer insolvencies and/or the inability of customers to obtain adequate financing to maintain operations. This situation could cause customers to terminate existing purchase orders and reduce the volume of products they purchase from us and further impact our customers 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;
- insolvency of suppliers or the failure of suppliers to meet their commitments resulting in product delays;
- more onerous credit and commercial terms from our suppliers such as shortening the required payment period for outstanding accounts receivable or reducing or eliminating the amount of trade credit available to us;
- potential delays in accessing our senior secured credit facilities or obtaining new credit facilities on terms we deem commercially reasonable or at all, and the potential inability of one or more of the financial institutions included in our syndicated revolving credit facility to fulfill their funding obligations. Should a bank in our syndicated revolving credit facility be unable to fund a future draw request, we could find it difficult to replace that bank in the facility.

Global economic conditions may weaken again. Any further weakening of economic conditions would likely exacerbate the negative effects described above, 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 or incur additional borrowings which may not be available or may only be available on terms significantly less advantageous than our current credit terms and could result in a wide-ranging and prolonged impact on general business conditions, thereby negatively impacting our business, results of operations and financial condition.

Fluctuations in direct or indirect raw material costs could have an adverse impact on our business.

Raw materials costs made up 70% of our cost of sales in 2010. The prices of our direct and indirect raw materials have been, and we expect them to continue to be, volatile. If the cost of direct or indirect raw materials increases significantly and we are unable to offset the increased costs with higher selling prices, our profitability will decline. Increases in prices for our products could also hurt our ability to remain both competitive and profitable in the markets in which we compete.

Although some of our materials contracts include competitive price clauses that allow us to buy outside the contract if market pricing falls below contract pricing, and certain contracts have minimum-maximum monthly volume commitments that allow us to take advantage of spot pricing, we may be unable to purchase raw materials at market prices. In addition, some of our customer contracts have fixed prices for a certain term, and as a result, 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 petrochemical products and changes in exchange rates.

An inadequate supply of direct or indirect raw materials and intermediate products could have an adverse effect on our business.

Our manufacturing operations require adequate supplies of raw materials and intermediate products on a timely basis. 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 or existing laws or regulations;
- suppliers' allocations to other purchasers;
- interruptions in production by suppliers; and
- natural disasters.

Many of our raw materials and intermediate products are available in the quantities we require from a limited number of suppliers. Should any of our key suppliers fail to deliver these raw materials or intermediate products to us or no longer supply us, we may be unable to purchase these materials in necessary quantities, 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 or place our customers on an allocation of our products. In addition, we cannot predict whether new regulations or restrictions may be imposed in the future which may result in reduced supply or further increases in prices. We cannot assure investors that we will be able to renew our current materials contracts or enter into replacement contracts on commercially acceptable terms, or at all. Fluctuations in the price of these or other raw materials or intermediate products, the loss of a key source of supply or any delay in the supply could result in a material adverse effect on our business.

Our production facilities are subject to significant operating hazards which could cause environmental contamination, personal injury and loss of life, and severe damage to, or destruction of, property and equipment.

Our production facilities are subject to hazards associated with the manufacturing, handling, storage and transportation of chemical materials and products, including human exposure to hazardous substances, pipeline and equipment leaks and ruptures, explosions, fires, inclement weather and natural disasters, mechanical failures, unscheduled downtime, transportation interruptions, remedial complications, chemical spills, discharges or releases of toxic or hazardous substances or gases, storage tank leaks and other environmental risks. Additionally a number of our operations, are adjacent to operations of independent entities that engage in hazardous and potentially dangerous activities. Our operations or adjacent operations could result in personal injury or loss of life, severe damage to or destruction of property or equipment, environmental damage, or a loss of the use of all or a portion of one of our key manufacturing facilities. Such events at our facilities or adjacent third-party facilities, could have a material adverse effect on us.

We may incur losses beyond the limits or coverage of our insurance policies for liabilities that are associated with 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.

Environmental obligations and liabilities could have a substantial negative impact on our financial condition, cash flows and profitability.

Our operations involve the use, handling, processing, storage, transportation and disposal of hazardous materials and are subject to extensive and complex U.S. Federal, state, local and non-U.S. national, provincial, and local environmental, health and safety laws and regulations. These environmental laws and regulations include those that govern the discharge of pollutants into the air and water, the generation, use, storage, transportation, treatment and disposal of hazardous materials and wastes, the cleanup of contaminated sites, occupational health and safety and those requiring permits, licenses, or other government approvals for specified operations or activities. Our products are also subject to a variety of national, regional, state, and provincial requirements and restrictions applicable to the manufacture, import, export or subsequent use of such products. In addition, we are required to maintain, and may be required to obtain in the future, environmental, health and safety permits, licenses, or government approvals to continue current operations at most of our manufacturing and research facilities throughout the world.

Compliance with environmental, health and safety laws and regulations, and maintenance of permits, can be costly and complex, and we have incurred and will continue to incur costs, including capital expenditures and costs associated with the issuance and maintenance of letters of credit, to comply with these requirements. In 2010, we incurred capital expenditures of $22 to comply with environmental laws and regulations and to make other environmental improvements. If we are unable to comply with environmental, health and safety laws and regulations, or maintain our permits, we could incur substantial costs, including fines and civil or criminal sanctions, third party property damage or personal injury claims or costs associated with upgrades to our facilities or changes in our manufacturing processes in order to achieve and maintain compliance, and may also be required to halt permitted activities or operations until any necessary permits can be obtained or complied with. In addition, future developments or increasingly stringent regulations could require us to make additional unforeseen environmental expenditures.

Environmental, health and safety requirements change frequently and have tended to become more stringent over time. We cannot predict what environmental, health and safety laws and regulations or permit requirements will be enacted or amended in the future, how existing or future laws or regulations will be interpreted or enforced or the impact of such laws, regulations or permits on future production expenditures, supply chain or sales. Our costs of compliance with current and future environmental, health and safety requirements could be material. Such future requirements include legislation designed to reduce emissions of carbon dioxide and other substances associated with climate change (“greenhouse gases”). The European Union has enacted greenhouse gas emissions legislation, and is considering expanding the scope of such legislation. The USEPA has promulgated new regulations applicable to projects involving greenhouse gas emissions above a certain threshold, and the U.S. and certain states within the U.S. have enacted, or are considering, limitations on greenhouse gas emissions. These requirements to limit greenhouse gas emissions could increase our energy costs, and may also require us to incur capital costs to modify our manufacturing facilities.

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

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. One of the most significant sites is a site formerly owned by us in Geismar, Louisiana. As the result of former, current or future operations, there may be additional environmental remediation or restoration liabilities or claims of personal injury by employees or members of the public due to exposure or alleged exposure to hazardous materials in connection with our operations, properties or products. 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.

Future chemical regulatory actions may decrease our profitability.

Several governmental entities have enacted, are considering or may consider in the future, regulations that may impact our ability to sell certain chemical products in certain geographic areas. In December 2006, the European Union enacted a regulation known as REACH, which stands for Registration, Evaluation and Authorization of Chemicals. This regulation requires manufacturers, importers and consumers of certain chemicals manufactured in, or imported into, the European Union to register such chemicals and evaluate their potential impacts on human health and the environment. The implementing agency is currently in the process of determining if any chemicals should be further tested, regulated, restricted or banned from use in the European Union. Other countries have implemented, or are considering implementation of, similar chemical regulatory programs. When fully implemented, REACH and other similar regulatory programs may result in significant adverse market impacts on the affected chemical products. If we fail to comply with REACH or other similar laws and regulations, we may be subject to civil remedies, including fines, injunctions, recalls or seizures, which would have an adverse effect on our financial condition, cash flows and profitability.

We participate with other companies in trade associations and regularly contribute to the research and study of the safety and environmental impact of our products and raw materials, including silica, formaldehyde and BPA. These programs are part of a program to review the environmental impacts, safety and efficacy of our products. In addition, government and academic institutions periodically conduct research on potential environmental and health concerns posed by various chemical substances, including substances we manufacture and sell. These research results are periodically reviewed by state, national and international regulatory agencies and potential customers. Such research could result in future regulations restricting the manufacture or use of our products, liability for adverse environmental or health effects linked to our products, and/or de-selection of our products for specific applications. These restrictions, liability, and product de-selection could have an adverse effect on our business, our financial condition and/or liquidity.

Because of certain government public health agencies' concerns regarding the potential for adverse human health effects, formaldehyde is regulated and various public health agencies continue to evaluate it. In 2004, the International Agency for Research on Cancer, or IARC, reclassified formaldehyde as “carcinogenic to humans,” a higher classification than set forth in previous IARC evaluations. In 2009, the IARC determined that there is sufficient evidence in human beings of a causal association between formaldehyde exposure and leukemia. In 2011, the National Toxicology Program within the U.S. Department of Health and Human Services, or NTP, issued its 12^{th} Report on Carcinogens, or RoC, which lists formaldehyde as “known to be a human carcinogen.” This NTP listing was based in part upon certain studies reporting an increased risk of certain types of cancers, including myeloid leukemia, in individuals with higher measures of formaldehyde exposure (exposure level or duration). The USEPA is considering regulatory options for setting limits on formaldehyde emissions from composite wood products that use formaldehyde-based adhesives. The USEPA, under its Integrated Risk Information System, or IRIS, has also released a draft of its toxicological review of formaldehyde. This draft review states that formaldehyde meets the criteria to be described as “carcinogenic to humans” by the inhalation route of exposure based upon evidence of causal links to certain cancers, including leukemia. The National Academy of Sciences, or NAS, was requested by the USEPA to serve as the external peer review body for the draft assessment. The NAS reviewed the draft IRIS toxicological review and issued a report in April 2011 that criticized the draft IRIS toxicological review and stated that the methodologies and the underlying science used in the draft IRIS report did not clearly support a conclusion of a causal link between formaldehyde exposure and leukemia. It is possible that USEPA may revise the IRIS toxicological review to reflect the NAS findings, including the conclusions regarding a causal link between formaldehyde exposure and leukemia. According to the NTP, a listing in the RoC indicates a potential hazard and does not assess cancer risks to individuals associated with exposures in their daily lives. However, the report could have adverse effects on our business. It is possible that new regulatory requirements could be promulgated to further limit the risk of human exposure to formaldehyde, that we could incur substantial additional costs to meet any such regulatory requirements, and that there could be a reduction in demand for these chemicals and products that contain them. These additional costs and reduced demand could have a material adverse effect on our operations and profitability.

BPA, which is used as an intermediate at our Deer Park, Texas and Pernis, Netherlands manufacturing facilities, and is also sold directly to third parties, is currently under evaluation as an “endocrine disrupter.” Endocrine disrupters are chemicals that have been alleged to interact with the endocrine systems of human beings and wildlife and disrupt their normal processes. 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 exists. Overexposure to crystalline silica is a recognized health hazard. The Occupational Safety and Health Administration, or 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. This drilling method has been under public and legislative scrutiny recently as a potential source of contamination of groundwater and drinking water. Currently, studies of this method are underway by the USEPA, with oversight provided by a congressional committee, and legislation is being considered in Congress, as well as in some states, to regulate this drilling method. 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 certain risks related to litigation filed by or against us, and adverse results may harm our business.

We cannot predict with certainty the cost of defense, of prosecution or of the ultimate outcome of litigation and other proceedings filed by or against us, including penalties or other civil or criminal sanctions, or remedies or damage awards, and adverse results in any litigation and other proceedings may materially harm our business. Litigation and other proceedings may include, but are not limited to, actions relating to intellectual property, international trade, commercial arrangements, product liability, environmental, health and safety, joint venture agreements, labor and employment or other harms resulting from the actions of individuals or entities outside of our control. In the case of intellectual property litigation and proceedings, adverse outcomes could include the cancellation, invalidation or other loss of material intellectual property rights used in our business and injunctions prohibiting our use of business processes or technology that are subject to third-party patents or other third-party intellectual property rights. Litigation based on environmental matters or exposure to hazardous substances in the workplace or from our products could result in significant liability for us.

Because we manufacture and use materials that are known to be hazardous, we are subject to, or affected by, certain 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, international, 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.

As discussed above, we manufacture and sell products containing formaldehyde, and certain governmental bodies have stated that there is a causal link between formaldehyde exposure and certain types of cancer, including myeloid leukemia. These conclusions could also become the basis of product liability litigation.

Other products we have made or used have been the focus of legal claims based upon allegations of harm to human health. 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.

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

We produce and use 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 produce and use, we may face claims relating to incidents that involve our customers' improper handling, storage and use of our products. We have historically faced lawsuits, including class action lawsuits, that claim liability for death, injury or property damage caused by products that we manufacture or that contain our components. These lawsuits, and any future lawsuits, could result in substantial damage awards against us, which in turn could encourage additional lawsuits 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.

As a global business, we are subject to numerous risks associated with our international operations that could have a material adverse effect on our business.

We have significant manufacturing and other operations outside the United States. Some of these operations are in jurisdictions with unstable political or economic conditions. There are numerous inherent risks in international operations, including, but not limited to:

- exchange controls and currency restrictions;
- currency fluctuations and devaluations;
- tariffs and trade barriers;
- export duties and quotas;
- changes in local economic conditions;
- changes in laws and regulations;
- exposure to possible expropriation or other government actions;
- hostility from local populations;
- diminished ability to legally enforce our contractual rights in non-U.S. countries;
- restrictions on our ability to repatriate dividends from our subsidiaries;
- unsettled political conditions and possible terrorist attacks against U.S. interests; and
- natural disasters or other catastrophic events.

Our international operations expose us to different local political and business risks and challenges. For example, we face potential difficulties in staffing and managing local operations, and we have to design local solutions to manage credit risks of local customers and distributors. In addition, some of our operations are located in regions that may be politically unstable, having particular exposure to riots, civil commotion or civil unrests, acts of war (declared or undeclared) or armed hostilities or other national or international calamity. In some of these regions, our status as a United States company also exposes us to increased risk of sabotage, terrorist attacks, interference by civil or military authorities or to greater impact from the national and global military, diplomatic and financial response to any future attacks or other threats.

Some of our operations are located in regions with particular exposure to natural disasters such as storms, floods, fires and earthquakes. It would be difficult or impossible for us to relocate these operations and, as a result, any of the aforementioned occurrences could materially adversely affect our business.

In addition, intellectual property rights may be more difficult to enforce in non-U.S. or non-Western Europe countries.

Our overall success as a global business depends, in part, upon our ability to succeed under different economic, social and political conditions. We may fail to develop and implement policies and strategies that are effective in each location where we do business, and failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to foreign currency risk.

In 2010, 57% of our net sales originated outside the United States. In our consolidated financial statements, we translate our local currency financial results into U.S. dollars based on average exchange rates prevailing during a reporting period or the exchange rate at the end of that period. During times of a strengthening U.S. dollar, at a constant level of business, our reported international revenues and earnings would be reduced because the local currency would translate into fewer U.S. dollars.

In addition to currency translation risks, we incur a currency transaction risk whenever we enter into either a purchase or a sales transaction using a different currency from the currency in which we record revenues. Given the volatility of exchange rates, we may not manage our currency transaction and/or translation risks effectively, and volatility in currency exchange rates may materially adversely affect our financial condition or results of operations. Since most of our indebtedness is denominated in U.S. dollars, a strengthening of the U.S. dollar could make it more difficult for us to repay our indebtedness.

We have entered and expect to continue to enter into various hedging and other programs in an effort to protect against adverse changes in the non-U.S. exchange markets and attempt to minimize potential adverse effects. These hedging and other programs may be unsuccessful in protecting against these risks. Our results of operations could be materially adversely affected if the U.S. dollar strengthens against non-U.S. currencies and our protective strategies are not successful. Likewise, a strengthening U.S. dollar provides opportunities to source raw materials more cheaply from foreign countries.

Increased energy costs could increase our operating expenses, reduce net income and negatively affect our financial condition.

Natural gas and electricity are essential to our manufacturing processes, which are energy-intensive. Oil and natural gas prices have fluctuated greatly over the past several years and we anticipate that they will continue to do so. Our energy costs represented 5% of our total costs of sales in 2010, 2009 and 2008.

Our operating expenses will increase if our energy prices increase. Increased energy prices may also result in greater raw materials costs. If we cannot pass these costs through to our customers, our profitability may decline. In addition, increased energy costs may also negatively affect our customers and the demand for our products.

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

The markets that we operate in are highly competitive, and this competition could harm our results of operations, cash flows and financial condition. Our competitors include major international producers as well as smaller regional competitors. We believe that the most significant competitive factor that impacts demand for certain of 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. Certain markets that we serve have become commoditized in recent years and have given rise to several industry participants, resulting in fierce price competition in these markets. This has been further magnified by the impact of the recent global economic downturn, as 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. 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 our industries 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, have a lower cost structure, and/or 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, negatively affecting our ability to remain competitive.

We may be unable to achieve the cost savings or synergies that we expect to achieve from our strategic initiatives, including the Momentive Combination, which would adversely affect our profitability and financial condition.

We have not yet realized all of the cost savings and synergies we expect to achieve from our current strategic initiatives, including the Momentive Combination and those related to shared services and logistics optimization, best-of-source contractual terms, procurement savings, regional site rationalization, administrative and overhead savings, and new product development, and may not be able to realize such cost savings or synergies. A variety of risks could cause us not to realize the expected cost savings and synergies, including but not limited to, the following: the shared services agreement may be viewed negatively by vendors, customers or financing sources, negatively impacting potential benefits; any difficulty or inability to integrate shared services with our business; higher than expected severance costs related to staff reductions; higher than expected retention costs for employees that will be retained; higher than expected stand-alone overhead expenses; delays in the anticipated timing of activities related to our cost-saving plan; increased complexity and cost in collaborating between us and MPM and establishing and maintaining shared services; and other unexpected costs associated with operating our business.

Our ability to realize the benefits of the Momentive Combination also may be limited by applicable limitations under the terms of our debt instruments. These debt instruments generally require that transactions between us and MPM with a value in excess of a de minimis threshold be entered into on an arm's-length basis. These constraints could result in significantly fewer cost savings and synergies than would occur if these limitations did not exist. Our ability to realize 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 between us and MPM expires in 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 MSC or MPM, without cause, on not less than thirty days prior written notice subject to 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.

If we are unable to achieve the cost savings or synergies that we expect to achieve from our strategic initiatives, including the shared services agreement, it would adversely affect our profitability and financial condition. 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. As market and economic conditions change, we may also make changes to our operating cost structure. To the extent we are permitted to include the pro forma impact of such cost savings initiatives in the calculation of financial covenant ratios under our senior credit agreements, our failure to realize such savings could impact our compliance with such covenants.

Our success depends in part on our ability to protect our intellectual property rights, and our inability to enforce these rights could have an adverse effect on our competitive position.

We rely on the patent, trademark, copyright and trade-secret laws of the United States and the countries where we do business to protect our intellectual property rights. We may be unable to prevent third parties from using our intellectual property without our authorization. The unauthorized use of our intellectual property could reduce any competitive advantage we have developed, reduce our market share or otherwise harm our business. In the event of unauthorized use of our intellectual property, litigation to protect or enforce our rights could be costly, and we may not prevail.

Many of our technologies are not covered by any patent or patent application, and our issued and pending U.S. and non-U.S. patents may not provide us with any competitive advantage and could be challenged by third parties. Our inability to secure issuance of our pending patent applications may limit our ability to protect the intellectual property rights these pending patent applications were intended to cover. Our competitors may attempt to design around our patents to avoid liability for infringement and, if successful, our competitors could adversely affect our market share. Furthermore, the expiration of our patents may lead to increased competition.

Our pending trademark applications may not be approved by the responsible governmental authorities and, even if these trademark applications are granted, third parties may seek to oppose or otherwise challenge these trademark applications. A failure to obtain trademark registrations in the United States and in other countries could limit our ability to protect our products and their associated trademarks and impede our marketing efforts in those jurisdictions.

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

Where a product formulation or process is kept as a trade secret, third parties may independently develop or invent and patent products or processes identical to our trade-secret products or processes. This could have an adverse impact on our ability to make and sell products or use such processes and could potentially result in costly litigation in which we might not prevail.

We could face intellectual property infringement claims that 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.

Our production processes and products are specialized; however, we could face intellectual property 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.

We depend on certain of our key executives and our ability to attract and retain qualified employees.

Our ability to operate our business and implement our strategies depends, in part, on the skills, experience and efforts of Craig O. Morrison, our chief executive officer, and William H. Carter, our chief financial officer, and other key members of our leadership team. We do not maintain any key-main insurance on any of these individuals. In addition, our success will depend on, among other factors, our ability to attract and retain other managerial, scientific and technical qualified personnel, particularly research scientists, technical sales professionals, and engineers that have specialized skills required by our business and focused on the industries in which we complete. Competition for qualified employees in the chemicals and materials industry is intense and the loss of the services of any of our key employees or the failure to attract or retain other qualified personnel could have a material adverse effect on our business or business prospects. Further, if any of these executives or employees joins a competitor, we could lose customers and suppliers and incur additional expenses to recruit and train personnel, who require time to become productive and to learn our business.

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

Apollo controls our ultimate parent company, Momentive Performance Materials Holdings LLC, or Momentive Holdings, 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 Holdings, is also the ultimate parent company of our affiliate, MPM. Therefore, in addition to controlling our activities through its control of Momentive Holdings, 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 Holdings 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 Holdings, such investments may be made through MPM or a newly-formed subsidiary of Momentive Holdings. 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 Holdings, 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 requirements of U.S. securities authorities or to any corporate governance requirements of any U.S. securities exchanges.

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 chief executive officer, and Mr. Carter, our chief financial officer, 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 our affiliate, MPM. Certain individuals employed by MPM also provide services to our business. The services of such individuals are provided by us to MPM, or by MPM to us, pursuant to a amended and restated 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 the implementation of the shared services arrangement with MPM, will not be disruptive to our business.

If we fail to extend or renegotiate our collective bargaining agreements with our works councils and labor unions as they expire from time to time, if disputes with our works councils or unions arise, or if our unionized or represented employees were to engage in a strike or other work stoppage, our business and operating results could be materially adversely affected.

As of December 31, 2010, 40% of our employees were unionized or represented by works councils that were covered by collective bargaining agreements. In addition, some of our employees reside in countries in which employment laws provide greater bargaining or other employee rights than the laws of the United States. These 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 employment, including restructuring initiatives and changes in salaries and benefits. A significant dispute could divert our management's attention and otherwise hinder our ability to conduct our business or to achieve planned cost savings.

We may be unable to timely extend or renegotiate our collective bargaining agreements as they expire. We have collective bargaining agreements which will expire during the next two years. We also may be subject to strikes or work stoppages by, or disputes with, our labor unions. If we fail to extend or renegotiate our collective bargaining agreements, if disputes with our works councils or unions arise or if our unionized or represented workers engage in a strike or other work stoppage, we could incur higher labor costs or experience a significant disruption of operations, which could have a material adverse effect on our business, financial position and results of operations.

Our pension plans are unfunded or under-funded, and our required cash contributions could be higher than we expect, having an adverse effect on our financial condition and liquidity.

We sponsor various pension and similar benefit plans worldwide.

Our non-U.S. defined benefit pension plans were under-funded in the aggregate by $107 as of December 31, 2010. Our U.S. defined benefit pension plans were under-funded in the aggregate by $71 as of December 31, 2010.

We are legally required to make contributions to our 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, which could have an adverse effect on our financial condition and liquidity.

In 2011, we expect to contribute approximately $15 and $12 to our U.S. and non-U.S. defined benefit pension plans, respectively, which we believe is sufficient to meet the minimum funding requirements as set forth in employee benefit and tax laws.

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, the impact of potential business dispositions, 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.

Any decrease in interest rates and asset returns, if and to the extent not offset by contributions, could increase our obligations under these plans. If the performance of assets in the funded plans does not meet our expectations, our cash contributions for these plans could be higher than we expect, which could have an adverse effect on our financial condition and liquidity.

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

Any serious disruption at any of our facilities or our suppliers' facilities due to hurricane, fire, earthquake, flood, terrorist attack or any other natural or man-made disaster could impair our ability to use our facilities and have a material adverse impact on our revenues and increase our costs and expenses. If there is a natural disaster or other serious disruption at any of our facilities or our suppliers' facilities, it could impair our ability to adequately supply our customers and negatively impact our operating results. For example, our manufacturing facilities in the U.S. Gulf Coast region were also impacted by Hurricanes Katrina and Rita in 2005 and Hurricanes Gustav and Ike in 2008. 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.

Acquisitions and joint ventures that we pursue may present unforeseen integration obstacles and costs, increase our leverage and negatively impact our performance. Divestitures that we pursue also may present unforeseen obstacles and costs and alter the synergies we expect to achieve from the Momentive Combination.

We have made acquisitions of related businesses, and entered into joint ventures in the past and intend to selectively pursue acquisitions of, and joint ventures with, related businesses as one element of our growth strategy. Acquisitions may require us to assume or incur additional debt financing, resulting in additional leverage and complex debt structures. If such acquisitions are consummated, the risk factors we describe below, and for our business generally, may be intensified.

Our ability to implement our growth strategy is limited by covenants in our senior secured credit facilities, indentures and other indebtedness, our financial resources, including available cash and borrowing capacity, and our ability to integrate or identify appropriate acquisition and joint venture candidates.

The expense incurred in consummating acquisitions of related businesses, or our failure to integrate such businesses successfully into our existing businesses, could result in our incurring unanticipated expenses and losses. Furthermore, we may not be able to realize any anticipated benefits from acquisitions or joint ventures. The process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of existing operations. Some of the risks associated with our acquisition and joint venture strategy include:

- potential disruptions of our ongoing business and distraction of management;
- unexpected loss of key employees or customers of the acquired company;
- conforming the acquired company's standards, processes, procedures and controls with our operations;
- coordinating new product and process development;
- hiring additional management and other critical personnel; and
- increasing the scope, geographic diversity and complexity of our operations

In addition, we may encounter unforeseen obstacles or costs in the integration of acquired businesses. For example, if we were to acquire an international business, the preparation of the U.S. GAAP financial statements could require significant management resources. Also, the presence of one or more material liabilities of an acquired company that are unknown to us at the time of acquisition may have a material adverse effect on our business. Our acquisition and joint venture strategy may not be successfully received by customers, and we may not realize any anticipated benefits from acquisitions or joint ventures.

In addition, we have selectively made, and may in the future, pursue divestitures of certain of our businesses as one element of our portfolio optimization strategy. Divestitures may require us to separate integrated assets and personnel from our retained businesses and devote our resources to transitioning assets and services to purchasers, resulting in disruptions to our ongoing business and distraction of management. Divestitures may alter synergies we expect to achieve from the Momentive Combination.

Risks Related to Our Indebtedness

We may be unable to generate sufficient cash flows from operations to meet our consolidated debt service payments.

We have substantial consolidated indebtedness. As of December 31, 2010, we had $3,672 of consolidated outstanding indebtedness, including payments due within the next twelve months and short-term borrowings. In 2011, based on our consolidated indebtedness outstanding at December 31, 2010 our annualized cash interest expense is projected to be approximately $320 based on interest rates at December 31, 2010, of which $221 represents cash interest expense on fixed-rate obligations, including variable rate debt subject to interest rate swap agreements.

Our ability to generate sufficient cash flows from operations to make scheduled debt service payments depends on a range of economic, competitive and business factors, many of which are outside of our control. Our business may generate insufficient cash flows from operations to meet our debt service and other obligations, and currently anticipated cost savings, working capital reductions and operating improvements may not be realized on schedule, or at all. 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 issue additional equity securities. We may be unable to refinance any of our indebtedness, sell assets or issue equity securities on commercially reasonable terms, or at all, which could cause us to default on our obligations and result in the acceleration of our debt obligations. Our inability to generate sufficient cash flow to satisfy our outstanding debt obligations, or to refinance our obligations on commercially reasonable terms, would have a material adverse effect on our business, financial condition and results of operations.

Our substantial indebtedness exposes us to significant interest expense increases if interest rates increase.

$1 billion, or approximately 29% of our borrowings as of December 31, 2010, were at variable interest rates and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income would decrease. Assuming our consolidated variable interest rate indebtedness outstanding as of December 31, 2010 remains the same, an increase of 1% in the interest rates payable on our variable rate indebtedness would increase our 2011 annual estimated debt-service requirements by approximately $14. Accordingly, an increase in interest rates from current levels could cause our annual debt-service obligations to increase significantly.

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 consolidated indebtedness could have other important consequences, including but not limited to the following:

- it may limit our flexibility in planning for, or reacting to, changes in our operations or business;
- we are more highly leveraged than many of our competitors, which may place us at a competitive disadvantage;
- it may make us more vulnerable to downturns in our business or the economy;
- a substantial portion of our cash flows from operations will be dedicated to the repayment of our indebtedness and will not be available for other purposes;
- it may restrict us from making strategic acquisitions, introducing new technologies, or exploiting business opportunities;
- it may make it more difficult for us to satisfy our obligations with respect to our existing indebtedness;
- it may adversely affect terms under which suppliers provide material and services to us;
- it may limit our ability to borrow additional funds or dispose of assets; and
- it may limit our ability to fully achieve possible cost savings from the Momentive Combination.

There would be a material adverse effect on our business and financial condition if we were unable to service our indebtedness or obtain additional financing, as needed.

Despite our substantial indebtedness, we may still be able to incur significant additional indebtedness. This could intensify the risks described above and below.

We may be able to incur substantial additional indebtedness in the future. Although the terms governing our indebtedness contain restrictions on our ability to incur additional indebtedness, these restrictions are subject to numerous qualifications and exceptions, and the indebtedness we may incur in compliance with these restrictions could be substantial. Increasing our indebtedness could intensify the risks described above and below.

The terms governing our outstanding debt, including restrictive covenants, may adversely affect our operations.

The terms governing our outstanding debt contain, and any future indebtedness we incur would likely contain, numerous restrictive covenants that impose significant operating and financial restrictions on our ability to, among other things:

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

In addition, at any time that loans or letters of credit are outstanding and not cash collateralized thereunder, the agreement governing our revolving credit facility, which is part of our senior secured credit facilities , require us to maintain a specified leverage ratio. At December 31, 2010, we were in compliance with our leverage ratio maintenance covenant set forth in our senior secured credit facilities. If business conditions weaken, we may not comply with our leverage ratio covenant for future periods. If we are at risk of failing to comply with our leverage ratio covenant, we would pursue additional cost saving actions, restructuring initiatives or other business or capital structure optimization measures available to us to remain in compliance with these covenants, but any such measures may be unsuccessful or may be insufficient to maintain compliance with our leverage ratio covenants.

A failure to comply with the covenants contained in our senior secured credit facilities, the indentures governing notes issued or guaranteed by our subsidiaries or their other existing indebtedness could result in an event of default under the existing agreements that, if not cured or waived, would have a material adverse effect on our business, financial condition and results of operations.

In particular, a breach of a leverage ratio covenant would result in an event of default under our revolving credit facility. Pursuant to the terms of our credit agreement, our direct parent company has the right but not the obligation to cure such default through the purchase of additional equity in up to three of any four consecutive quarters. If a breach of a leverage ratio covenant is not cured or waived, or if any other event of default under a senior secured credit facility occurs, the lenders under such credit agreement:

- would not be required to lend any additional amounts to us;
- could elect to declare all borrowings outstanding under such revolving credit facility, together with accrued and unpaid interest and fees, due and payable and could demand cash collateral for all letters of credit issued thereunder;
- could elect to declare all borrowings outstanding under the term loan facility, together with accrued and unpaid interest and fees, due and payable;
- could require us to apply all of our available cash to repay these borrowings; and/or
- could prevent us from making payments on our notes;

any or all of which could result in an event of default under our notes.

If the indebtedness under our senior secured credit facilities or our existing notes were to be accelerated after an event of default, our respective assets may be insufficient to repay such indebtedness in full and our lenders could foreclose on the assets pledged under the applicable facility. Under these circumstances, a refinancing or additional financing may not be obtainable on acceptable terms, or at all, and we may be forced to explore a restructuring.

In addition the terms governing our indebtedness limit our ability to sell assets and also restrict the use of proceeds from that sale, including restrictions on transfers from us to MPM and vice versa. We may be unable 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 consolidated debt obligations in the event of an acceleration of any of our consolidated indebtedness.

We may be unable to generate sufficient cash flow from operations to pay dividends or distributions to our direct parent company in amounts sufficient for it to pay its debt.

Our direct parent company has incurred substantial indebtedness, and likely will need to rely upon distributions from us to pay such indebtedness. As of December 31, 2010, the aggregate principal amount outstanding of MSC Holdings' term loans was $208. These notes accrue interest in-kind until maturity if elected by MSC Holdings.

We and our subsidiaries may not generate sufficient cash flow from operations to pay dividends or distributions in amounts sufficient to allow our direct parent company to pay principal and cash interest on its debt upon maturity. If our direct parent company is unable to meet its debt service obligations, it could attempt to restructure or refinance their indebtedness or seek additional equity capital. It may be unable to accomplish these actions on satisfactory terms, if at all. A default under our direct parent company's debt instruments could lead to a change of control under our debt instruments and lead to an acceleration of all outstanding loans under our senior secured credit facilities and other indebtedness.

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

Our subsidiaries own a significant portion of our consolidated assets and conduct a significant portion of our consolidated operations. Repayment of our indebtedness depends, to a significant extent, on the generation of cash flow and the ability of our subsidiaries to make 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 on 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 subsidiaries. While there are limitations on the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make intercompany payments, 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.

A downgrade in our debt ratings could restrict our access to, and negatively impact the terms of, current or future financings or trade credit.

Standard & Poor's Ratings Services and Moody's Investors Service maintain credit ratings on us and certain of our debt. Each of these ratings is currently below investment grade. Any decision by these ratings agencies to downgrade such ratings or put them on negative watch in the future could restrict our access to, and negatively impact the terms of, current or future financings and trade credit extended by our suppliers of raw materials or other vendors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

There were no defaults upon senior securities during the first six months of 2011.

Item 4. Reserved

Item 5. Other Information

None.

Item 6. Exhibits

31.1	Rule 13a-14 Certifications
	(a) Certificate of the Chief Executive Officer
	(b) Certificate of the Chief Financial Officer
32.1	Section 1350 Certifications
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

SIGNATURE

Pursuant to the requirements 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.

Date: August 12, 2011

/s/ William H. Carter

William H. Carter

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 31.1(a)

Certification of Financial Statements and Internal Controls

I, Craig O. Morrison, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. This registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 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 Quarterly Report on Form 10-Q 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 period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    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: August 12, 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 906 Of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Momentive Specialty Chemicals Inc. (the "Company") on Form 10-Q for the period ended June 30, 2011 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 Officer	Chief Financial Officer
August 12, 2011	August 12, 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.