

Amended Quarterly Report

As of July 1, 2007 and for the Fiscal three-month and six-month periods then ended

Report to Holders of

\$765,000,000 Principal Amount of

9 3/4% Senior Notes Due 2014,

€275,000,000 Principal Amount of

9% Senior Notes Due 2014,

\$300,000,000 Principal Amount of

10 1/8%/10 7/8% Senior Toggle Notes Due 2014

and

\$500,000,000 Principal Amount of

11 1/2% Senior Subordinated Notes Due 2016

Prepared Pursuant to Section 4.02

of the Indentures governing the

9 3/4% Senior Notes Due 2014,

9% Senior Notes Due 2014,

10 1/8%/10 7/8% Senior Toggle Notes Due 2014

and

11 1/2% Senior Subordinated Notes Due 2016

dated December 4, 2006

Among Momentive Performance Materials Inc., as Issuer,

the Guarantors named therein,

and Wells Fargo Bank, as Trustee and Bank of New York, as paying agent

Explanatory Note

Momentive Performance Materials Inc. (the “Company”) is issuing this Amended Quarterly Report for the fiscal period ended July 1, 2007 to restate financial statements and other financial information for the fiscal three and six-month periods ended July 1, 2007. The restatement corrects errors in previously reported cost of sales, depreciation expense and income taxes. Specific captions in the Company’s unaudited condensed consolidated statements of operations for the fiscal three and six-month periods ended July 1, 2007 and the unaudited condensed consolidated balance sheet as of July 1, 2007 affected by the restatement are presented below.

The impact of this non-cash restatement on the affected line items in the Company’s unaudited condensed consolidated statements of operations for the fiscal three and six-month periods ended July 1, 2007 was as follows:

	Fiscal three-month period ended July 1, 2007	Fiscal six-month period ended July 1, 2007
Increase in cost of sales	\$ 6,800	—
Increase in depreciation expense	9,300	9,300
Increase in loss before income taxes	(16,100)	(9,300)
Decrease in income taxes	(4,264)	(4,264)
Increase in net loss	\$ (11,836)	(5,036)

The increase in depreciation expense is recorded in selling, general and administrative expense in the unaudited condensed consolidated statement of operations.

The impact of this non-cash restatement on the affected line items in the Company’s unaudited condensed consolidated balance sheet as of July 1, 2007 was as follows:

Assets	July 1, 2007
Decrease in property and equipment, net	(9,300)
Decrease in total assets	\$ (9,300)
Liabilities and Shareholder’s Equity	
Decrease in deferred income taxes	(4,264)
Decrease in total liabilities	(4,264)
Increase in accumulated deficit	(5,036)
Decrease in total shareholder’s equity	(5,036)
Decrease in total liabilities and shareholder's equity	\$ (9,300)

Although certain individual line items within cash flows from operating activities have been restated, the restatement did not affect total cash flows from operating, investing or financing activities for the three or six-month periods ended July 1, 2007, or Adjusted EBITDA as defined in our credit agreement.

For additional information relating to the effect of the restatement, please refer to Item 1 – Financial Statements (including Note 17 thereto) and Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations of Part I – Financial Information of this Amended Quarterly Report.

In light of the restatement, readers should not rely on our previously issued financial statements and other financial information for the fiscal three and six-month periods ended July 1, 2007.

INTRODUCTION

Unless otherwise noted, the terms "Momentive" or "the Company" refer to Momentive Performance Materials Inc. The terms "we," "us," and "our," refer collectively to Momentive Performance Materials Inc and its subsidiaries and the term "Momentive Group" refers collectively to Momentive's parent company, Momentive Performance Materials Holdings Inc. ("Holdings") and its subsidiaries, in each case after giving effect to the consummation of the Transactions (as defined below). References to the "Business" refer to the assets, subsidiaries and liabilities of GE Advanced Materials ("GEAM"), an operating unit within the Industrial Segment of General Electric Company ("GE") that were acquired by the Momentive Group. The unaudited condensed consolidated and combined financial statements and accompanying notes contained herein present the statement of financial position subsequent to the Momentive Group's ownership of the Business (the "Successor") as of July 1, 2007 and as of December 31, 2006 and the operating results for the fiscal three-month and six-month periods ended July 1, 2007, and historical financial information prior to the Momentive Group's ownership for the fiscal three-month and six-month periods ended July 2, 2006 (the "Predecessor").

On December 3, 2006, the Momentive Group acquired GEAM. The purchase price as of the acquisition date was approximately \$3.8 billion subject to certain purchase price adjustments. The purchase price consisted of cash and the issuance to GE of (i) 10% of the common equity of our parent company, Holdings; (ii) warrants to acquire an additional 3% of Holdings common equity and (iii) a Seller Note with a stated principal amount of \$400 million (collectively, the "Acquisition") pursuant to the terms of the Stock and Asset Purchase Agreement (the "Stock and Asset Purchase Agreement") Holdings entered into with GE on September 14, 2006.

Holdings and the Company were formed by affiliates of Apollo Management, L.P. ("Apollo") for the purpose of consummating the Acquisition. In connection with the Acquisition, we issued \$3,031.2 million of debt (the "Financing"), consisting of \$50.0 million of revolving credit facility, a \$1,053.1 million term loan B facility (the "Term Loan B"), \$765.0 million of senior notes, \$300.0 million of senior toggle notes, \$363.1 million of Euro senior notes and \$500.0 million of senior subordinated notes. The total availability of our revolving credit facility is \$300.0 million at December 3, 2006, of which \$50.0 million was borrowed at the closing of the Transactions. In addition to the Financing, affiliates of Apollo contributed \$453.15 million and GE contributed \$50.35 million of equity to Holdings.

As used in this report, the term "Transactions" means, collectively, the Acquisition and the Financing.

None of GE, its affiliates (other than the issuer and the guarantors of the notes issued) or employees are responsible for the contents of this report.

Our principal executive offices are located at 187 Danbury Rd., Wilton, CT 06897. Our telephone number is 800 295 2392.

FINANCIAL AND OTHER INFORMATION

The unaudited financial information as of July 1, 2007 and December 31, 2006 and for the fiscal three-month and six-month periods ended July 1, 2007, (Successor) is presented on a consolidated basis, and the unaudited financial information for the fiscal three-month and six-month periods ended July 2, 2006 (Predecessor) is presented on a combined basis. The Successor and Predecessor periods use different bases and accounting methods.

Unless otherwise indicated, all references to "dollars" and "\$" in this Amended Quarterly Report are to, and all monetary amounts in this Amended Quarterly Report are presented in, U.S. dollars. Unless otherwise indicated, the financial information contained in this Amended Quarterly Report has been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

Certain monetary amounts, percentages and other figures included in this Amended Quarterly Report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated may not be the arithmetic aggregation of the percentages that precede them.

In this Amended Quarterly Report, we may refer to and rely on publicly available information regarding our industry and our competitors. Although we believe the information is reliable, we cannot guarantee the accuracy and completeness of the information and have not independently verified it.

TABLE OF CONTENTS

	Page
Part I Financial Information	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of July 1, 2007 and December 31, 2006	2
Condensed Consolidated and Combined Statements of Operations for the Fiscal Three-month and Six-Month Periods Ended July 1, 2007 and July 2, 2006	3
Condensed Consolidated and Combined Statements of Cash Flows for the Fiscal Six-Month Periods Ended July 1, 2007 and July 2, 2006	4
Notes to Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3. Quantitative and Qualitative Disclosures about Market Risk	41
Item 4. Controls and Procedures	41
Part II Other Information	
Item 1. Legal Proceedings	41
Item 1A. Risk Factors	41
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 3. Defaults Upon Senior Securities	41
Item 4. Submission of Matters to a Vote of Security Holders	41
Item 5. Other Information	41
Item 6. Exhibits	41
Signatures	42

MOMENTIVE PERFORMANCE MATERIALS INC.

Condensed Consolidated Balance Sheets (Unaudited)

(Dollar amounts in thousands)

Assets (Note 2)	July 1, 2007 (Restated)	December 31, 2006
Current assets:		
Cash and cash equivalents	\$ 241,237	198,010
Receivables, net (note 5)	500,617	537,303
Due from affiliates (note 4)	23,843	34,992
Inventories (note 6)	393,079	429,538
Prepaid expenses	14,290	11,138
Deferred income taxes (note 10)	13,082	13,082
Other current assets	16,032	7,074
Total current assets	<u>1,202,180</u>	<u>1,231,137</u>
Property and equipment, net (note 7)	1,256,621	1,468,843
Other long-term assets	84,001	86,966
Deferred income taxes (note 10)	3,060	3,060
Investments in nonconsolidated affiliates	435	454
Intangible assets, net	670,750	709,094
Goodwill	1,174,318	918,630
Total assets	<u>\$ 4,391,365</u>	<u>4,418,184</u>
Liabilities and Shareholder's Equity		
Current liabilities:		
Trade payables	\$ 243,380	202,305
Short-term borrowings (note 8)	2,312	2,128
Accrued expenses and other liabilities	179,524	173,144
Accrued interest	17,762	20,776
Due to affiliates (note 4)	101,381	39,569
Accrued income taxes (note 10)	23,873	32,507
Deferred income taxes (note 10)	4,144	4,144
Current installments of long-term debt	10,586	10,496
Current installments of obligations under capital leases	1,258	2,029
Total current liabilities	<u>584,220</u>	<u>487,098</u>
Long-term debt	2,967,357	2,957,668
Obligations under capital leases	85	332
Other liabilities	46,786	48,894
Pension liabilities (note 13)	175,521	164,214
Deferred income taxes (note 10)	174,139	179,254
Total liabilities	<u>3,948,108</u>	<u>3,837,460</u>
Commitments and contingencies (note 12)		
Minority interests	4,268	3,961
Shareholder's equity:		
Common stock	—	—
Additional paid-in capital	613,304	643,160
Accumulated deficit	(172,596)	(70,605)
Accumulated other comprehensive income (loss)	(1,719)	4,208
Total shareholder's equity	<u>438,989</u>	<u>576,763</u>
Total liabilities and shareholder's equity	<u>\$ 4,391,365</u>	<u>4,418,184</u>

See accompanying notes to condensed consolidated and combined financial statements.

MOMENTIVE PERFORMANCE MATERIALS INC.

Condensed Consolidated and Combined Statements of Operations (Unaudited)

(Dollar amounts in thousands)

	Successor		Predecessor	
	Fiscal three-month period ended		Fiscal six-month period ended	
	July 1, 2007 <u>(Restated)</u>	July 2, 2006	July 1, 2007 <u>(Restated)</u>	July 2, 2006
Net sales	\$ 651,564	616,948	1,259,800	1,201,098
Cost of sales	426,029	385,657	837,392	755,420
Gross profit	225,535	231,291	422,408	445,678
Selling, general and administrative expenses (note 4)	161,350	143,010	325,128	292,607
Research and development expenses	18,740	19,377	38,159	35,066
Restructuring and other costs	7,405	—	12,989	3,000
Operating income	38,040	68,904	46,132	115,005
Other income (expense):				
Interest income	1,861	15,493	2,799	44,752
Interest expense	(72,777)	(25,363)	(141,742)	(57,886)
Other income (expense), net	(92)	(432)	(70)	(2,142)
Minority interests	(128)	(16,742)	(200)	(32,292)
Income (loss) before income taxes	(33,096)	41,860	(93,081)	67,437
Income taxes (note 10)	11,611	26,115	8,910	38,332
Net income (loss)	\$ (44,707)	15,745	(101,991)	29,105

See accompanying notes to condensed consolidated and combined financial statements.

MOMENTIVE PERFORMANCE MATERIALS INC.

Condensed Consolidated and Combined Statements of Cash Flows (Unaudited)

(Dollar amounts in thousands)

	<u>Successor</u>	<u>Predecessor</u>
	<u>Fiscal six-month period ended</u>	
	<u>July 1, 2007</u>	<u>July 2, 2006</u>
	(Restated)	
Cash flows from operating activities:		
Net income (loss)	\$ (101,991)	29,105
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	118,579	82,744
Amortization of debt issuance costs	4,913	-
Deferred income taxes	(11,309)	7,475
Change in minority interests	200	32,292
Unrealized loss on derivative instruments	7,307	-
Changes in operating assets and liabilities:		
Receivables	38,256	11,082
Inventories	36,337	15,943
Due to/from affiliates	(24,605)	(53,579)
Prepaid expenses and other assets	3,987	(11)
Trade payables	44,174	(7,349)
Accrued expenses and other liabilities	(2,512)	(22,828)
Accrued income taxes	(8,584)	3,698
Pension liabilities	9,169	1,040
Cash flows provided by operating activities:	<u>113,921</u>	<u>99,612</u>
Cash flows from investing activities:		
Capital expenditures	(68,878)	(55,718)
Purchase of intangible assets	-	(1,625)
Investment in nonconsolidated affiliates	-	(37,462)
Payments associated with acquisition	-	(35,353)
Net cash used in investing activities	<u>(68,878)</u>	<u>(130,158)</u>
Cash flows from financing activities:		
Dividend paid to joint venture partner	-	(49,612)
Net change in short-term borrowings	184	218,089
Payments of long-term debt	(5,292)	(460)
Principal payments on capital lease obligations	(1,037)	(1,286)
Net repayment with affiliates	-	(231,213)
Net cash used in financing activities	<u>(6,145)</u>	<u>(64,482)</u>
Increase (decrease) in cash and cash equivalents	38,898	(95,028)
Effect of exchange rate changes on cash	4,329	18,951
Cash and cash equivalents, beginning of period	<u>198,010</u>	<u>638,227</u>
Cash and cash equivalents, end of period	<u>\$ 241,237</u>	<u>562,150</u>

See accompanying notes to condensed consolidated and combined financial statements

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(1) Business and Basis of Presentation

Momentive Performance Materials Inc. ("Momentive" or "the Company") is a wholly-owned subsidiary of Momentive Performance Materials Holdings Inc. ("Holdings" and together with its subsidiaries the "Momentive Group"). Holdings and the Company were formed by affiliates of Apollo Management, L.P. ("Apollo") for the purpose of consummating the Acquisition, as defined and described in note 2 below. References to the "Business" refer to the assets, subsidiaries and liabilities of GE Advanced Materials ("GEAM"), an operating unit within the Industrial Segment of General Electric Company ("GE") that were acquired by the Momentive Group.

The Company is comprised of two businesses: Silicones and Quartz. Silicones is globally engaged in the manufacturing, sale and distribution of silanes, specialty silicones and urethane additives. Quartz is also a global business engaged in the manufacturing, sale and distribution of high-purity fused quartz and ceramic materials.

The unaudited condensed consolidated and combined financial statements of Momentive and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal, recurring adjustments, considered necessary for a fair presentation, have been included. These unaudited condensed consolidated and combined financial statements should be read in conjunction with the financial statements, accounting policies and notes included in the Company's audited financial statements as of and for the year ended December 31, 2006. Results for the interim periods are not necessarily indicative of results for the full year. The December 31, 2006 balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

(2) Acquisition

As described above, the Momentive Group acquired GEAM on December 3, 2006, pursuant to terms of the Stock and Asset Purchase Agreement between Holdings and GE, dated September 14, 2006 (the "Acquisition"). In connection with the Acquisition, the Company issued \$3,031,152 of debt, consisting of \$1,053,090 in term loans, \$50,000 from a revolving credit facility, \$765,000 of senior notes, \$363,062 of senior notes denominated in euros, \$300,000 of senior toggle notes and \$500,000 of senior subordinated notes. In addition to the debt issued, affiliates of Apollo contributed cash of \$453,150 to Holdings and Holdings issued 10% of the common equity of Holdings to GE in the amount of \$50,350, together with warrants to acquire an additional 3% of Holdings, and issued a seller note with a stated principal amount of \$400,000. Holdings contributed capital of \$903,500 to the Company.

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(2) Acquisition (*cont'd*)

The preliminary purchase price exchanged as of the acquisition date was \$3,640,592, excluding transactions fees and subject to certain purchase price adjustments. The purchase price consists of cash paid to GE of \$3,190,185, the issuance to GE of 10% of the equity of Holdings and the seller note. During August 2007, the Company paid GE a final purchase price adjustment of \$61,985, together with related interests of \$2,318, which is reflected as a component of due to affiliates in the Condensed Consolidated Balance Sheet as of July 1, 2007. Also included in due to affiliates is a \$15,000 obligation to GE associated with the settlement of a pre-Acquisition inter-company obligation associated with the Company's Quartz business in China. The Company expects to pay this amount in 2007.

The additional purchase consideration associated with the \$76,985 of liabilities to GE principally resulted in an increase to the balance of goodwill. Interest costs of \$2,318 were recognized in the Condensed Consolidated Statement of Operations for the fiscal three-month period ended July 1, 2007.

The purchase price has been preliminarily allocated to the assets acquired and liabilities assumed based on the fair values of those assets and liabilities, determined primarily by third party valuations. During the fiscal three-month period ended July 1, 2007, the Company made certain adjustments to the purchase price allocated to property and equipment and intangible assets based on updated fair value information. As a result, the Company recognized a reduction in depreciation expense of \$1,300 and a reduction in amortization expense of \$3,300 during the fiscal three-month period ended July 1, 2007.

Subsequently, during the fiscal three-month period ended September 30, 2007, the Company completed its assessment of the useful lives of the property and equipment acquired and consequently recognized approximately \$31,000 of depreciation expense during the fiscal three and nine-month periods ended September 30, 2007 attributable to the period December 4, 2006 through July 1 2007.

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(2) Acquisition (*cont'd*)

The following unaudited pro forma financial information presents the combined results of operations as if the acquisition had occurred as of January 1, 2006 for the period presented after giving effect to certain adjustments, including changes in depreciation and amortization expenses resulting from fair value adjustments to net tangible assets and amortizable intangible assets, increase in interest expense resulting from additional indebtedness incurred and amortization of debt issuance costs incurred in connection with the acquisition and financing, elimination of minority interest resulting from the joint venture transactions:

	Fiscal Three-month period ended July 2, 2006 Pro forma	Fiscal Six-month period ended July 2, 2006 Pro forma
Net sales	\$ 616,948	1,201,098
Loss before income taxes	(24,046)	(62,870)
Net loss	(43,406)	(87,846)

The unaudited pro forma financial information is being furnished solely for informational purposes and is not intended to represent or be indicative of the consolidated results of operations that the Company would have reported had the Company operated as a stand-alone business for the period presented, nor are they necessarily indicative of future results.

(3) Summary of Significant Accounting Policies

The following is an update of the significant accounting policies followed by the Company.

(a) Consolidation and Combination

The condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries as of July 1, 2007 and December 31, 2006, and for the fiscal three-month and six-month periods ended July 1, 2007 (Successor period). The combined financial statements include the accounts of the GEAM business for the fiscal three-month and six-month periods ended July 2, 2006 (Predecessor period). Minority interests represent the minority shareholder's proportionate share of the equity in the consolidated joint venture affiliates. All significant intercompany balances and transactions, including profit and loss as a result of those transactions, have been eliminated in the consolidation and combination.

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(3) Summary of Significant Accounting Policies (*cont'd*)

(b) Inventories

Effective January 1, 2007, the Company changed its method of accounting for Quartz inventory from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. There was no impact on the consolidated financial statements as of and for the fiscal three-month or six-month periods ended July 1, 2007 due to this change in accounting policy because of the fair value step-up recorded to inventory in connection with the Acquisition. Silicones inventory continues to be determined using the FIFO method, and all inventories are stated at the lower of cost or realizable values.

At December 31, 2006, 6% of inventories were recorded using the LIFO method. In connection with the Acquisition, all inventories were stepped-up to their estimated fair values on that date.

For the fiscal six-month period ended July 1, 2007, \$23,438 of the preliminary inventory fair value step-up was expensed and recorded in cost of sales.

(c) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment dates.

Effective January 1, 2007, the Company adopted the requirements of Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. The Company prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in its tax return. The Company also applies the guidance prescribed under FIN 48 relating to de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. There was no material impact on the Company's financial statements as a result of adopting this required accounting policy. A valuation allowance is established, as needed, to reduce deferred tax assets to the amount expected to be realized.

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(3) Summary of Significant Accounting Policies (cont'd)

(d) Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123 Revised (SFAS 123R), *Share-Based Payment*. SFAS 123R requires companies to recognize compensation expense using a fair-value based method for costs related to share-based payments including stock options and employee stock purchase plans. The expense is measured based on the fair value of the award at its grant date based on the estimated number of awards that are expected to vest, and recorded over the applicable requisite service period. In the absence of an observable market price for a share-based award, the fair value is based upon a valuation methodology that takes into consideration various factors, including the exercise price of the award, the expected term of the award, the current price of the underlying shares, the expected volatility of the underlying share price based on peer companies, the expected dividends on the underlying shares and the risk-free interest rate.

A portion of the Company's option awards have graded vesting, while some have a vesting contingent upon attainment of a specified level of investor internal rate-of-return. For expense recognition related to awards with graded vesting, the Company has adopted a policy of recognizing expense on a straight-line basis over the requisite service period of each separately vesting portion of the award as if each vesting tranche was a separate grant. For awards with vesting associated to investor's return, expense is recognized over the expected service period derived from the output of a valuation model.

(e) Foreign currency derivatives

During the fiscal three-month period ended April 1, 2007, the Company entered into foreign currency forward contracts to purchase a total of \$240,000 with Euros at rates ranging from \$1.3121 to \$1.3229. The maturity dates of the contracts outstanding as of July 1, 2007 range from November 23, 2007 to November 23, 2011. The fair value of the remaining contracts of \$7,307 is recorded as a liability in the Condensed Consolidated Balance Sheet as of July 1, 2007 and recognized as a loss in the fiscal six-month period ended July 1, 2007. The Company recognized an unrealized loss of \$2,291 for foreign currency forward contracts for the three-month period ended July 1, 2007. The Company also recognized a loss of \$1,061 for settled foreign currency forward contracts during the three-month and six-month periods ended July 1, 2007. All realized and unrealized losses on foreign currency forward contracts were recognized as a component of selling, general, and administrative expense in the Condensed Consolidated Statement of Operations. As of December 31, 2006, there were no outstanding derivative contracts.

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(3) Summary of Significant Accounting Policies (cont'd)

(f) Restructuring and other costs

Included in restructuring and other costs are costs related to restructuring and initial stand-alone activities, including: other services; retention payments; transferring production to a new facility; consulting services related to setting up the U.S. Benefit Plan and reorganization of a sales force in Europe.

The Company recognized \$7,405 restructuring and other costs for the fiscal three-month period ended July 1, 2007 comprised of restructuring costs associated with retention and severance payments of \$2,128 and other costs associated with consulting and other service costs of \$5,277.

(g) Reclassification

Certain prior period balances in the Condensed Consolidated Balance Sheet have been reclassified to conform to the current period presentation.

(4) Related Party Transactions

In connection with the Acquisition described in note 2, the Company entered into a management consulting and advisory services agreement with Apollo and its affiliates for the provision of certain structuring, management and advisory services for an initial term of up to twelve years. The Company also agreed to indemnify Apollo and its affiliates and their directors, officers, and representatives for potential losses relating to the services contemplated under these agreements. Terms of the agreement provide for annual fees of \$3,500, payable in one lump sum annually, and provide for a lump-sum settlement equal to the net present value of the remaining annual management fees payable under the remaining term of the agreement in connection with a sale of the Company or initial public offering by the Company. For the fiscal three-month and six-month periods ended July 1, 2007, the Company recorded expenses for fees paid of \$867 and \$2,029, respectively. These amounts are included within selling, general and administrative expenses in the Company's Condensed Consolidated Statements of Operations.

The Company sells products to various affiliated businesses (affiliates). For the fiscal three-month periods ended July 1, 2007 and July 2, 2006, sales to affiliates were \$15,889 and \$11,027, respectively. For the fiscal six-month periods ended July 1, 2007 and July 2, 2006, sales to affiliates were \$30,577 and \$22,171, respectively. Receivables from affiliates of \$14,243 and \$10,573 at July 1, 2007 and December 31, 2006, respectively, relate to such sales. In connection with the Acquisition, the Company will also be reimbursed by GE for certain income tax payments of approximately \$9,000.

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(4) Related Party Transactions (cont'd)

GE and its affiliates provide a variety of services to the Company, including services pursuant to certain transition service agreements entered into at the time of the Acquisition. Certain services, such as administering employee benefit plans and paying related claims, provision of voice and data networking, outsourcing of certain functions, environmental remediation, and other corporate services and headquarters' overhead were charged to the Company as utilized through December 3, 2006, and were charged pursuant to terms of transition service agreements from December 4, 2006. Billings for these services were \$28,144 and \$39,932 for the fiscal three-month periods ended July 1, 2007 and July 2, 2006, respectively. Billings for these services were \$62,940 and \$77,025 for the fiscal six-month periods ended July 1, 2007 and July 2, 2006, respectively. These amounts are principally included in selling, general and administrative expenses in the accompanying Condensed Consolidated and Combined Statements of Operations.

The Company purchased products from various affiliates totaling \$533 and \$157, during the fiscal three-month periods ended July 1, 2007 and July 2, 2006, respectively. Product purchases from affiliates during the fiscal six-month periods ended July 1, 2007 and July 2, 2006 were \$1,630 and \$292, respectively. Payable to affiliates at July 1, 2007 and December 31, 2006, resulting from procurement activity and transition services was \$23,237 and \$39,569, respectively.

During 2006, the Company sold, on an ongoing basis and without recourse, certain of its trade accounts receivable recorded by the Company's operations in Canada, United States and the Europe and Pacific regions to affiliates of GE. The sale of the receivables was accounted for under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Trade receivables of \$115,042 were sold as of July 2, 2006.

For the fiscal three-month and six-month periods ended July 2, 2006, the Company paid \$4,044 and \$8,188, respectively, in interest and service fees to affiliates of GE related to the sale of such receivables. These expenses are recorded as interest expense in the accompanying Combined Statements of Operations. No such transactions were recorded in the Company's condensed consolidated financial statements as of July 1, 2007 and for the fiscal three-month and six-month periods then ended.

During 2006, the Company's U.S. domestic operations and several of the Company's non-U.S. entities participated in a pooled treasury operation with GE. As part of this pooled activity, the Company earned interest on balances on deposit with GE and paid interest when local operations borrow money from the pool. As of December 31, 2006, the Company had \$362 of amounts on deposit with GE that is included within cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheet. The related interest charges are reflected in the Condensed Consolidated Statement of Operations.

Through October 2006, the Company participated in a payables program with Vendor Financial Services (VFS), a GE affiliate. The Company settled invoices with vendors to obtain cash discounts. VFS provided funding for the period from when the invoice was eligible for cash discount until the final date for invoice settlement. The Company had no liability related to the VFS program at July 1, 2007 or December 31, 2006. Expenses related to program participation amounted to \$769 and \$1,382 for the fiscal three-month and six-month periods ended July 2, 2006.

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(4) Related Party Transactions (cont'd)

The expense is classified as other expense in the accompanying Condensed Combined Statements of Operations.

Interest income and interest expense related substantially to cash transfers to and from GE for the fiscal three-month and six-month periods ended July 2, 2006. Interest expense for the fiscal three-month and six-month periods ended July 1, 2007 is associated with the Company's indebtedness.

(5) Receivables, Net

Receivables consisted of the following at July 1, 2007 and December 31, 2006:

	<u>July 1, 2007</u>	<u>December 31, 2006</u>
Trade	\$ 471,480	482,540
Other:		
VAT	15,388	30,036
Advances	7,894	16,093
Other	<u>11,494</u>	<u>14,336</u>
	506,256	543,005
Allowance for doubtful accounts	<u>(5,639)</u>	<u>(5,702)</u>
Total receivables, net	<u>\$ 500,617</u>	<u>537,303</u>

(6) Inventories

Inventories consisted of the following at July 1, 2007 and December 31, 2006:

	<u>July 1, 2007</u>	<u>December 31, 2006</u>
Raw materials and work in process	\$ 131,836	158,797
Finished goods	254,970	268,242
Consigned inventory	<u>6,273</u>	<u>2,499</u>
Total inventories	<u>\$ 393,079</u>	<u>429,538</u>

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(7) Property and Equipment, Net

Property and equipment consisted of the following at July 1, 2007 and December 31, 2006:

	<u>July 1, 2007</u>	<u>December 31, 2006</u>
	(Restated)	
Land and improvements	\$ 86,612	48,101
Buildings, structures and related improvements	207,259	262,910
Machinery and equipment	894,069	995,896
Software	19,591	29,734
Construction-in-progress	<u>155,323</u>	<u>146,105</u>
	1,362,854	1,482,746
Less accumulated depreciation and amortization	<u>(106,233)</u>	<u>(13,903)</u>
Total property and equipment, net	<u>\$ 1,256,621</u>	<u>1,468,843</u>

The Company reclassified approximately \$195,000 between Software and Machinery and Equipment as of December 31, 2006.

Depreciation expense is recorded in selling, general and administrative expenses.

(8) Short-Term Borrowings

At July 1, 2007, the Company's short-term borrowings consisted of bank borrowings other than the revolving credit facility of \$2,312. At December 31, 2006, short-term borrowings consisted of a book overdraft balance of \$2,128.

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(9) Stock-Based Compensation

On March 30, 2007, the Board of Directors of Holdings approved the 2007 Long-Term Incentive Plan of Holdings (“the Incentive Plan”). A maximum of 500,000 shares of Holdings common stock may be issued or transferred, including options pursuant to the Incentive Plan. On the date the Incentive Plan was adopted, 204,700 and 2,000 shares of non-qualified stock options were granted to certain employees and directors, respectively, of the Company, and 92,761 shares of non-qualified stock options were granted during the fiscal three-month period ended July 1, 2007.

Employee option grants with graded vesting vest over a five-year period. Other options vest only if the Company’s investors realize a specified actual annual IRR. Investor internal rate of return (“IRR”) refers to the rate of return achieved by Holdings’ primary shareholder as defined by the Incentive Plan. Director options vested immediately upon being granted. The fair value of each employee’s options with graded vesting and the director options was estimated using the Black-Scholes-Merton option pricing model. For the options associated with investor IRR, an adaptation of the Black-Scholes-Merton, which took into consideration the internal rate of return thresholds, was used to estimate fair value. This model adaptation is essentially equivalent to the use of a path-dependent lattice model.

Expected volatility was based on the historical volatility of representative peer companies’ stocks. Expected term for graded and director options was based on the simplified method in Staff Accounting Bulletin No. 107 which allows a term equal to the period from grant date to the mid point between vesting dates and contractual expiration of the options. For options associated with investor IRR, the expected term reflected an assumed date when the investor would reach its internal rate of return threshold plus an estimated additional holding period until the option exercise. Expected dividend yield was based on management’s expectation of no dividend payments. Risk free interest rates were based on the U.S. treasury yield curve in effect at the grant date.

Options granted during 2007 used the following weighted average assumptions:

Risk-free interest rate	4.68%
Expected term (in years)	5.83
Volatility	27%
Expected dividend yield	-
Weighted average fair value	\$ 21.41

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(9) Stock-Based Compensation (cont'd)

At July 1, 2007, all of the 297,461 employee options granted remain outstanding and unvested. There was zero intrinsic value on any options at July 1, 2007.

For the fiscal three-month and six-month periods ended July 1, 2007, the Company recognized \$0 and \$66 for director compensation, \$423 and \$435 for employee compensation, respectively. As of July 1, 2007, there was \$5,109 of unrecognized compensation costs related to unvested options, which is expected to be recognized over a weighted-average period of 1.8 years.

The following is a summary of the stock options as of and for the fiscal six-month period ended July 1, 2007:

	Options	Weighted Average Exercise Price
Outstanding at January 1, 2007	-	
Granted	299,461	\$ 100.00
Forfeited	-	
Expired	-	
Exercised	-	
Outstanding at July 1, 2007	<u>299,461</u>	\$ 100.00

The weighted average characteristics of outstanding options at July 1, 2007 were as follows:

<u>Options Outstanding</u>		
Outstanding at July 1, 2007	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
299,461	9.43	\$ 100.00

MOMENTIVE PERFORMANCE MATERIALS INC.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)

(Dollar amounts in thousands, except per share amounts)

(10) Income Taxes (restated)

The Company determined that the most appropriate estimate of its effective tax rate would result from the use of the discrete approach.

The effective tax rate was -9.57% for the fiscal six-month period ended July 1, 2007 and 56.84% for the fiscal six-month period ended July 2, 2006. The reduction in the effective tax rate in 2007 was primarily due to a change in the amount of profit and loss before tax earned in the various jurisdictions in which the Company operates, the maintenance of a valuation allowance against a substantial amount of the Company's net deferred tax assets and recognition of a deferred tax liability for certain long lived taxable temporary differences. The valuation allowance, which relates principally to U.S. deferred tax assets, was established and maintained based on the Company's assessment that a portion of the deferred tax assets will not be realized. Deferred tax liabilities are established in certain jurisdictions due to basis differences in goodwill associated with the acquisition.

As described in note 3 (c), the Company adopted FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007 and as of July 1, 2007, the Company had no unrecognized tax benefits.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of July 1, 2007, the Company also had no accrued interest related to uncertain tax positions.

As of the adoption date, the tax years 2001 through 2006, 2003 through 2006 and 2006 remain open to examination in Europe, Asia and the U.S., respectively.

(11) Comprehensive Income (Loss)

The balances for each classification of comprehensive income (loss) are as follows:

	<u>Successor</u>	<u>Predecessor</u>	<u>Successor</u>	<u>Predecessor</u>
	<u>Fiscal three-month period ended</u>	<u>Fiscal three-month period ended</u>	<u>Fiscal six-month period ended</u>	<u>Fiscal six-month period ended</u>
	<u>July 1,</u>	<u>July 2,</u>	<u>July 1,</u>	<u>July 2,</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(Restated)		(Restated)	
Net income (loss)	(44,707)	15,745	(101,991)	29,105
Foreign currency translation	(7,928)	16,575	(9,117)	15,969
Other comprehensive income adjustments, net	3,144	29	3,190	(145)
Comprehensive income (loss)	<u>\$ (49,491)</u>	<u>32,349</u>	<u>(107,918)</u>	<u>44,929</u>

