# 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 September 30, 2003

Commission file number 1-71

# BORDEN CHEMICAL, INC.

| New Jersey | 13-0511250 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

180 East Broad Street, Columbus, OH 43215

(Address of principal executive offices)

(614) 225-4000

(Registrant's telephone number, including area code)

Not Applicable

(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 sho
Yes x No o

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

Number of shares of common stock, $0.01 par value, outstanding as of the close of business on November 10, 2003: 200,895,628

**BORDEN CHEMICAL, INC.**

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**PART I**

**Item 1. Borden Chemical, Inc. Consolidated Financial Statements**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)**
**BORDEN CHEMICAL, INC.**

| (In thousands, except per share data) | Three months ended September 30, 2003 | 2002 |
|---|---|---|
| Net sales | $ 358,281 | $ 327,187 |
| Cost of goods sold | 283,891 | 257,333 |
| Gross margin | 74,390 | 69,854 |
| Distribution expense | 16,000 | 15,989 |
| Marketing expense | 10,515 | 10,453 |
| General & administrative expense | 23,817 | 22,389 |
| Business realignment (income) expense and impairments | (8,806) | 2,082 |
| Other operating (income) expense | (1,559) | 1,272 |
| Operating income | 34,423 | 17,669 |
| Interest expense | 11,275 | 11,955 |
| Affiliated interest expense | 133 | 435 |
| Other non-operating income | (513) | (1,467) |
| Income before income tax | 23,528 | 6,746 |
| Income tax expense | 12,475 | 3,512 |
| Net income | $ 11,053 | $ 3,234 |
| Comprehensive Income | $ 11,456 | $ (10,708) |
| Basic and Diluted Per Share Data | | |
| Net income | $ 0.06 | $ 0.02 |
| Average number of common shares outstanding during the period - basic and dilutive | 200,896 | 201,004 |

See Notes to Consolidated Financial Statements



**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)**
**BORDEN CHEMICAL, INC.**

| (In thousands, except per share data) | Nine months ended September 30, 2003 | 2002 |
|---|---|---|
| Net sales | $ 1,078,332 | $ 932,845 |
| Cost of goods sold | 865,359 | 716,194 |
| Gross margin | 212,973 | 216,651 |
| Distribution expense | 49,385 | 46,105 |
| Marketing expense | 31,674 | 31,995 |
| General & administrative expense | 75,606 | 71,869 |
| Business realignment (income) expense and impairments | (7,385 ) | 12,142 |
| Other operating expense | 2,107 | 9,793 |
| Operating income | 61,586 | 44,747 |
| Interest expense | 34,114 | 35,922 |
| Affiliated interest expense, net of affiliated interest income of $ 0 and $455, respectively | 456 | 1,051 |
| Other non-operating expense (income) | 489 | (5,327 ) |
| Income before income tax and cumulative effect of change in accounting principle | 26,527 | 13,101 |
| Income tax (benefit) expense | (1,271 ) | 9,056 |

| | | |
|---|---|---|
| Income before cumulative effect of change in accounting principle | 27,798 | 4,045 |
| Cumulative effect of change in accounting principle | - | (29,825 ) |
| Net income (loss) | $ 27,798 | $ (25,780 ) |
| Comprehensive Income (Loss) | $ 51,214 | $ (44,572 ) |
| Basic and Diluted Per Share Data | | |
| Income before cumulative effect of change in accounting principle | $ 0.14 | $ 0.02 |
| Cumulative effect of change in accounting principle | - | (0.15 ) |
| Net income (loss) | $ 0.14 | $ (0.13 ) |
| Average number of common shares outstanding during the period - basic and dilutive | 200,898 | 200,307 |

**See Notes to Consolidated Financial Statements**



**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**
**BORDEN CHEMICAL, INC.**

(In thousands)

| ASSETS | September 30, 2003 | December 31, 2002 |
|---|---|---|
| **Current Assets** | | |
| Cash and equivalents | $ 26,975 | $ 14,740 |
| Restricted cash | - | 67,049 |
| Accounts receivable (less allowance for doubtful accounts of $13,555 in 2003 and $12,219 in 2002) | 200,891 | 170,822 |
| Accounts receivable from affiliates | 175 | 5,840 |
| Inventories: | | |
| Finished and in-process goods | 42,914 | 45,178 |
| Raw materials and supplies | 37,425 | 41,079 |
| Deferred income taxes | 24,558 | 28,869 |
| Other current assets | 16,781 | 13,232 |
| | 349,719 | 386,809 |
| **Investments and Other Assets** | | |
| Deferred income taxes | 131,906 | 118,368 |
| Other assets | 21,123 | 19,615 |
| | 153,029 | 137,983 |
| **Property and Equipment** | | |
| Land | 31,852 | 31,964 |
| Buildings | 101,488 | 98,313 |
| Machinery and equipment | 676,317 | 649,782 |
| | 809,657 | 780,059 |
| Less accumulated depreciation | (370,546) | (340,321) |
| | 439,111 | 439,738 |
| **Goodwill** | 39,772 | 39,640 |
| **Other Intangible Assets** | 6,483 | 7,610 |
| **Total Assets** | $ 988,114 | $ 1,011,780 |

See Notes to Consolidated Financial Statements

**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**
**BORDEN CHEMICAL, INC.**

(In thousands, except share data)

| LIABILITIES AND SHAREHOLDERS' DEFICIT | September 30, 2003 | December 31, 2002 |
|---|---|---|
| **Current Liabilities** | | |
| Accounts and drafts payable | $ 121,044 | $ 113,549 |
| Accounts payable to affiliates | 75 | 2,580 |
| Debt payable within one year | 5,807 | 2,779 |
| Loans payable to affiliates | 33,120 | 84,680 |
| Other current liabilities | 74,285 | 97,932 |
| | 234,331 | 301,520 |
| **Other Liabilities** | | |
| Long-term debt | 522,458 | 523,287 |
| Non-pension post-employment benefit obligations | 134,205 | 145,384 |
| Other long-term liabilities | 212,117 | 202,482 |
| | 868,780 | 871,153 |
| **Commitments and Contingencies (See Note 10)** | | |
| **Shareholders' Deficit** | | |
| Common stock - $0.01 par value: authorized 300,000,000 shares, Issued 200,895,628 and 200,923,628 shares in 2003 and 2002, respectively | 2,009 | 2,009 |
| Paid in capital | 1,202,566 | 1,172,344 |
| Receivable from parent | (499,949) | (463,516) |
| Deferred compensation | (1,786) | (2,679) |
| Accumulated other comprehensive income | (142,221) | (165,637) |
| Accumulated deficit | (675,616) | (703,414) |
| | (114,997) | (160,893) |
| **Total Liabilities and Shareholders' Deficit** | $ 988,114 | $ 1,011,780 |

See Notes to Consolidated Financial Statements



**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**
**BORDEN CHEMICAL, INC.**

| (In thousands) | Nine months ended September 30, 2003 | 2002 |
|---|---|---|
| **Cash Flows from (used in) Operating Activities** | | |
| Net income (loss) | $ 27,798 | $ (25,780) |
| Adjustments to reconcile net loss to net cash from (used in) operating activities: | | |
| Deferred tax benefit | (10,088) | 11,797 |
| Depreciation and amortization | 34,676 | 35,800 |
| Business realignment (income) expense and impairments | (7,385) | 12,142 |
| Cumulative effect of change in accounting principle | - | 29,825 |
| Other non-cash adjustments | 59 | (1,787) |
| Net change in assets and liabilities: | | |
| Accounts receivable | (15,590) | (14,462) |
| Inventories | 9,277 | 5,632 |
| Accounts and drafts payable | (431) | (15,004) |
| Income taxes | (7,402) | (3,058) |
| Other assets | 2,388 | (4,139) |
| Other liabilities | (27,207) | (36,716) |
| | 6,095 | (5,750) |

| | | |
|---|---|---|
| **Cash Flows (used in) from Investing Activities** | | |
| Capital expenditures | (24,684) | (26,338) |
| Proceeds from sale of note receivable to an affiliate | - | 110,000 |
| Proceeds from the sale of assets | 13,422 | 10,139 |
| | (11,262) | 93,801 |
| **Cash Flows from (used in) Financing Activities** | | |
| Net short-term debt borrowings (repayments) | 3,028 | (215) |
| Borrowings of long-term debt | 255 | - |
| Repayments of long-term debt | (1,084) | (2,761) |
| Affiliated (repayments) borrowings | (51,560) | 29,825 |
| Payment of note payable to unconsolidated subsidiary | - | (31,581) |
| Decrease (increase) in restricted cash | 67,049 | (78,134) |
| Net (repurchases) sales of common stock from/to management | (286) | 387 |
| | 17,402 | (82,479) |
| Increase in cash and equivalents | 12,235 | 5,572 |
| Cash and equivalents at beginning of year | 14,740 | 24,632 |
| Cash and equivalents at end of period | $ 26,975 | $ 30,204 |
| **Supplemental Disclosures of Cash Flow Information** | | |
| Cash paid: | | |
| Interest, net | $ 38,700 | $ 39,580 |
| Income taxes, net | 16,219 | 1,339 |
| Non-cash activity: | | |
| Capital contribution by parent | 12,752 | 20,190 |
| Settlement of note payable to unconsolidated subsidiary | - | 2,600 |

See Notes to Consolidated Financial Statements



**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT AND COMPREHENSIVE INCOME (UNAUDITED)**
**BORDEN CHEMICAL, INC.**

(In thousands)

| | Common Stock | Paid-in Capital | Receivable from Parent | Deferred Compensation | Accumulated Other Comprehensive Income | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2002 | $ 2,009 | $ 1,172,344 | $ (463,516) | $ (2,679) | $ (165,637) | $ (703,414) | $ (160,893) |
| Net income | | | | | | 27,798 | 27,798 |
| Translation adjustments and other | | | | | 23,416 | | 23,416 |
| Comprehensive income | | | | | | | 51,214 |
| Repurchases of common stock from management | | (286) | | | | | (286) |
| Income tax on sale to affiliate of Consumer Adhesives note receivable | | (5,925) | | | | | (5,925) |
| Interest accrued on notes from parent (net of tax $12,752) | | 23,681 | (36,433) | | | | (12,752) |
| Capital contribution from parent | | 12,752 | | | | | 12,752 |
| Compensation expense on restricted stock | | | | 893 | | | 893 |
| Balance, September 30, 2003 | $ 2,009 | $ 1,202,566 | $ (499,949) | $ (1,786) | $ (142,221) | $ (675,616) | $ (114,997 ) |

See Notes to Consolidated Financial Statements



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Dollars in thousands except per share amounts and as otherwise indicated)

**1. Background**

On March 14, 1995, affiliates of Kohlberg, Kravis Roberts & Co. ("KKR") acquired control of Borden Chemical, Inc. (the "Company"). In late 1995, the Company began the process of redesigning its operating

The Company's immediate parent is Borden Holdings, Inc. ("BHI"), which is a wholly owned subsidiary of BW Holdings, LLC ("BWHLLC"), an entity controlled by KKR.

**2. Basis of Presentation**

The accompanying unaudited Consolidated Financial Statements include the accounts of the Company and its subsidiaries, after elimination of intercompany accounts and transactions and contain all adjustmen

The Company accounts for stock-based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and has adopted the disclosure-only provision of Statem

| | Three Months ended September 30, | | Nine Months |
|---|---|---|---|
| | 2003 | 2002 | 2003 |
| Net income (loss) applicable to common stock | $ 11,053 | $ 3,234 | $ 27,79 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax benefit | 14 | - | 8 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards granted since January 1, 1996, net of related tax effects | (24 ) | (24 ) | (7 |
| Pro Forma net income (loss) | $ 11,043 | $ 3,210 | $ 27,80 |
| Average shares outstanding - basic | 200,896 | 201,004 | 200,89 |
| Average shares outstanding -diluted | 200,896 | 201,004 | 200,89 |
| Per share as reported (basic and diluted) | $ 0.06 | $ 0.02 | $ 0.1 |
| Per share pro forma (basic and diluted) | $ 0.05 | $ 0.02 | $ 0.1 |

At September 30, 2003, 1,492 options to purchase common shares of the Company were outstanding and considered dilutive. The impact of the dilutive options was insignificant and is included in the rounded



**3. Business Realignment (Income) Expense**

**Three Months Ended September 30, 2003**

In the third quarter of 2003, the Company recorded business realignment income and impairments of $8,806 consisting of plant closure costs of $542, other severance and employee costs of $2,318, a gain on th

Plant Closure and Other Severance and Employee Costs

Provided below is a rollforward of the business realignment reserve for the three months ended September 30, 2003:

| | Reserves June 30, 2003 | 2003 Expense | 2003 Settlements/ Payments | Reserves September 30, 2003 |
|---|---|---|---|---|
| Plant closure costs | $ 5,911 | $ 542 | $ (1,310 ) | $ 5,143 |
| Other severance and employee costs | 3,285 | 2,318 | (2,255 ) | 3,348 |
| Total reserve activity | $ 9,196 | $ 2,860 | $ (3,565 ) | $ 8,491 |

Plant closure costs in the third quarter of 2003 of $542 consist of environmental remediation costs of $68 for previously closed plants in Brazil and $474 of other previous plant closure costs, fixed asset write-o

Gain on the Sale of Assets

In the third quarter of 2003, the Company sold land associated with a previously closed plant in the United Kingdom resulting in a gain of $11,692. The gain on this sale was recorded as business realignment in

Asset Impairments

The Company also recorded asset impairments of $26 related to its French and Colombian operations in the three months ended September 30, 2003.

**Nine Months Ended September 30, 2003**

In the first nine months of 2003, the Company recorded business realignment income and impairments of $7,385 consisting plant closure costs of $267, other severance and employee costs of $4,431, a gain on

Plant Closure and Other Severance and Employee Costs

Provided below is a rollforward of the business realignment reserve for the first nine months of 2003:

| | Reserves December 31, 2002 | 2003 Expense | 2003 Settlements/ Payments | Reserves September 30, 2003 |
|---|---|---|---|---|
| Plant closure costs | $ 9,568 | $ 267 | $ (4,692 ) | $ 5,143 |
| Other severance and employee costs | 3,996 | 4,431 | (5,079 ) | 3,348 |
| Total reserve activity | $ 13,564 | $ 4,698 | $ (9,771 ) | $ 8,491 |



Plant closure cost in 2003 of $267 consist of environmental remediation costs of $962 for previously closed plants in Brazil and $879 of other plant closure costs, fixed asset write-offs and realignment program

Gain on the Sale of Assets

In 2003, the Company sold land associated with a previously closed plant in the United Kingdom and its melamine plant that was previously closed and recorded gains of $12,260. The gains related to these sale

Asset Impairment

The Company also recorded asset impairments of $177 related to its French and Colombian operations in the first nine months of 2003.

**2003 Realignment Program**

In June 2003, the Company initiated a realignment program designed to reduce operating expenses and increase organizational efficiency. To achieve these goals, the Company is reducing headcount, streamlini
es, for positions to be replaced. The Company is implementing self-directed work teams in its manufacturing facilities. As a result of consolidating manufacturing processes, manufacturing shifts have been redu

Provided below is a rollforward of the business realignment reserve activity related to the June 2003 realignment program for the three months ended September 30, 2003:

| | Reserves June 30, 2003 | 2003 Expense | 2003 Settlements/ Payments | Reserves September 30, 2003 |
|---|---|---|---|---|
| Severance costs | $ 1,777 | $ 1,180 | $ (1,498 ) | $ 1,459 |
| Other costs | - | 200 | (200 ) | - |
| | $ 1,777 | $ 1,380 | $ (1,698 ) | $ 1,459 |



Provided below is a rollforward of the business realignment reserves activity related to the June 2003 realignment program for the nine months ended September 30, 2003:

| | Reserves December 31, 2002 | 2003 Expense | 2003 Settlements/ Payments | Reserves September 30, 2003 |
|---|---|---|---|---|
| Severance costs | $ - | $ 3,214 | $ (1,755 ) | $ 1,459 |
| Other costs | - | 200 | (200 ) | - |
| | $ - | $ 3,414 | $ (1,955 ) | $ 1,459 |

**Three Months Ended September 30, 2002**

In the third quarter of 2002, the Company recorded business realignment expense of $2,082 consisting of plant closure costs of $1,236 and other severance and employee costs of $846.

Plant Closure and Other Severance and Employee Costs

Provided below is a rollforward of business realignment activity for the three months ended September 30, 2002:

| | Reserves June 30, 2002 | 2002 Expense | 2002 Settlements/ Payments | Reserves September 30, 2002 |
|---|---|---|---|---|
| Plant closure costs | $ 14,777 | $ 1,236 | $ (2,851 ) | $ 13,162 |
| Other severance and employee costs | 6,759 | 846 | (3,257 ) | 4,348 |
| | $ 21,536 | $ 2,082 | $ (6,108 ) | $ 17,510 |

Plant closure costs of $1,236 included plant employee severance of $1,706, partially offset by a reduction of demolition, environmental and other reserves of $470.

**Nine Months Ended September 30, 2002**

In the nine months ended September 30, 2002, the Company recorded business realignment expense of $12,142 consisting of plant closure costs of $12,495, other severance and employee costs of $2,112 and a

Plant Closure and Other Severance and Employee Costs

Provided below is a rollforward of business realignment reserve activity for first nine months of 2002:

| | Reserves December 31, 2001 | 2002 Expense | 2002 Settlements/ Payments | Reserves September 30, 2002 |
|---|---|---|---|---|
| Plant closure costs | $ 14,067 | $ 12,495 | $ (13,400 ) | $ 13,162 |
| Other severance and employee costs | 8,360 | 2,112 | (6,124 ) | 4,348 |
| | $ 22,427 | $ 14,607 | $ (19,524 ) | $ 17,510 |

Plant closure costs of $12,142 consists of $12,495, primarily related to the closure of the melamine crystal business facility, included plant employee severance of $10,424 and demolition, environmental and ot



Gain on the Sale of Assets

In the first quarter of 2002, the Company sold land associated with a closed plant in Spain resulting in a gain of $2,465.

### 4. Restricted Cash

Restricted cash at December 31, 2002 represents cash collateral related to the Company's uncommitted letter of credit facility. The facility required the Company to provide cash collateral equivalent to 101% o

### 5. Goodwill and Intangible Assets

As of January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". Consequently, subsequent to January 1, 2002, goodwill and identifiable intangible assets with indefinite us

Also, in conjunction with adopting SFAS No. 142, the Company assessed its intangible assets and tested the carrying amount of goodwill for impairment. The intangible asset assessment was conducted to dete
/DIV>

### 6. Comprehensive Income

Comprehensive income is computed as follows:

| | Three Months ended September 30, | | Nine Months ended September, 30 | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net income (loss) | $ 11,053 | $ 3,234 | $ 27,798 | $ (25,780 ) |
| Foreign currency translation adjustments | 403 | (13,911 ) | 23,416 | (19,330 ) |
| Derivative activity | - | (31 ) | - | 538 |

| | | | | |
|---|---|---|---|---|
| | $ 11,456 | $ (10,708 ) | $ 51,214 | $ (44,572 ) |

The foreign currency translation adjustments in 2003 relate primarily to favorable exchange rates in Canada and Latin America. The unfavorable 2002 foreign currency translation adjustments relate primarily t

## 7. Segment Data

The Company reports three operating segments, as well as Corporate and other and Divested businesses. The operating segments are North American Forest Products, North American Performance Resins and America, Europe and Asia Pacific with the principal countries being Brazil, the United Kingdom, Malaysia and Australia. Product lines of the International segment include forest product and performance resi



**Results of Operations by Segment:**

Following is a comparison of net sales, depreciation and amortization, and earnings before interest, taxes, depreciation and amortization adjusted for business realignment, impairments, non-operating income (e

### Net Sales

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| North American Forest Products | $ 192,212 | $ 171,838 | $ 571,947 | $ 470,082 |
| North American Performance Resins | 87,641 | 87,489 | 276,578 | 260,400 |
| International | 78,428 | 67,522 | 229,801 | 195,848 |
| Divested businesses | - | 338 | 6 | 6,515 |
| | $ 358,281 | $ 327,187 | $ 1,078,332 | $ 932,845 |

### Depreciation and Amortization Expense

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| North American Forest Products | $ 4,979 | $ 4,643 | $ 14,648 | $ 14,234 |
| North American Performance Resins | 2,636 | 2,410 | 7,564 | 7,334 |
| International | 2,661 | 2,604 | 7,966 | 7,925 |
| Corporate and other | 1,494 | 2,025 | 4,498 | 6,307 |
| | $ 11,770 | $ 11,682 | $ 34,676 | $ 35,800 |

### Adjusted EBITDA

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| North American Forest Products | $ 26,890 | $ 22,704 | $ 69,512 | $ 72,380 |
| North American Performance Resins | 11,369 | 12,252 | 35,664 | 36,905 |
| International | 7,411 | 7,912 | 23,396 | 24,176 |
| Corporate and other | (8,053 ) | (10,940 ) | (36,272 ) | (34,963 ) |
| | $ 37,617 | $ 31,928 | $ 92,300 | $ 98,498 |



### Reconciliation of Adjusted EBITDA to Income Before Income Tax and Cumulative Effect of Change in Accounting Principle

| | Three Months ended September 30, 2003 | Three Months ended September 30, 2002 | Nine Months ended September 30, 2003 | Nine Months ended September 30, 2002 |
|---|---|---|---|---|
| Adjusted EBITDA | $ 37,617 | $ 31,928 | $ 92,300 | $ 98,498 |
| Depreciation and amortization | (11,770 ) | (11,682 ) | (34,676 ) | (35,800 ) |
| Adjustments to EBITDA (described below) | 8,576 | (2,577 ) | 3,962 | (17,951 ) |
| Interest expense | (11,275 ) | (11,955 ) | (34,114 ) | (35,922 ) |
| Affiliated interest expense | (133 ) | (435 ) | (456 ) | (1,051 ) |
| Other non-operating income (expense) | 513 | 1,467 | (489 ) | 5,327 |
| Income before income tax and cumulative effect of change in accounting principle | $ 23,528 | $ 6,746 | $ 26,527 | $ 13,101 |

**Adjustments to EBITDA**

The following items are not included in the Adjusted EBITDA results reviewed by the Company's chief decision maker.

| **Three Months Ended September 30, 2003** | **Plant Closure (1)** | **Severance** | **Impairments/ Other** | **Total** |
|---|---|---|---|---|
| North American Forest Products | $ (141 ) | $ (606 ) | $ - | $ (747 ) |
| North American Performance Resins | 121 | (97 ) | - | 24 |
| International | (635 ) | (403 ) | 11,666 (2 ) | 10,628 |
| Corporate and other | - | (1,212 ) | (221 ) (3 ) | (1,433 ) |
| Divested businesses (4) | 113 | - | (9 ) | 104 |
| Total | $ (542 ) | $ (2,318 ) | $ 11,436 | $ 8,576 |
| **Three Months Ended September 30, 2002** | | | | |
| North American Forest Products | $ 146 | $ (185 ) | $ - | $ (39 ) |
| North American Performance Resins | (1,222 ) | 89 | - | (1,133 ) |
| International | 1,115 | - | - | 1,115 |
| Corporate and other | - | (750 ) | - | (750 ) |
| Divested businesses (4) | (1,275 ) | - | (495 ) | (1,770 ) |
| Total | $ (1,236 ) | $ (846 ) | $ (495 ) | $ (2,577 ) |

(1) Plant closure costs include fixed asset write-offs, plant employee severance and demolition, environmental and other related costs.

(2) Primarily represents a gain of $11,692 on the sale of land associated with a previously closed plant in the United Kingdom.

(3) Primarily represents severance expense, included in general and administrative expense, incurred by the Company for positions to be replaced.

(4) Represents gains recognized (expenses incurred) related to the closure and subsequent sale of the Company's melamine operations



| **Nine Months Ended September 30, 2003** | **Plant Closure (1)** | **Severance** | **Impairments/ Other** | **Total** |
|---|---|---|---|---|
| North American Forest Products | $ 557 | $ (540 ) | $ (520 ) (2 ) | $ (503 ) |
| North American Performance Resins | (42 ) | (407 ) | - | (449 ) |
| International | (2,325 ) | (574 ) | 11,515 (3 ) | 8,616 |
| Corporate and other | (146 ) | (2,910 ) | (2,588 ) (2 ) | (5,644 ) |
| Divested businesses (4) | 1,689 | - | 253 | 1,942 |
| Total | $ (267 ) | $ (4,431 ) | $ 8,660 | $ 3,962 |
| **Nine Months Ended September 30, 2002** | | | | |
| North American Forest Products | $ (714 ) | $ (103 ) | $ - | $ (817 ) |
| North American Performance Resins | (1,857 ) | (544 ) | - | (2,401 ) |
| International | (3,568 ) | - | 2,465 (5 ) | (1,103 ) |
| Corporate and other | - | (1,465 ) | (5,500 ) (6 ) | (6,965 ) |
| Divested businesses (4) | (6,356 ) | - | (309 ) | (6,665 ) |
| Total | $ (12,495 ) | $ (2,112 ) | $ (3,344 ) | $ (17,951 ) |

(1) Plant closure costs include fixed asset write-offs, plant employee severance and demolition, environmental and other related costs.

(2) Primarily represents severance expense, included in general and administrative expense, incurred by the Company for positions to be replaced.

(3) Primarily represents a gain of $11,692 on the sale of land associated with a previously closed plant in the United Kingdom.

(4) Represents gains recognized (expenses incurred) related to the closure and subsequent sale of the Company's melamine operations.

(5) Represents a gain on the sale of land associated with a previously closed plant in Spain.

(6) Represents an additional management fee of $5,500 related to the wind down of Borden Capital, Inc. , included in other operating expense (see Note 8).

## 8. Related Party Transactions

Financing and Investing Arrangements

Borden Foods Holdings Corporation ("Foods"), an affiliate of the Company, provides loans to the Company and HA-International, LLC ("HAI"), a consolidated joint venture of the Company, under affiliate bo
loaned by affiliates for the nine months ended September 30, 2003 and 2002, respectively.

The Company holds a $404,817 note receivable ($499,949 including accrued interest) from BHI, which is accounted for as a reduction from equity. The Company accrues interest quarterly on the note receivab

On March 1, 2002, the Company redeemed its $110,000 preferred stock investment in Consumer Adhesives, an affiliate of the Company, for a $110,000 note receivable from Consumer Adhesives. On March 1



Administrative Service, Management and Consulting Arrangements

The Company provides administrative services to Foods under an agreement effective in 2002, renewable each year. Fees received for these services are offset against the Company's general and administrative

Borden Capital, Inc. ("Capital") provided management, consulting and governance to the Company, and the Company provided certain administrative services to Capital during 2002. Capital charged the Comp
ompany recognized its share of these expenses as an additional management fee from Capital in the second quarter of 2002. Since the Company was not responsible for settling these liabilities, the offset to the

Commencing in 2003, certain management, consulting and board services previously provided to the Company by Capital were assumed by the Company, while other such services will continue to be provided

The Company provides certain administrative services to BWHLLC and other affiliates under a service agreement dated January 1, 2003. During the three and nine months ended September 30, 2003, the Comp

Other Arrangements

The Company utilizes Willis Group Holdings Ltd. ("Willis"), an entity controlled by KKR, as its insurance broker. As of the three and nine months ended September 30, 2003, the Company had paid $12 and $2

BHI contributed tax benefits to the Company of $12,752 and $16,640 as of September 30, 2003 and 2002, respectively. The Company is included in BHI's tax return, and the deductible interest expense of BHI'

## 9. Guarantees and Indemnifications

Standard Guarantees / Indemnifications

In the ordinary course of business, the Company enters into numerous agreements that contain standard guarantees and indemnities whereby the Company indemnifies another party for, among other things, bre



In addition, these parties may also be indemnified against any third party claim resulting from the transaction that is contemplated in the underlying agreement. While some of these guarantees extend only for t
imum potential amount of future payments to be made under these guarantees as the triggering events are not subject to predictability.

In addition, the Company has agreed to indemnify KKR for any claims resulting from its services to the Company and its affiliates. The indemnification does not expire and the Company is not able to determin

The Company has not entered into any significant agreement subsequent to January 1, 2003 that would require it, as a guarantor, to recognize a liability for the fair value of obligations it has undertaken in issui

Subsidiary Guarantees

The Company guarantees the bank debt of one of its Brazilian subsidiaries up to a maximum U.S. equivalent of $6,700.

Warranties

The Company does not make express warranties on its products, other than that they comply with the Company’s specifications, and therefore does not record a warranty liability. Adjustments for product quali

## 10. Commitments and Contingencies

### Environmental Matters

Because 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 Federa

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be estimated. Environmental accruals are reviewed on an interim basis an
vailable information and analysis, the Company believes that it is reasonably possible that costs associated with such sites may fall within a range of $29,100 and $76,000, in the aggregate. This estimate of the



Following is a more detailed discussion of the Company’s environmental liabilities and related assumptions:

**BCP Geismar Site** - In 1987, under an Environmental Indemnity Agreement ("EIA") between the Company and Borden Chemicals and Plastics Limited Partnership ("BCP"), the Company agreed, subj
ited Operating Partnership ("BCPOLP"), BCP Management, Inc. ("BCPM"), the United States Environmental Protection Agency and the Louisiana Department of Environmental Quality, where the Co

A groundwater pump and treat system for the removal of contaminants is operational, and preliminary natural attenuation studies are proceeding. The Company has performed extensive soil and ground

The Company has recorded a liability of approximately $25,100 and $25,300 at September 30, 2003 and December 31, 2002, respectively, related to the BCP Geismar site. Based on currently available

Following are expected payments for each of the next five years, and a reconciliation of the expected aggregate payments to the liability reflected at September 30, 2003:

| | | |
|---|---|---|
| 2004 | $ | 3,100 |
| 2005 | | 1,200 |
| 2006 | | 1,000 |
| 2007 | | 1,200 |
| 2008 | | 800 |
| Remaining aggregate payments | | 28,500 |
| Total undiscounted liability | | 35,800 |
| Less: discount to net present value | | (10,700 ) |
| Liability per Consolidated Balance Sheet | $ | 25,100 |

**Superfund Sites / Offsite Landfills** - The Company is currently involved in environmental remediation activities at 31 sites in which it has been notified that it is or may be a PRP under the United Sta
ificant level of responsibility for these sites, and therefore, has little control over the costs and timing of cash flows. At 21 sites, the Company is considered a de minimus party (with less than 1% share).
and their probable contribution on a per site basis. The range of possible outcomes also takes into account the maturity of each project, which results in a more narrow range as the project progresses. Th



**Sites Under Current Ownership** - The Company is conducting environmental remediation at 7 locations owned by the Company, of which 3 sites are no longer operating. There are no other parties res
rs, with the remaining amounts being paid over the next ten years. Approximately $3,300 of these reserves is included in the Company’s business realignment reserve, as the environmental clean up is b

**Other Sites** - The Company is conducting environmental remediation at 10 locations formerly owned by the Company. The Company has accrued approximately $2,600 and $5,300 at September 30, 20
costs to the Company on these matters are the method of remediation selected and the level of participation of third parties.

In addition, the Company is responsible for 11 sites requiring monitoring where no additional remediation is expected, and has also established accruals for other related costs, such as fines and penaltie

From the late 1960’s until 1980, the Company operated a phosphate processing site on leased property in Manatee County, Florida. In 1980 the Company sold these operations. The Company is aware t

### Non-Environmental Legal Matters

Following is a discussion of non-environmental legal proceedings that are not in the ordinary course of business:

**Imperial Home Décor Group** - In 1998, pursuant to a merger and recapitalization transaction sponsored by The Blackstone Group ("Blackstone") and financed by Chase Manhattan Bank ("Chase"), Bo
Bankruptcy Code. IHDG emerged from bankruptcy in April 2001. The IHDG Litigation Trust (the "Trust") was created pursuant to the plan of reorganization in the IHDG bankruptcy to pursue prefere



The Company has accrued legal expenses for scheduled depositions related to this matter. To the extent that additional depositions or legal work is required, legal defense costs will increase. The Compa

**Subsidiary Bankruptcy** - The Company's former subsidiary, BCPM, filed for protection under Chapter 11 of the United States Bankruptcy Code, in the United States Bankruptcy Court for the District both entities, including preference, avoidance and other claims against third parties (including the Company) to separate liquidating entities for liquidation and distribution to their creditors. The transfer additional $4,000 related to payments erroneously made to BCPOLP by the Company's customers due to incorrect remittance information in the customer records. Based on its analysis to date, the Com

**Brazil Tax Claim** - In 1992, the State of Sao Paolo Tax Bureau issued an assessment against the Company's primary Brazilian subsidiary claiming that excise taxes were owed on certain intercompany l second appeal with the highest level administrative court, again seeking cancellation of the assessment. The Company believes it has a strong defense against the assessment and will pursue the appeal v

In addition to this discussion of specific non-environmental legal matters, the Company is involved in various product liability, commercial and employment litigation and other legal proceedings which are not

**Summary**

The Company believes, based upon the information it currently possesses, and taking into account its established reserves for estimated liability and its insurance coverage, as well as the other factors discussed



**Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations (amounts in thousands)**

**Critical Accounting Policies**

For a discussion of the Company's critical accounting policies, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations on page 11 and Note 3 to the Consolidated Fina

**Results of Operations by Segment:**

Following is a comparison of net sales and earnings before interest, taxes, depreciation and amortization adjusted for business realignment, impairments, non-operating income (expense) and certain other opera

**Net Sales**

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| North American Forest Products | $ 192,212 | $ 171,838 | $ 571,947 | $ 470,082 |
| North American Performance Resins | 87,641 | 87,489 | 276,578 | 260,400 |
| International | 78,428 | 67,522 | 229,801 | 195,848 |
| Divested businesses | - | 338 | 6 | 6,515 |
| | $ 358,281 | $ 327,187 | $ 1,078,332 | $ 932,845 |

**Adjusted EBITDA**

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| North American Forest Products | $ 26,890 | $ 22,704 | $ 69,512 | $ 72,380 |
| North American Performance Resins | 11,369 | 12,252 | 35,664 | 36,905 |
| International | 7,411 | 7,912 | 23,396 | 24,176 |
| Corporate and other | (8,053 ) | (10,940 ) | (36,272 ) | (34,963 ) |
| | $ 37,617 | $ 31,928 | $ 92,300 | $ 98,498 |



**Reconciliation of Adjusted EBITDA to Income Before Income Tax and Cumulative Effect of Change in Accounting Principle**

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Adjusted EBITDA | $ 37,617 | $ 31,928 | $ 92,300 | $ 98,498 |
| Depreciation and amortization | (11,770 ) | (11,682 ) | (34,676 ) | (35,800 ) |
| Adjustments to EBITDA | 8,576 | (2,577 ) | 3,962 | (17,951 ) |
| Interest expense | (11,275 ) | (11,955 ) | (34,114 ) | (35,922 ) |
| Affiliated interest expense | (133 ) | (435 ) | (456 ) | (1,051 ) |
| Other non-operating income (expense) | 513 | 1,467 | (489 ) | 5,327 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Income before income tax and cumulative effect of change in accounting principle | $ | 23,528 | $ | 6,746 | $ | 26,527 | $ | 13,101 |

**THREE MONTHS ENDED SEPTEMBER 30, 2003 VERSUS THREE MONTHS ENDED SEPTEMBER 30, 2002**

**Consolidated Summary**

The Company's sales increased $31,094, or 9.5%, in the third quarter of 2003 versus the third quarter of 2002. The major component of the increase was higher selling prices, across all operating segments, due
an markets. Partially offsetting these volume declines were increases in North American Performance Resin oilfield products and Asia Pacific volumes.

Net income for the Company increased $7,819 in the third quarter of 2003 versus the third quarter of 2002. The increase was primarily due to improved Adjusted EBITDA in the North American Forest Produc
ement fees. Included in business realignment income in 2003 was a gain of $11,692 on the sale of land associated with a previously closed plant in the United Kingdom. Income tax expense increased by $8,963

**Operating Segments**

| Net Sales Variance by Operating Segment | 2003 As a Percentage Increase (Decrease) from 2002 | | | |
|---|---|---|---|---|
| | Volume | Price/Mix | Translation | Total |
| North American Forest Products | (6.0) % | 14.1 % | 3.8 % | 11.9 % |
| North American Performance Resins | (2.4) % | 2.5 % | 0.1 % | 0.2 % |
| International | (4.0) % | 11.9 % | 8.3 % | 16.2 % |

North American Forest Products

North American Forest Products sales increased $20,374, or 11.9%, in the third quarter of 2003 versus the comparable period last year. The major component of the increase was higher selling prices for resins a



Adjusted EBITDA increased $4,186, or 18.4%, in the third quarter of 2003 versus the third quarter of 2002. The increase was primarily the result of improved margins in the third quarter of 2003 as higher raw

North American Performance Resins

North American Performance Resins sales modestly increased $152, or 0.2%, in the third quarter of 2003 versus the third quarter of 2002. Price improvements in nonwoven resins resulting from higher raw mat

Adjusted EBITDA decreased $883, or 7.2%, in the quarter ended September 30, 2003 versus the comparable quarter of 2002. The decrease in Adjusted EBITDA was primarily due to a bad debt provision of $6

International

International sales increased $10,906, or 16.2%, in the quarter ended September 30, 2003 versus the comparable period in 2002. Europe, Asia Pacific and Latin America all contributed to the increase. Price imp

Adjusted EBITDA decreased $501, or 6.3%, in the third quarter of 2003 versus the third quarter of 2002. The Adjusted EBITDA decrease was primarily due to volume declines in Europe and Latin America. Pa

Corporate and other

Corporate and other expenses decreased $2,887 for the quarter ended September 30, 2003 versus the comparable period of the prior year. The decrease in expenses for the quarter was due to a reduction in post-

Divested businesses

Divested businesses activity in 2002 represents the disposition of remaining inventory and other assets of the melamine crystal business subsequent to its closure on January 11, 2002. The Company sold the me



**NINE MONTHS ENDED SEPTEMBER 30, 2003 VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2002**

**Consolidated Summary**

The Company's sales increased $145,487, or 15.6%, in the first nine months of 2003 versus the first nine months of 2002. The primary component of the increase was higher selling prices in North American Fo

The Company reported net income of $27,798 for the nine months ended September 30, 2003 versus a net loss of $25,780 for the comparable period in 2002. Of the $53,578 improvement, $29,825 relates to th
r processing and freight costs, reduced sales volumes due to weaker market conditions in certain markets, lower margins due to competitive pricing pressures and higher corporate expenses.

**Operating Segments**

| Net Sales Variance | 2003 As a Percentage Increase (Decrease) from 2002 | | | |
|---|---|---|---|---|
| | Volume | Price/Mix | Translation | Total |
| North American Forest Products | (1.6) % | 20.3 % | 3.0 % | 21.7 % |
| North American Performance Resins | 0.4 % | 5.7 % | 0.1 % | 6.2 % |
| International | (2.5) % | 18.8 % | 1.0 % | 17.3 % |

North American Forest Products

North American Forest Products sales increased $101,865, or 21.7%, in the first nine months of 2003 versus the comparable period last year. The primary component of the increase was higher selling prices fo

Adjusted EBITDA decreased $2,868, or 4.0%, in the first three quarters of 2003 versus the comparable period in 2002. The decline in Adjusted EBITDA was primarily due to reduced volumes in 2003 and incr

North American Performance Resins

North American Performance Resins' sales increased $16,178, or 6.2%, in the nine months ended September 30, 2003 as compared to the same period of the prior year. The increase was primarily due to increas
ated flooring and furniture markets as well as competitive pressures.



Adjusted EBITDA decreased $1,241, or 3.4%, in the first three quarters of 2003 versus the first three quarters of 2002. The decline in Adjusted EBITDA was due to the impact of lower sales volumes, competit
essing costs due to synergies realized from the 2001 foundry acquisition, partially reduced by higher energy, benefit and insurance costs.

International

International sales increased $33,953, or 17.3%, in the first nine months of 2003 versus the comparable period of the prior year. Europe, Asia Pacific and Latin America all contributed to the sales increase. Eur

Adjusted EBITDA decreased $780, or 3.2%, in the first nine months of 2003 versus the comparable period of 2002. The modest decline in Adjusted EBITDA was a result of a reduction in volumes in Latin Am

Corporate and other

Corporate and other expenses increased $1,309 in the first nine months of 2003 as compared to the same period of 2002. The increase in 2003 expense resulted from higher pension and benefit costs, additional

See Liquidity for a discussion of amendments that the Company announced in May 2003 related to its medical benefit plan. As a result, the Company anticipates that expenses related to post-retirement health b

Divested businesses

Divested businesses activity in 2003 and 2002 represents the disposition of remaining inventory and other assets of the melamine crystal business subsequent to its closure on January 11, 2002. The Company so



**Adjustments to EBITDA**

The following items are not included in the Adjusted EBITDA results reviewed by the Company's chief decision maker:

| **Three Months Ended September 30, 2003** | **Plant Closure** | **Severance** | **Impairments/ Other** | **Total** |
|---|---|---|---|---|
| North American Forest Products | $ (141 ) | $ (606 ) | $ - | $ (747 ) |
| North American Performance Resins | 121 | (97 ) | - | 24 |
| International | (635 ) | (403 ) | 11,666 | 10,628 |
| Corporate and other | - | (1,212 ) | (221 ) | (1,433 ) |
| Divested businesses | 113 | - | (9 ) | 104 |

| | Plant Closure | Severance | Impairments/ Other | Total |
|---|---|---|---|---|
| Total | $ (542 ) | $ (2,318 ) | $ 11,436 | $ 8,576 |
| **Three Months Ended September 30, 2002** | | | | |
| North American Forest Products | $ 146 | $ (185 ) | $ - | $ (39 ) |
| North American Performance Resins | (1,222 ) | 89 | - | (1,133 ) |
| International | 1,115 | - | - | 1,115 |
| Corporate and other | - | (750 ) | - | (750 ) |
| Divested businesses | (1,275 ) | - | (495 ) | (1,770 ) |
| Total | $ (1,236 ) | $ (846 ) | $ (495 ) | $ (2,577 ) |

In the third quarter of 2003, plant closure expense of $542 consist of environmental remediation costs of $68 for previously closed plants in Brazil and $474 of other previous plant closure costs, fixed asset wri

In the third quarter of 2002, plant closure costs relate primarily to severance for plant employees. Other expenses relate to expenses incurred related to the closure of the Company's melamine operations.



| Nine Months Ended September 30, 2003 | Plant Closure | Severance | Impairments/ Other | Total |
|---|---|---|---|---|
| North American Forest Products | $ 557 | $ (540 ) | $ (520 ) | $ (503 ) |
| North American Performance Resins | (42 ) | (407 ) | - | (449 ) |
| International | (2,325 ) | (574 ) | 11,515 | 8,616 |
| Corporate and other | (146 ) | (2,910 ) | (2,588 ) | (5,644 ) |
| Divested businesses | 1,689 | - | 253 | 1,942 |
| Total | $ (267 ) | $ (4,431 ) | $ 8,660 | $ 3,962 |
| **Nine Months Ended September 30, 2002** | | | | |
| North American Forest Products | $ (714 ) | $ (103 ) | $ - | $ (817 ) |
| North American Performance Resins | (1,857 ) | (544 ) | - | (2,401 ) |
| International | (3,568 ) | - | 2,465 | (1,103 ) |
| Corporate and other | - | (1,465 ) | (5,500 ) | (6,965 ) |
| Divested businesses | (6,356 ) | - | (309 ) | (6,665 ) |
| Total | $ (12,495 ) | $ (2,112 ) | $ (3,344 ) | $ (17,951 ) |

For the nine months ended September 30, 2003, plant closure costs primarily consist of environmental remediation costs of $962 for previously closed plants in Brazil and $879 of other previous plant closure c

For the nine months ended September 30, 2002, plant closure costs consist of plant employee severance of $10,424 and demolition, environmental and other costs of $2,071. Other expenses primarily represent



**Non-operating expenses and income taxes**

Following is a comparison of non-operating expenses for the three months ended September 30, 2003 and 2002:

| | Three months ended September 30, | |
|---|---|---|
| | **2003** | **2002** |
| Interest expense | $ 11,275 | $ 11,955 |
| Affiliated interest expense, net | 133 | 435 |
| Other non-operating income | (513 ) | (1,467 ) |
| | $ 10,895 | $ 10,923 |

Non-operating expenses decreased $28 to $10,895 for the quarter ended September 30, 2003 from $10,923 for the prior year's quarter. The decrease is primarily due to reduction in interest and net affiliated inte

Following is a comparison of non-operating expenses for the nine months ended September 30, 2003 and 2002:

| | Nine months ended September 30, | |
|---|---|---|
| | 2003 | 2002 |
| Interest expense | $ 34,114 | $ 35,922 |
| Affiliated interest expense, net | 456 | 1,051 |
| Other non-operating expense (income) | 489 | (5,327 ) |
| | $ 35,059 | $ 31,646 |

Non-operating expenses increased $3,413 to $35,059 for the nine months ended September 30, 2003 from $31,646 for the prior year's period. The increase is primarily due to the absence of 2002 affiliated divic

Following is a comparison of income tax expense related to continuing operations for the three months ended September 30, 2003 and 2002:

| | Three months ended September 30, | |
|---|---|---|
| | 2003 | 2002 |
| Income tax expense | $ 12,475 | $ 3,512 |
| Effective tax rate | 53.0 % | 52.1 % |

The 2003 effective tax rate reflects additional income tax expense of $4,453 related to deemed dividend income related to loans from foreign subsidiaries. This additional income tax expense resulted in no cash

The 2002 consolidated tax rate reflects a valuation allowance in the amount of $16,672 recorded against the benefit of certain deferred interest expense deductions, which are subject to usage limitations by the



Following is a comparison of income tax (benefit) expense related to continuing operations for the nine months ended September 30, 2003 and 2002:

| | Nine months ended September 30, | |
|---|---|---|
| | 2003 | 2002 |
| Income tax (benefit) expense | $ (1,271 ) | $ 9,056 |
| Effective tax rate | N/M | 69.1 % |

The 2003 effective tax rate reflects the elimination of $18,200 of deferred tax liabilities associated with divested businesses slightly offset by foreign tax rate differentials and valuation reserves established agai

The 2002 consolidated tax rate reflects a valuation allowance in the amount of $16,672 recorded against the benefit of certain deferred interest expense deductions, which are subject to usage limitations by the

**Cash Flows:**

Cash provided by (used in):

| | Nine months ended September 30, | |
|---|---|---|
| | 2003 | 2002 |
| Operating activities | $ 6,095 | $ (5,750 ) |
| Investing activities | (11,262 ) | 93,801 |
| Financing activities | 17,402 | (82,479 ) |
| Net change in cash and cash equivalents | $ 12,235 | $ 5,572 |

Operating Activities

Operating activities provided cash of $6,095 for the nine months ended September 30, 2003 compared to using cash of $5,750 for the same period of 2002. The improvement in operating cash flows was primar

Investing Activities

Investing activities used cash of $11,262 in the nine months ended September 30, 2003 versus providing cash of $93,801 in the first nine months of the prior year. Capital expenditures of $24,684, net of procee

Financing Activities

Financing activities provided cash of $17,402 in the nine months ended September 30, 2003 as compared to using cash of $82,479 in the first nine months of the prior year. Early in the third quarter, the Compa
the net borrowings from affiliates of $29,825.



**Liquidity and Capital Resources**

The Company entered into a three-year asset based revolving credit facility on September 23, 2002 (the "Credit Facility") that provides for a maximum borrowing of $175,000. The Credit Facility replaced the p

The Credit Facility is secured with inventory and accounts receivable in the United States, Canada and the United Kingdom, a portion of property and equipment in Canada and the United Kingdom and the stoc
between $25,000 and $50,000 and 1.1 to 1.0 if aggregate availability is between $50,000 and $75,000. In addition, the Credit Facility provides that when aggregate availability exceeds $75,000 there are no fix

Under an uncommitted letter of credit facility, the Company provided cash collateral equivalent to 101% of letters of credit outstanding which was classified as restricted cash on the Consolidated Balance Shee

The Company and HA-International LLC, ("HAI"), a consolidated joint venture of the Company, have, in the aggregate, borrowed $33,120 from Borden Foods Holdings Corporation ("Foods"), an affiliate of th

On October 1, 2003, the Company exercised its option to redeem, at par, the remaining $885 of County of Maricopa Industrial Revenue Bonds. In October 2003, the Company converted the $34,000 Parish of A

Based on current projections of the minimum annual funding requirements imposed by Federal laws and regulations with regard to the U.S. benefit obligations of its defined benefit pension plans, the updated m

On April 23, 2003, the Company amended its medical benefit plan (as permitted by its terms) such that, effective September 1, 2003, medical benefits are no longer provided to the Company's retirees and their
This subsidy will be reviewed for periods after December 2004. As a result of these actions, the Company estimates that its liability related to providing post-retirement medical benefits will be reduced by appr



In June 2003 the Company announced a realignment plan from which it expects annualized savings of approximately $20,000 when the program is fully implemented in 2004.

During the first nine months of 2003, raw material price increases, rising utility costs and increased benefit and general insurance costs continued to put pressure on the Company's margins. While the Company
ll continue to require the Company to focus on productivity improvements to improve margins.

The Company expects to have adequate liquidity to fund working capital requirements and support capital expenditures over the three year term of the Credit Facility with cash received from operations and am

**Other Matters**

The Company’s operations are subject to the usual hazards associated with chemical manufacturing and the related storage and transportation of feedstocks, products and wastes, including combustion, incleme
fe continuous operation of its facilities. In addition, the Company maintains property, business interruption and casualty insurance that it believes is in accordance with customary industry practices, but is not fu

Because 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 Federa
its ink, wallcoverings, film, phosphate mining and processing, thermoplastics, food and dairy operations pose additional uncertainties for claims relating to the Company’s period of ownership. There can be no

For example, various government agencies continue to conduct formaldehyde health research and evaluate the need for additional regulations. In particular, results from several epidemiology study updates are

The Company has historically been involved in product liability litigation, including class action lawsuits, claiming liability for death, injury or property damage caused by products manufactured by the Compa



**Recent Accounting Pronouncements**

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," which addresses fina
ective January 1, 2003. Implementation of SFAS No. 143 did not have a significant impact on the Company's results of operation or financial condition.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement nullifies Emerging Issue Task Force Issue No. 94-3, "Liability Recognition fo
ons of this Statement are effective for exit or disposal activities initiated after December 31, 2002, with early application encouraged. Retroactive application of this Statement is prohibited. Any exit and dispos

In November 2002, the FASB issued Interpretation No. 45, "Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45
.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." SFAS No. 148 provides alternative methods of transition for a voluntary change t

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46") to expand upon and strengthen existing accounting guidance that addresses when a company sho
N 46 will not have an impact on its results of operations and financial condition.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for de



In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement addresses the accounting for certain financial in

**Forward-Looking and Cautionary Statements**

The Company and its officers may, from time to time, make written or oral statements regarding the future performance of the Company, including statements contained in the Company's filing with the Securit
liquidity, legal and environmental liabilities.



**ITEM 3: Quantitative and Qualitative Disclosures about Market Risk**

There have been no material changes since December 31, 2002 in the Company's market risk.

**ITEM 4: Controls and Procedures**

(a) Evaluation of Disclosures Controls and Procedures: As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the superv
ial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company (including its consolic

(b) Changes in Internal Controls: No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that materially affected, or i



**Part II**

**Item 1: Legal Proceedings**

There have been no material developments during the third quarter of 2003 in the ongoing legal proceedings that are discussed in the Commitments and Contingencies footnote to the Consolidated Fina

HA-International, LLC, a consolidated joint venture of the Company, received a grand jury subpoena dated November 5, 2003 from the U.S. Department of Justice Antitrust Division relating to a Foun

The Company is also involved in various product liability, commercial, employment and environmental legal proceedings which are not discussed in its periodic filings and which are considered to be i

The Company believes, based upon the information it currently possesses, and taking into account its established reserves for estimated liability and its insurance coverage, as well as the other factors d

**Item 2. Changes in Securities and Use of Proceeds.**

None

**Item 3. Defaults Upon Senior Securities.**

None

**Item 4. Submission of Matters to a Vote of Security Holders.**

None

**Item 6. Exhibits and Report on Form 8-K.**

a. Exhibits

(31) Certifications of Financial Statements and Internal Controls

(32) Certificate pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

b. Reports on Form 8-K

A report on Form 8-K was filed on October 9, 2003 with a Limited Reoffering Circular related to a reoffering of certain of the Company's bonds.



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.

BORDEN CHEMICAL, INC.

Date: November 14, 2003

/s/ William H. Carter

William H. Carter
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Exhibit (31)(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 Borden Chemical, Inc. (BCI);

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

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 fl

4. BCI’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) for BCI 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 BCI, incl

   b. Evaluated the effectiveness of BCI’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

   c. Disclosed in this report any change in BCI's internal control over financial reporting that occurred during BCI's most recent fiscal quarter (BCI's fourth fiscal quarter in the case of an annual report

5. BCI’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to BCI's auditors and the audit committee of BCI's board of directo

   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 BCI's ability to record, pro

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in BCI's internal control over financial reporting.

Date: November 14, 2003

/s/ Craig O. Morrison

Craig O. Morrison
Chief Executive Officer

**Certification of Financial Statements and Internal Controls**

I, William H. Carter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Borden Chemical, Inc. (BCI);

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

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 fl

4. BCI’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) for BCI 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 BCI, inclu

   b. Evaluated the effectiveness of BCI’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

   c. Disclosed in this report any change in BCI's internal control over financial reporting that occurred during BCI's most recent fiscal quarter (BCI's fourth fiscal quarter in the case of an annual report

5. BCI’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to BCI's auditors and the audit committee of BCI's board of directo

   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 BCI's ability to record, pro

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in BCI's internal control over financial reporting.

Date: November 14, 2003

/s/ William H. Carter

William H. Carter
Chief Financial Officer

**Exhibit 32**

**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 Borden Chemical, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2003 as filed with the Securities and Exchange Commissi

1. The Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Craig O. Morrison

Craig O. Morrison
Chief Executive Officer
November 14, 2003

/s/ William H. Carter

William H. Carter
Chief Financial Officer
November 14, 2003

A signed original of this written statement required by Section 906 has been provided to Borden Chemical, Inc. and will be retained by Borden Chemical, Inc. and furnished to the Securities and Excha