

OMNOVA SOLUTIONS INC
Form 10-Q
September 28, 2017
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form
10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the Quarter Ended August 31, 2017
Commission File Number 1-15147

OMNOVA Solutions Inc.
(Exact name of registrant as specified in its charter)

Ohio 34-1897652
(State of Incorporation) (I.R.S. Employer Identification No.)
25435 Harvard Road, Beachwood, Ohio 44122-6201
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code (216) 682-7000

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. YES NO

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

At August 31, 2017, there were 44,867,178 outstanding shares of OMNOVA Solutions' Common Stock, par value \$0.10.

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Part I. Financial Information

Item 1. Financial Statements

OMNOVA SOLUTIONS INC.

Consolidated Statements of Operations

(Dollars In Millions, Except Per Share Data)

(Unaudited)

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2017	2016	2017	2016
Net sales	\$200.9	\$195.6	\$596.8	\$572.9
Cost of goods sold (exclusive of depreciation)	143.1	143.5	441.9	418.1
Gross profit	57.8	52.1	154.9	154.8
Other costs and expenses:				
Selling, general and administrative	28.9	29.3	88.2	91.0
Depreciation and amortization	7.1	6.8	20.7	23.5
Asset impairments	.4	—	13.3	.4
Loss on asset sales	—	—	—	.1
Restructuring and severance	.4	1.3	5.1	4.9
Interest expense	5.5	5.9	16.0	17.4
Debt issuance costs write-off	—	1.7	—	1.7
Acquisition and integration related expense	.2	.4	.2	.4
Other income (loss), net	1.3	.1	(.7)	(.8)
Total other costs and expenses	43.8	45.5	142.8	138.6
Income before income taxes	14.0	6.6	12.1	16.2
Income tax expense	6.1	1.9	7.0	5.4
Net income	\$7.9	\$4.7	\$5.1	\$10.8
Income per share - basic	\$.18	\$.11	\$.12	\$.25
Income per share - diluted	\$.18	\$.10	\$.11	\$.24
Weighted average shares outstanding - basic	44.4	44.1	44.3	44.0
Weighted average shares outstanding - diluted	44.7	44.7	44.7	44.4

See notes to unaudited interim consolidated financial statements.

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OMNOVA SOLUTIONS INC.

Consolidated Statements of Comprehensive Income (Loss)

(Dollars in Millions)

(Unaudited)

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2017	2016	2017	2016
Net income	\$7.9	\$4.7	\$5.1	\$10.8
Components of other comprehensive income (loss):				
Foreign currency translations:				
Realized net change during the period	(6.3)	—	(6.3)	5.9
Unrealized net change during the period	5.3	(1.2)	10.2	(1.5)
Unrealized net change on intercompany foreign debt during the period	3.1	.1	4.9	3.6
Tax effect	(1.1)	—	(2.3)	(1.3)
Foreign currency translations, net of tax	1.0	(1.1)	6.5	6.7
Defined benefit plans:				
Actuarial net gain (loss):				
Net loss arising in the period	(.2)	—	(.2)	—
Amortization of net loss included in net periodic pension expense	.8	.9	2.7	2.6
Settlement loss	.4	—	.4	—
Tax effect	(.3)	(.3)	(1.1)	(.9)
Defined benefit plans, net of tax	.7	.6	1.8	1.7
Other comprehensive income (loss), net of tax	1.7	(.5)	8.3	8.4
Comprehensive income	\$9.6	\$4.2	\$13.4	\$19.2

See notes to unaudited interim consolidated financial statements.

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OMNOVA SOLUTIONS INC.

Consolidated Statements of Financial Position

(Dollars in Millions, Except Share Amounts)

	August 31, 2017 (Unaudited)	November 30, 2016 (Audited)
ASSETS:		
Current Assets		
Cash and cash equivalents	\$ 74.6	\$ 72.0
Accounts receivable, net	105.8	87.2
Inventories, net	77.2	74.0
Prepaid expenses and other	16.2	18.1
Assets held for sale - current	—	25.7
Total Current Assets	273.8	277.0
Property, plant and equipment, net	206.7	202.7
Trademarks and other intangible assets, net	56.9	56.7
Goodwill	85.9	80.2
Deferred income taxes	62.5	66.7
Other assets	5.1	4.0
Total Assets	\$ 690.9	\$ 687.3
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current Liabilities		
Amounts due banks	\$ 4.2	\$ 4.2
Accounts payable	77.8	68.7
Accrued payroll and personal property taxes	24.2	23.4
Employee benefit obligations	3.0	4.5
Accrued interest	.1	—
Other current liabilities	5.8	7.4
Liabilities held for sale - current	—	5.2
Total Current Liabilities	115.1	113.4
Long-term debt	350.3	352.5
Postretirement benefits other than pensions	6.0	6.3
Pension liabilities	74.9	82.3
Deferred income taxes	11.4	11.4
Other liabilities	7.2	11.6
Total Liabilities	564.9	577.5
Shareholders' Equity		
Preferred stock - \$1 par value; 15 million shares authorized; none outstanding	—	—
Common stock - \$0.10 par value; 135 million shares authorized, 48.3 million shares issued, 44.8 million and 45.1 million outstanding as of August 31, 2017 and November 30, 2016, respectively	4.8	4.8
Additional contributed capital	343.0	341.0
Retained deficit	(66.3) (74.4
Treasury stock at cost; 3.4 million and 3.2 million shares at August 31, 2017 and November 30, 2016, respectively	(25.4) (23.2

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Accumulated other comprehensive loss	(130.1)	(138.4)
Total Shareholders' Equity	126.0		109.8	
Total Liabilities and Shareholders' Equity	\$ 690.9		\$ 687.3	

See notes to unaudited interim consolidated financial statements.

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OMNOVA SOLUTIONS INC.

Consolidated Statements of Cash Flows

(Dollars in Millions)

(Unaudited)

	Nine Months Ended August 31,	
	2017	2016
Operating Activities:		
Net income	\$5.1	\$10.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment of long-lived assets	12.9	.4
Depreciation and amortization	20.7	23.5
Amortization of deferred financing fees	1.1	3.1
Non-cash stock compensation expense	1.6	1.8
Provision for obsolete inventories	.3	—
Other	(.4)	(.7)
Changes in operating assets and liabilities:		
Accounts receivable	(18.7)	.6
Inventories	(1.0)	2.4
Other current assets	9.8	(1.8)
Current liabilities	(.9)	11.0
Other non-current assets	7.3	(7.1)
Other non-current liabilities	(2.3)	3.2
Contributions to defined benefit plan	(7.3)	(6.2)
Net cash provided by operating activities	28.2	41.0
Investing Activities:		
Capital expenditures	(17.0)	(16.5)
Proceeds from notes receivable	3.8	—
Acquisition and disposals of businesses	(7.3)	5.3
Other	—	.1
Net cash used in investing activities	(20.5)	(11.1)
Financing Activities:		
Proceeds from borrowings	—	346.5
Repayment of debt obligations	(3.3)	(190.0)
Payments for debt refinancing	—	(4.2)
Restricted cash	—	(155.9)
Withholding taxes on share-based compensation	(2.2)	(.5)
Net cash used in financing activities	(5.5)	(4.1)
Effect of exchange rate changes on cash and cash equivalents	.4	(.4)
Net Increase In Cash And Cash Equivalents	2.6	25.4
Cash and cash equivalents at beginning of period	72.0	44.9
Cash And Cash Equivalents At End of Period	\$74.6	\$70.3

Supplemental Cash Flows Information

Cash paid for:

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Interest	\$14.3	\$12.3
Income taxes	\$3.0	\$3.2

See notes to unaudited interim consolidated financial statements.

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OMNOVA SOLUTIONS INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of August 31, 2017

(Dollars In Millions, Except Share Data)

Note A – Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. These interim statements should be read in conjunction with the financial statements and notes thereto included in the OMNOVA Solutions Inc. (“OMNOVA Solutions” or the “Company”) Annual Report on Form 10-K for the year ended November 30, 2016, previously filed with the Securities and Exchange Commission (“SEC”).

The financial statements as of August 31, 2017 have been derived from the unaudited interim consolidated financial statements at that date and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

These interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim period and all such adjustments are of a normal recurring nature except as disclosed herein. The results of operations for the interim period are not necessarily indicative, if annualized, of those to be expected for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates.

The consolidation method is followed to report investments in subsidiaries. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Inter-company accounts and transactions are eliminated during the consolidation process of these accounts.

A detailed description of the Company’s significant accounting policies and management judgments is located in the audited consolidated financial statements for the year ended November 30, 2016, included in the Company’s Form 10-K filed with the SEC.

Description of Business – The Company is an innovator of emulsion polymers, specialty chemicals and engineered surfaces for a variety of commercial, industrial and residential end uses. The Company's products provide a variety of important functional and aesthetic benefits to hundreds of products that people use daily. The Company holds leading positions in key market categories, which have been built through innovative products, customized product solutions, strong technical expertise, well-established distribution channels, recognized brands, and long-standing customer relationships. The Company utilizes strategically-located manufacturing, technical and other facilities in North America, Europe, China, and Thailand to service the broad customer base. The Company has two operating segments: Specialty Solutions, which is focused on the Company's higher growth specialty businesses, and Performance Materials, which is focused on the Company’s more mature businesses.

Specialty Solutions – The Specialty Solutions segment develops, designs, produces, and markets a broad line of specialty polymers for use in coatings, adhesives, sealants, elastomers, laminates, films, nonwovens, and oil & gas products. These products are used in numerous applications, including architectural and industrial coatings; nonwovens used in hygiene products, filtration and construction; drilling additives for oil and gas exploration and production; elastomeric modification of plastic casings and hoses used in household and industrial products and automobiles; tapes and adhesives; sports surfaces; textile finishes; commercial building refurbishment; new construction; residential cabinets; flooring; ceiling tile; furnishings; manufactured housing; health care patient; and common area furniture; and a variety of industrial films applications. The segment's products provide performance enhancing properties to enhance the Company’s customers’ products, including stain, rust and aging resistance; surface modification; gloss; softness or hardness; dimensional stability; high heat and pressure tolerance; and binding and barrier (e.g. moisture, oil) properties.

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The Specialty Solutions segment consists of specialty coatings & ingredients, oil & gas, and laminates and films. The specialty coatings & ingredients product line encompasses products that have applications for specialty coatings, nonwovens (such as disposable hygiene products, engine filters, roofing mat, and scrub pads), construction, adhesives, sealants, tape, floor care, textiles, graphic arts, and various other specialty applications. Oil & gas applications include drilling fluid additives, which provide fluid loss control and sealing to enhance wellbore integrity, as well as cement additives for gas migration and fluid loss. The laminates and performance films product line applications include kitchen and bath cabinets, wall surfacing, manufactured housing and recreational vehicle interiors, flooring, commercial and residential furniture, retail display fixtures, home furnishings, commercial appliances, and a variety of industrial film applications.

Performance Materials – The Performance Materials segment serves mature markets with a broad range of emulsion polymers based primarily on styrene butadiene (SB), styrene butadiene acrylonitrile (SBA), styrene butadiene vinyl pyridine, high styrene pigments, polyvinyl acetate, acrylic, styrene acrylic, calcium stearate, glyoxal, and bio-based chemistries. Performance Materials' custom-formulated products are tailored latexes, resins, binders, antioxidants, hollow plastic pigment, coated fabrics, and rubber reinforcing which are used in tire cord, polymer stabilization, industrial rubbers, carpet, paper, and various other applications. Its products provide a variety of functional properties to enhance the Company's customers' products, including greater strength, adhesion, dimensional stability, ultraviolet resistance, improved processibility, and enhanced appearance.

The Performance Materials segment encompasses performance additives, paper, carpet, and coated fabrics. This segment encompasses products that have applications in the paper, paperboard, carpet, polymer stabilization, industrial rubbers, and tire cord industries. Paper and paperboard coatings are used in magazines, catalogs, direct mail advertising, brochures, printed reports, food cartons, household, and other consumer and industrial packaging. Carpet binders are used to secure carpet fibers to carpet backing and meet stringent manufacturing, environmental, odor, flammability, and flexible installation requirements. Tire cord is used in automotive tires. The coated fabrics product line applications include upholstery used in refurbishment and new construction for the commercial office, hospitality, health care, retail, education and restaurant markets, marine and transportation seating, commercial and residential furniture, automotive soft tops, and automotive after-market applications.

Reclassifications and immaterial error correction - Certain amounts in the prior years have been reclassified to conform to current year presentation. During the quarter ended August 31, 2017, we identified and corrected an immaterial presentation error in the Consolidated Statement of Comprehensive Income and related Note F - Comprehensive Income (Loss) footnote disclosure for the nine months ended August 31, 2016. The Company previously presented a \$5.9 million favorable realized net change during the period in foreign currency translation in the aggregate with unfavorable unrealized net change during the period in foreign currency translation within a single caption within the Statement of Comprehensive income titled Unrealized net change during the period. In order to correct this prior period presentation error, the Company has presented \$5.9 million in the nine month period within a new caption within the Statement of Comprehensive Income titled Realized net change during the period and has corrected the amount presented under the caption Unrealized net change during the period, which now totals to a \$1.5 million unfavorable net change. The total of foreign currency translation, net of tax, was not impacted and no other line items within any of the other consolidated financial statements and footnotes were impacted.

Accounting Standards Adopted in 2017

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends existing guidance related to accounting for employee share-based payments affecting the income tax consequences of awards, classification of awards as equity or liabilities, and classification on the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption was permitted. ASU 2016-09 was adopted by the Company effective December 1, 2016.

This guidance requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement and also requires a policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The Company changed its policy to recognize the impact of forfeitures when they actually occur, and recognized a cumulative effect adjustment to retained earnings on a modified

retrospective basis as of December 1, 2016. Also, this guidance requires cash paid by an employer when directly withholding shares for tax withholding purposes to be classified in the Consolidated Statement of Cash Flows as a financing activity, which differs from the Company's previous method of classification of such cash payments as an operating activity. The Company applied this provision retrospectively, and beginning in the first quarter of 2016, reclassified amounts from operating activities to financing activities. This guidance also requires the tax effects of exercised or vested awards to be treated as discrete items in the reporting period in which they occur, which was applied prospectively by the Company, beginning December 1, 2016. Lastly, the guidance requires that excess tax benefits should be classified along with other income tax cash flows as an operating activity on the statement of cash flows, which differs from the Company's historical classification of excess tax benefits as cash inflows from financing activities. The Company elected to apply this provision using the prospective transition method.

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In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which expands upon the guidance on the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. This guidance requires retrospective application and is effective for fiscal years beginning after December 15, 2015 and for interim periods within those fiscal years, with early adoption permitted. ASU 2015-03 was adopted by the Company effective December 1, 2016 resulting in debt issuance costs, which were previously presented as debt issuance costs, being presented as a direct deduction to the Company's long-term debt, less current portion in the Consolidated Balance Sheet. Refer to the Debt footnote for additional details.

Accounting Standards Not Yet Adopted

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits, which require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The amendments in this Update also allow only the service cost component to be

eligible for capitalization when applicable. ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic post-retirement benefit in assets. This guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted as of the beginning of the annual reporting period in which the ASU was issued. The Company is currently evaluating the potential impact on its Consolidated Financial Statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which is intended to simplify the current test for goodwill impairment by eliminating the second step in which the implied value of a reporting unit is calculated when the carrying value of the reporting unit exceeds its fair value. Under ASU 2017-04, goodwill impairment should be recognized for the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 must be applied prospectively and is effective for any annual or interim goodwill impairment test in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated results of operations, financial position or cash flows.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations, which clarified existing guidance on the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for annual periods, including interim periods within those periods. Early adoption is permitted and the guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted as of the beginning of the annual reporting period in which the ASU was issued. The Company does not expect the adoption of this guidance to have a material impact on its consolidated results of operations, financial position, or cash flows.

In October 2016, the FASB issued ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory, which amends existing guidance related to the recognition of current and deferred income taxes for intra-entity asset transfers. Under the new guidance, current and deferred income tax consequences of an intra-entity asset transfer, other than an intra-entity asset transfer of inventory, are now recognized when the transfer occurs. The guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted as of the beginning of the annual reporting period in which the ASU was issued. The Company is currently evaluating the potential impact on its Consolidated Financial Statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows- Classification of Certain Cash Receipts and Cash Payments, which clarifies existing guidance related to accounting for cash receipts and cash payments and classification on the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The adoption of this ASU will not

have an impact on the Company's financial position, results of operations, or cash flows.

In June 2016, the the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decrease of expected credit losses that have taken place during the period. This ASU changes the impairment model for most financial assets and certain other instruments, which will result in earlier recognition of allowances for losses. The guidance requires a modified-retrospective approach, through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 including interim periods within those fiscal years. Early adoption is permitted for fiscal years

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beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not expect the adoption of this guidance to have a material impact on its consolidated results of operations, financial position or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a lease term of more than twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. The new guidance is effective for the Company's fiscal year that begins on December 1, 2019 and requires a modified retrospective approach to adoption for lessees related to capital and operating leases existing at, or entered into after, the earliest comparative period presented in the financial statements, with certain practical expedients available. Early adoption is permitted. The Company is currently evaluating the potential impact on its Consolidated Financial Statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10: Recognition and Measurement of Financial Assets and Financial Liabilities), which revised entities' accounting related to: (i) the classification and measurement of investments in equity securities; and (ii) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The new guidance is effective for the Company's fiscal year that begins on December 1, 2018 and requires a modified retrospective approach to adoption. Early adoption is only permitted for the provision related to instrument-specific credit risk. The Company is currently evaluating the potential impact on its Consolidated Financial Statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which clarifies existing accounting literature relating to how and when a company recognizes revenue. Under ASU 2014-09, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company continues to assess the potential impact of the standard and has evaluated a sampling of significant contracts. The Company has not yet reached a conclusion as to how the adoption of the standard will impact the Company's financial position, results of operations or cash flows.

Note B – Fair Value Measurements and Risk

Financial Risk Management Objectives and Policies

The Company is exposed primarily to credit, interest rate, and foreign currency rate risks, which arise in the normal course of business.

Credit Risk

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations with the Company as and when they fall due. The primary credit risk for the Company is its accounts receivable, which are generally unsecured. The Company has established credit limits for customers and monitors their balances to mitigate its risk of loss. Concentrations of credit risk with respect to accounts receivable are generally limited due to the wide variety of customers and markets using the Company's products. During the three and nine-month periods ending August 31, 2017, there was one customer that represented approximately 10% of the Company's net sales and there was no single customer who represented more than 10% of the Company's net trade receivables at August 31, 2017.

Interest Rate Risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's \$350.0 million Term Loan B (balance of \$346.5 million at August 31, 2017) and various foreign subsidiary borrowings, which bear interest at variable rates, approximating market interest rates. The Term Loan B has a LIBOR floor of 1.00%, which eliminates the variability in interest rate changes on Eurodollar loans as long as LIBOR remains under 1.00%. As of August 31, 2017, LIBOR was slightly above 1.00%, which had a slight impact on the Company's interest expense.

Foreign Currency Rate Risk

The Company incurs foreign currency rate risk on sales and purchases denominated in other than the functional currency. The currencies giving rise to this risk are primarily the Euro, Great Britain Pound Sterling, Renminbi, Singapore Dollar, and Thai Baht.

Foreign currency exchange contracts are used by the Company to manage risks from the change in market exchange rates on cash payments by the Company's foreign subsidiaries and U.S. Dollar cash holdings in foreign locations. These forward contracts are used on a continuing basis for periods of approximately thirty days, consistent with the underlying hedged transactions. Hedging limits the impact of foreign exchange rate movements on the Company's operating results. The counterparties to these instruments are investment grade financial institutions and the Company does not anticipate any non-performance. The Company maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit rating of these institutions. Such instruments are not purchased or sold for trading purposes. These contracts are not designated as hedging instruments and changes in fair value of these instruments are recognized in earnings immediately. Net gains on foreign currency contracts that were recorded in the Consolidated Statements of Operations, as a component of other income, for the nine-month period ending August 31, 2017 were \$1.0 million. Net gains (losses) on foreign currency contracts for the three and nine month periods ending August 31, 2016 were not material.

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Derivative Instruments

The Company recognizes the fair value of qualifying derivative instruments as either an asset or a liability within its statement of financial position. For derivative instruments not designated as hedges, the change in fair value of the derivative is recognized in earnings each reporting period. The Company defines fair value as the price that would be received to transfer an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses a hierarchy of valuation inputs to measure fair value.

The hierarchy prioritizes the inputs into three broad levels:

Level 1 inputs—Quoted market prices in active markets for identical assets or liabilities.

Level 2 inputs—Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 inputs—Unobservable inputs that are not corroborated by market data.

The fair value of derivative financial instruments recognized in the Consolidated Statements of Financial Position are as follows:

(Dollars in Millions)	Notional Amount	Other Current Assets	Other Current Liabilities	
Derivatives - August 31, 2017				
Currency forward contracts	\$ 16.5	\$.2	\$	—
Total	\$ 16.5	\$.2	\$	—

Derivatives - November 30, 2016				
Currency forward contracts	\$ 7.6	\$ —	\$	—
Total	\$ 7.6	\$ —	\$	—

Fair Value Measurements

The Company uses the market approach and the income approach to value assets and liabilities as appropriate. The following financial assets and liabilities are measured and presented at fair value on a recurring basis as of August 31, 2017 and November 30, 2016:

(Dollars in Millions)	Fair Value	Level 1	Level 2	Level 3
Fair value measurements - August 31, 2017:				
Financial assets				
Foreign currency exchange contracts	\$.2	\$.2	\$	—\$ —
Total assets	\$.2	\$.2	\$	—\$ —

Financial liabilities

Contingent consideration	\$.7	\$ —	\$	—\$.7
Total liabilities	\$.7	\$ —	\$	—\$.7

Fair value measurements - November 30, 2016:

Financial assets				
Total assets	\$ —	\$ —	\$	—\$ —

Financial liabilities

Total liabilities	\$ —	\$ —	\$	—\$ —
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In connection with the Creole acquisition, the Company recorded a contingent consideration liability with a fair value of \$0.7 million as of August 31, 2017. Under the contingent consideration agreement, the amounts to be paid are based upon actual financial results of the acquired product sales over a two-year period. The fair value of the

contingent consideration is a Level 3 valuation and fair valued using a probability weighted discounted cash flow analysis. There were no transfers into or out of Level 3 during the first nine months of 2017 or 2016.

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The fair value of the Company's Term Loan at August 31, 2017 approximated \$349.1 million, which is more than its book value of \$346.5 million as a result of prevailing market rates on the Company's debt. The carrying value of amounts due banks approximates fair value due to their short-term nature. The fair value of the Term Loan is based on market price information and is measured using the last available trade of the instrument on a secondary market in each respective period and therefore is considered a Level 2 measurement. The fair value is not indicative of the amount that the Company would have to pay to redeem these instruments since they are infrequently traded and are not callable at this value. The fair value of the Company's capital lease obligation approximates its carrying amount based on estimated borrowing rates to discount the cash flows to their present value.

Note C - Restructuring and Severance

The following table is a summary of severance and facility closure costs for the three and nine months ended August 31, 2017 and 2016, respectively:

	Three Months Ended August 31, 2017		Nine Months Ended August 31, 2016	
(Dollars in Millions)				
Severance Expense:				
Specialty Solutions	\$—	\$.1	\$.6	\$.2
Performance Materials	.3	.3	1.7	2.8
Corporate	—	—	2.6	.1
Total Severance	\$.3	\$.4	\$4.9	\$3.1
Facility Closure Costs:				
Specialty Solutions	\$—	\$.3	\$—	\$.1
Performance Materials	.1	.6	.2	1.7
Total Facility Closure Costs	\$.1	\$.9	\$.2	\$1.8
Total Severance and Facility Closure Costs	\$.4	\$1.3	\$5.1	\$4.9

During 2017, the Company initiated a restructuring and severance plan which included headcount reductions. The plan was initiated to better align the cost structure with economic conditions and operational needs and affected approximately 40 positions. The Company does not anticipate any additional charges related to the completion of these plans and expects these costs to be paid by the end of fiscal 2017.

During 2016, the Company initiated a restructuring and severance plan related to the closing of manufacturing operations of the Calhoun, GA plant. The Company does not anticipate any additional charges related to the completion of these plans and expects these costs to be paid by the end of fiscal 2017.

The following table summarizes the Company's liabilities related to restructuring and severance activities:

	November 30, 2016	2017 Provisions	2017 Payments	August 31, 2017
(Dollars in millions)				
Total	\$ 4.2	\$5.1	\$ 7.5	\$ 1.8

The Company expects to incur future costs related to its restructuring activities, as processes are continually evaluated to enhance the efficiency and cost effectiveness of its operations, and to ensure competitiveness across its businesses and across geographic areas. Future costs are expected to include costs related to closed facilities and restructuring plan implementation costs and these will be recognized as incurred.

Note D – Income Taxes

The Company recorded income tax expense of \$6.1 million and \$1.9 million for the three months ended August 31, 2017 and 2016, respectively, and income tax expense of \$7.0 million and \$5.4 million for the nine months ended August 31, 2017 and 2016, respectively. The increase in tax expense for the third quarter of 2017, compared to the third quarter of 2016, primarily relates to increased pre-tax earnings of approximately \$7.4 million. The Company's effective tax rate of 43.6% for the three months ended August 31, 2017 was higher than the U.S. federal statutory rate primarily due to losses in jurisdictions in which no tax benefit was recognized. The effective tax rate of 57.9% for the first nine months of 2017 was higher than the

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Company's U.S. federal statutory rate primarily due to a foreign impairment recorded in the second quarter of 2017 for which no tax benefit was recognized.

The total unrecognized tax benefits were \$0.3 million as of August 31, 2017 and November 30, 2016. Of the total unrecognized tax benefits at August 31, 2017, \$0.1 million would, if recognized, impact the Company's effective tax rate. There were minimal interest and penalties recognized in the Statement of Financial Position at August 31, 2017 and November 30, 2016.

Interest and penalties related to unrecognized tax benefits are recorded as a component of income tax expense. The Company recognized minimal income tax expense related to interest and penalties as of August 31, 2017 and November 30, 2016.

The Company had approximately \$98.9 million and \$92.0 million of U.S. federal net operating loss carryforwards ("NOLCs") as of August 31, 2017 and November 30, 2016, respectively. The increase in the U.S. federal NOLCs is due to the recognition of windfall tax benefits as required under ASU 2016-09 which was adopted effective December 1, 2016. The Company also had \$108.7 million of state and local NOLCs, \$0.1 million of foreign tax credit carryforwards and \$0.7 million of AMT credit carryforwards. The \$108.7 million of state and local NOLCs have a realizable deferred tax asset value of \$3.8 million. During the year ended November 30, 2016, the Company utilized approximately \$15.6 million of federal NOLCs. During the three months ended August 31, 2017, the Company incurred an \$8.6 million U.S. federal capital loss as result of a stock sale of a foreign subsidiary. Presently, the Company does not anticipate utilizing the capital loss prior to its expiration and an offsetting valuation allowance was recorded. The majority of the federal, state and local NOLCs expire in tax years 2023 through 2034, while the foreign tax credit carryforwards expire between tax years 2017 and 2022, and the capital loss will expire in tax year 2022. As of August 31, 2017, the Company had approximately \$48.0 million of foreign NOLCs, of which \$42.9 million have an indefinite carryforward period. Of the \$42.9 million foreign NOLCs which have an indefinite carryforward period, \$34.1 million have a valuation allowance provided against them, as the Company presently does not anticipate utilizing these carryforwards.

With limited exceptions, the Company is no longer open to audit by the Internal Revenue Service and various states and foreign taxing jurisdictions for years prior to 2012.

The Company has not provided for U.S. income taxes on certain of its non-U.S. subsidiaries' undistributed earnings, as such amounts are considered permanently reinvested outside the U.S. To the extent that foreign earnings previously treated as permanently reinvested are repatriated, the related U.S. tax liability may be reduced by any foreign income taxes paid on these earnings.

Note E – Income (Loss) Per Share

The Company presents both basic and diluted earnings per share ("EPS") amounts. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is calculated by dividing net income by the weighted average number of common shares and common equivalent shares outstanding during the reporting period that are calculated using the treasury stock method for stock-based awards. The treasury stock method assumes that the Company uses the proceeds from the exercise of awards to repurchase common shares at the average market price during the period.

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The following table sets forth the computation of earnings per common share and fully diluted earnings per common share:

	Three Months Ended August 31, 2017		Nine Months Ended August 31, 2016	
Numerator				
Net income	\$7.9	\$4.7	\$5.1	\$10.8
Denominator (shares in millions)				
Denominator for basic earnings per share - weighted average shares outstanding	44.4	44.1	44.3	44.0
Effect of dilutive securities	.3	.6	.4	.4
Denominator for dilutive earnings per share - adjusted weighted average shares and assumed conversions	44.7	44.7	44.7	44.4
Income Per Share - Basic	\$.18	\$.11	\$.12	\$.25
Income Per Share - Diluted	\$.18	\$.10	\$.11	\$.24

Anti-dilutive share equivalents related to share-based incentive compensation were immaterial and are excluded from the computation of dilutive weighted-average shares.

Note F – Comprehensive Income (Loss)

The following tables reflect the changes in the components of accumulated other comprehensive loss (net of tax) for the three and nine months ended August 31, 2017 and 2016, respectively:

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Three months ended August 31, 2017 and 2016	Foreign Currency Items	Defined Benefit Plans	Accumulated Other Comprehensive Loss
Balance May 31, 2017	\$ (24.0)	\$(107.8)	\$ (131.8)
Other comprehensive income (loss) before reclassifications	7.3	(.2)	7.1
Amounts reclassified to earnings ^(a)	(6.3)	.9	(5.4)
Balance August 31, 2017	\$ (23.0)	\$(107.1)	\$ (130.1)

	Foreign Currency Items	Defined Benefit Plans	Accumulated Other Comprehensive Loss
Balance May 31, 2016	\$ (22.4)	\$(104.6)	\$ (127.0)
Other comprehensive income (loss) before reclassifications	(1.1)	—	(1.1)
Amounts reclassified to earnings	—	.6	.6
Balance August 31, 2016	\$ (23.5)	\$(104.0)	\$ (127.5)

Nine months ended August 31, 2017 and 2016	Foreign Currency Items	Defined Benefit Plans	Accumulated Other Comprehensive Loss
Balance - November 30, 2016	\$ (29.5)	\$(108.9)	\$ (138.4)
Other comprehensive income (loss) before reclassifications	12.8	(.2)	12.6
Amounts reclassified to earnings ^(a)	(6.3)	2.0	(4.3)
Balance August 31, 2017	\$ (23.0)	\$(107.1)	\$ (130.1)

	Foreign Currency Items	Defined Benefit Plans	Accumulated Other Comprehensive Loss
Balance - November 30, 2015	\$ (30.2)	\$(105.7)	\$ (135.9)
Other comprehensive income (loss) before reclassifications	12.8	(.2)	12.6
Amounts reclassified to earnings	(6.1)	1.9	(4.2)
Balance August 31, 2016	\$ (23.5)	\$(104.0)	\$ (127.5)

Amounts reclassified from accumulated other comprehensive income (loss) related to defined benefit plans were included in net periodic benefit expense.

(a) Amounts reclassified to earnings for Defined Benefit Plans includes \$0.4 million of settlement expense which occurred during the third quarter of 2017.

Note G – Inventories

Inventories are stated at the lower of cost or market value. Certain U.S. inventories are valued using the last-in, first-out (“LIFO”) method and represented approximately \$44.5 million, or 45.6%, and \$46.4 million, or 49.7%, of inventories at August 31, 2017 and November 30, 2016, respectively. The remaining portion of inventories (which are primarily located outside of the U.S.) are valued using costing methods that approximate the first-in, first-out (“FIFO”) or average cost methods. Interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and costs and are subject to final year-end LIFO inventory valuations. Inventory costs include material, labor, and overhead. Inventories, net, consisted of the following:

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(Dollars in Millions)	August 31, November 30,	
	2017	2016
Raw materials and supplies	\$ 31.6	\$ 30.6
Work-in-process	6.1	4.7
Finished goods	59.9	58.2
Inventories, gross	97.6	93.5
LIFO reserve	(13.3)	(12.9)
Obsolescence reserve	(7.1)	(6.6)
Inventories, net	\$ 77.2	\$ 74.0

Note H – Debt and Credit Lines

Debt obligations due within the next twelve months consist of the following:

(Dollars in Millions)	August 31, November 30,	
	2017	2016
\$350 million Term Loan B – current portion (interest at 5.48% and 5.25%, respectively)	\$ 3.5	\$ 3.5
Capital lease obligations	.7	.7
Total	\$ 4.2	\$ 4.2

The Company maintains borrowing facilities at certain of its foreign subsidiaries, which consist of working capital credit lines and facilities for the issuance of letters of credit. Total borrowing capacity for foreign working capital credit lines and letters of credit facilities were \$6.9 million at August 31, 2017 all of which was available for utilization and \$6.6 million at November 30, 2016 of which \$6.5 million was available for utilization. These letters of credit support commitments made in the ordinary course of business.

The Company's long-term debt consists of the following:

(Dollars in millions)	August 31, November 30,	
	2017	2016
\$350 million Term Loan B (interest at 5.48% and 5.25%, respectively)	\$ 346.5	\$ 349.2
Capital lease obligations	16.4	16.8
Total Long-Term Debt	362.9	366.0
Less: current portion	(4.2)	(4.2)
Unamortized original issue discount	(2.9)	(3.4)
Debt issuance costs	(5.5)	(5.9)
Total Long-Term Debt, net of current portion and deferred financing fees	\$ 350.3	\$ 352.5

The Company's U.S. debt facilities include a \$350 million Term Loan B ("Term Loan B") and a Senior Revolving Credit Facility ("Facility"). The Term Loan B was issued at a discount of \$3.5 million which is reflected as unamortized original issue discount.

The weighted-average interest rate on the Company's debt was 5.38% and 5.80% during the third quarters of 2017 and 2016, respectively.

For a detailed discussion of the Company's long-term debt agreements, refer to the Debt footnote in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2016.

Term Loan

The Company's \$350 million Term Loan B matures on August 26, 2023. The Term Loan B is primarily secured by all real property, plant, and equipment of the Company's U.S. facilities and fully and unconditionally and jointly and severally guaranteed by the material U.S. subsidiaries of the Company. The Term Loan B contains affirmative and negative covenants, including limitations on additional debt, certain investments, and acquisitions outside of the Company's line of business. The Term Loan B requires the Company to maintain a total net leverage ratio of less than 5.0 to 1.0. The Company is in compliance with this covenant with a total net leverage ratio of 3.4 to 1.0 at August 31, 2017.

Senior Revolving Credit Facility

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The Company also maintains a Senior Revolving Credit Facility (the "Facility") which matures on August 26, 2021. The Facility is secured by U.S. accounts receivable, inventory (collectively the "Eligible Borrowing Base") and intangible assets. The Facility contains affirmative and negative covenants, similar to the Term Loan B, including limitations on additional debt, certain investments and acquisitions outside of the Company's line of business. If the average excess availability of the Facility falls below \$25 million during any fiscal quarter, the Company must then maintain a fixed charge coverage ratio greater than 1.1 to 1.0 as defined in the agreement. The Company was in compliance with this requirement as the average excess availability did not fall below \$25 million during the third quarter of 2017.

At August 31, 2017, there were no amounts borrowed under the Facility and the amount available for borrowing under the Facility was \$72.6 million.

Capital Lease Obligations

At August 31, 2017, the Company had assets under capital leases totaling \$16.4 million, which are included in property, plant, and equipment in the accompanying Statements of Financial Position.

The following is a schedule by year of future minimum lease payments under the Company's capital lease together with the present value of the net future minimum lease payments as of August 31, 2017:

Year Ending November 30:	(Dollars in millions)
2017	\$.4
2018	1.4
2019	1.5
2020	1.5
2021	1.5
Thereafter	18.0
Total future minimum lease payments	24.3
Less: Amount representing estimated executory costs	(.6)
Net future minimum lease payments	23.7
Less: Amount representing interest	(7.3)
Present value of future minimum lease payments	\$ 16.4

Debt Issuance Costs and Original Issue Discounts

Debt issuance costs and original issue discounts incurred in connection with the issuance of the Company's debt are being amortized over the respective terms of the underlying debt, including any amendments. Total amortization expense of debt issuance costs and original issue discounts is included as a component of interest expense and was \$0.4 million and \$0.5 million, and \$1.1 million and \$1.4 million, for the three and nine months ended August 31, 2017 and 2016, respectively.

Note I – Share-Based Employee Compensation

The Company provides compensation benefits to employees under the OMNOVA Solutions 2017 Equity Incentive Plan (the "Plan"), which was approved by shareholders on March 22, 2017. The Plan permits the Company to grant to officers, key employees and non-employee directors of the Company, incentives directly linked to the price of OMNOVA Solutions' common shares. The Plan authorizes the issuance of Company common shares in the aggregate for (a) awards of options rights to purchase Company common shares, (b) performance shares and performance units, (c) restricted shares, (d) restricted share units, or (e) appreciation rights. Shares granted under the Plan may be either newly issued shares or treasury shares or both. As of August 31, 2017, approximately 2.5 million Company common shares remained available for grants under the Plan. All options granted under the Plan are granted at exercise prices equal to the market value of the Company's common shares on the date of grant. Additionally, the Plan provides that the term of any option granted under the Plan may not exceed 10 years. Prior to March 22, 2017, the Company granted equity compensation under the OMNOVA Solutions Third Amended and Restated 1999 Equity and

Performance Incentive Plan, which had substantially similar features.

Share-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period). The fair value of Restricted Share Awards ("RSA's") and Restricted Share Units ("RSU's") is determined based on the closing market price of the Company's ordinary shares at the date of grant. RSU's entitle the holder to receive one ordinary share for each RSU at vesting, generally three years after the date of grant. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company.

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In accordance with the adoption of ASU 2016-09, the Company recognized a cumulative effect adjustment to retained earnings of \$2.8 million in the Consolidated Financial Statements as of December 1, 2016 related to the recognition of deferred tax assets attributable to unrecognized windfall tax benefits.

Compensation expense for all share-based payments included in general and administrative expense was \$1.6 million and \$1.8 million for the first nine months of 2017 and 2016, respectively.

As of August 31, 2017, there was \$2.4 million of unrecognized compensation cost related to non-vested share-based compensation arrangements.

A summary of the RSA and RSU activity for 2017 follows:

	Restricted Share Awards & Units	Weighted-Average Grant Date Fair Value per Share
Nonvested at December 1, 2016	1,008,150	\$ 7.23
Granted	120,100	8.65
Vested	(574,450)	7.47
Canceled and Forfeited	(16,150)	7.44
Nonvested at August 31, 2017	537,650	\$ 6.98

The Company also provides employees the opportunity to purchase Company common shares through payroll deductions under the OMNOVA Solutions Employee Share Purchase Plan (the "ESPP"). Under the ESPP, eligible employees receive a 15% discount from the trading value of common shares purchased. The purchase price for common shares purchased from the Company will be 85% of the closing price of the common shares on the New York Stock Exchange ("NYSE") on the investment date. Participants may contribute funds to the ESPP, not to exceed twenty-five thousand dollars in any calendar year. If a participant terminates his or her employment with the Company or its subsidiaries, the participant's participation will immediately terminate, uninvested funds will be remitted to the participant and the participant's account will be converted to a regular brokerage account. As of August 31, 2017, the amount of shares held by eligible participants through the ESPP was not material.

Note J – Employee Benefit Plans

The Company maintains a number of defined benefit plans to provide retirement benefits for employees. These plans are maintained and contributions are made in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA"), local statutory law, or as determined by the Board of Directors. The plans generally provide benefits based upon years of service and compensation. The pension plans are funded except for a U.S. non-qualified pension benefit restoration plan for certain key employees and certain foreign plans. Future service benefits are frozen for all participants under the Company's U.S. defined benefit plan. All benefits earned by affected employees through the dates on which such benefits were frozen have become fully vested with the affected employees eligible to receive benefits upon retirement, as described in the Plan document. The following table sets forth the components of net periodic benefit costs for the Company's retirement programs:

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(Dollars in Millions)	Pension Plans		Health Care Plans	
	2017	2016	2017	2016
Three months ended August 31, 2017 and 2016				
Service costs	\$.7	\$.5	\$ —	\$ —
Interest costs	2.3	2.4	.1	.1
Expected return on plan assets	(3.8)	(3.8)	—	—
Amortization of net actuarial loss (gain)	1.2	1.2	(.3)	(.3)
Settlement loss	.4	—	—	—
Net periodic cost (benefit)	\$.8	\$.3	\$ (.2)	\$ (.2)

(Dollars in Millions)	Pension Plans		Health Care Plans	
	2017	2016	2017	2016
Nine months ended August 31, 2017 and 2016				
Service costs	\$2.1	\$1.5	\$ —	\$ —
Interest costs	6.9	7.2	.3	.3
Expected return on plan assets	(11.4)	(11.4)	—	—
Amortization of net actuarial loss (gain)	3.5	3.5	(.9)	(.9)
Settlement loss	.4	—	—	—
Net periodic cost (benefit)	\$1.5	\$.8	\$ (.6)	\$ (.6)

The Company made \$6.0 million of contributions to its pension plan trusts during the first nine months of fiscal 2017 and expects full year contributions of approximately \$7.4 million during fiscal 2017. The settlement expense recognized during the third quarter of 2017 is due to the exit of certain individuals under the non-qualified pension benefit restoration plan.

The Company also sponsors a defined contribution 401(k) plan. Participation in this plan is voluntary and is available to substantially all U.S. salaried employees and to certain groups of U.S. hourly employees. Company contributions to this plan are based on either a percentage of employee contributions or on a specified percentage of employee compensation based on the provisions of the applicable collective bargaining agreement. Company contributions are made in cash. Expense for this plan was \$0.6 million and \$2.2 million for the third quarter and the first nine months of 2017, respectively, and \$0.7 million and \$2.1 million for the third quarter and the first nine months of 2016, respectively.

Note K – Contingencies

From time to time, the Company is subject to various claims, proceedings, and lawsuits related to products, services, contracts, employment, environmental, safety, intellectual property, and other matters. The ultimate resolution of such claims, proceedings, and lawsuits is inherently unpredictable and, as a result, the Company's estimates of liability, if any, are subject to change. Actual results may materially differ from the Company's estimates and an unfavorable resolution of any matter could have a material adverse effect on the financial condition, results of operations, and/or cash flows of the Company. However, subject to the above and taking into account such amounts, if any, as are accrued from time to time on the Company's balance sheet, the Company does not believe, based on the information currently available to it, that the ultimate resolution of these matters will have a material effect on the consolidated financial condition, results of operations or cash flows of the Company.

Note L – Business Segment Information

The Company's two operating segments, Specialty Solutions and Performance Materials, are based on products and services provided as defined under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 280, Segment Reporting, and based on how its Chief Operating Decision Maker, its CEO, evaluates performance and allocates resources. Accounting policies of the segments are the same as the Company's accounting policies. The Company's operating segments are strategic business units that offer different products and services, and are managed separately based on certain differences in their technology, marketing strategies and end use markets. As announced during January 2017 during the second quarter of fiscal 2017, the Company realigned its product lines within these business segments. Accordingly, prior year segment results have been modified to conform

to the revised segment presentation.

Segment operating profit represents net sales less applicable costs, expenses and provisions for restructuring and severance costs, asset write-offs, and other items. Segment operating profit excludes unallocated corporate headquarters expenses, provisions for corporate headquarters, corporate restructuring and severance, interest expense, and income taxes. Corporate headquarters expense includes the cost of providing and maintaining the corporate headquarters functions (including salaries, rent, travel, and entertainment expenses), depreciation, utility costs, outside services, and other costs.

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The following table sets forth a summary of operations by segment and a reconciliation of segment sales to consolidated sales and segment operating profit to consolidated income (loss) before income taxes:

(Dollars in Millions)	Three Months		Nine Months	
	Ended August		Ended August	
	31,	31,	31,	31,
	2017	2016	2017	2016
Net sales				
Specialty Solutions	\$ 115.1	\$ 107.1	\$ 330.3	\$ 302.9
Performance Materials	85.8	88.5	266.5	270.0
Total net sales	\$ 200.9	\$ 195.6	\$ 596.8	\$ 572.9
Segment operating profit				
Specialty Solutions	\$ 18.9	\$ 16.9	\$ 45.6	\$ 47.6
Performance Materials	8.3	4.3	5.8	8.6
Total segment operating profit	27.2	21.2	51.4	56.2
Interest expense	(5.5)	(5.9)	(16.0)	(17.4)
Corporate expense	(7.5)	(6.6)	(23.1)	(20.9)
Operational improvement costs	—	—	—	.4
Acquisition and integration costs	(.2)	(.4)	(.2)	(.4)
Debt issuance costs write-off	—	(1.7)	—	(1.7)
Income (loss) before income taxes	\$ 14.0	\$ 6.6	\$ 12.1	\$ 16.2

Note M - Acquisitions

On March 13, 2017, the Company acquired the assets of Creole Chemicals, Inc., a producer of specialty oilfield additives based in Houston, Texas. This acquisition allows the Company to accelerate growth, round out its existing offerings and broaden its solutions portfolio in the oil and gas product line. Assets acquired included inventory and intellectual property. The Company paid \$2.5 million cash, exclusive of contingent consideration that will be based on future profitability of acquired product sales over a two year period. The acquisition date fair value of the contingent consideration was \$0.7 million.

Note N - Sale of Assets

In late May 2017, Management approved a plan for the Company to sell its China coated fabrics manufacturing operations. As a result, during the second quarter of 2017, the Company determined that the disposal group was impaired and recognized an impairment charge of \$12.9 million, of which \$11.8 million was included in the results of the Performance Materials segment and \$1.1 million was included in Corporate expenses. Included in the calculation of the impairment charge are deferred foreign currency translation gains of \$6.3 million, which were previously recorded in accumulated other comprehensive income ("AOCI"). The Company completed the planned sale in July 2017, and recognized an additional loss on the sale of \$0.4 million, for a total loss of \$13.3 million. The Company will continue to manufacture and sell coated fabric products in the Asian region. Management considered other qualitative and quantitative factors and concluded this sale did not represent a strategic shift in business.

The Company classifies assets and liabilities as held for sale when management, having the authority to approve the action, commits to a plan to sell a group of assets, the sale is probable within one year, and the asset group is available for immediate sale in its present condition. Management also considers whether an active program to locate a buyer has been initiated, whether the disposal group is marketed actively for sale, the price is reasonable in relation to its current fair value, and whether actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The Company also tests assets for impairment when a triggering event occurs or conditions exist. An impairment charge is recognized when the carrying value of the disposal group exceeds the estimated fair value, less transaction costs. Further, the Company will cease to recognize depreciation for assets once classified as held for sale and assets are aggregated on the balance sheet for the period in which the disposal group is held for sale. For comparative

presentation, assets and liabilities related to the disposal group will also be aggregated on the balance sheet for the prior period.

There were no assets and liabilities classified as held for sale as of August 31, 2017. At November 30, 2016 assets and liabilities classified as held for sale were comprised of the following:

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(Dollars in Millions)	November 30, 2016
Cash	\$ 6.0
Accounts receivable, net	12.3
Other current assets	1.3
Inventories, net	3.0
Total current assets	22.6
Other non-current assets	3.1
Total assets	\$ 25.7
Accounts payable	\$ 4.5
Other payables	.7
Total current liabilities	\$ 5.2

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company has two operating segments: one focused on its specialty businesses and one focused on the Company's more mature businesses. Product lines are grouped within these segments because they share similar end market characteristics and executional strategies.

Specialty Solutions – The Specialty Solutions segment develops, designs, produces, and markets a broad line of specialty polymers for use in coatings, adhesives, sealants, elastomers, laminates, films, nonwovens and oil & gas products. These products are used in numerous applications, including architectural and industrial coatings; nonwovens used in hygiene products, filtration and construction; drilling additives for oil and gas exploration and production; elastomeric modification of plastic casings and hoses used in household and industrial products and automobiles; tapes and adhesives; sports surfaces; textile finishes; commercial building refurbishment; new construction; residential cabinets; flooring; ceiling tile; furnishings; manufactured housing; health care patient; and common area furniture; and a variety of industrial films applications. The segment's products provide performance enhancing properties to enhance the Company's customers' products, including stain, rust and aging resistance; surface modification; gloss; softness or hardness; dimensional stability; high heat and pressure tolerance; and binding and barrier (e.g. moisture, oil) properties.

The Specialty Solutions segment consists of specialty coatings & ingredients, oil & gas, and laminates and films. The specialty coatings & ingredients product line encompasses products that have applications for specialty coatings, nonwovens (such as disposable hygiene products, engine filters, roofing mat, and scrub pads), construction, adhesives, sealants, tape, floor care, textiles, graphic arts, and various other specialty applications. Oil & gas applications include drilling fluid additives, which provide fluid loss control and sealing to enhance wellbore integrity, as well as cement additives for gas migration and fluid loss. The laminates and performance films product line applications include kitchen and bath cabinets, wall surfacing, manufactured housing and recreational vehicle interiors, flooring, commercial and residential furniture, retail display fixtures, home furnishings, commercial appliances, and a variety of industrial film applications.

Performance Materials – The Performance Materials segment serves mature markets with a broad range of emulsion polymers based primarily on styrene butadiene (SB), styrene butadiene acrylonitrile (SBA), styrene butadiene vinyl pyridine, high styrene pigments, polyvinyl acetate, acrylic, styrene acrylic, calcium stearate, glyoxal, and bio-based chemistries. Performance Materials' custom-formulated products are tailored latexes, resins, binders, antioxidants, hollow plastic pigment, coated fabrics, and rubber reinforcing which are used in tire cord, polymer stabilization, industrial rubbers, carpet, paper, and various other applications. Its products provide a variety of functional properties

to enhance the Company's customers' products, including greater strength, adhesion, dimensional stability, ultraviolet resistance, improved processibility, and enhanced appearance.

The Performance Materials segment encompasses performance additives, paper, carpet, and coated fabrics. This segment encompasses products that have applications in the paper, paperboard, carpet, polymer stabilization, industrial rubbers, and tire cord industries. Paper and paperboard coatings are used in magazines, catalogs, direct mail advertising, brochures, printed reports, food cartons, household, and other consumer and industrial packaging. Carpet binders are used to secure carpet fibers to carpet backing and meet the stringent manufacturing, environmental, odor, flammability, and flexible installation requirements. Tire cord is used in automotive tires. The coated fabrics product line applications include upholstery used in refurbishment and new construction for the commercial office, hospitality, health care, retail, education and restaurant

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markets, marine and transportation seating, commercial and residential furniture, automotive soft tops, and automotive after-market applications.

The Company primarily sells its products directly to manufacturers, and has manufacturing facilities in the United States, France, China, and Thailand. For additional information about the Company's business (other than the description of the Company's reporting segments), please refer to Item 1. Business of the Company's 2016 Annual Report on Form 10-K.

The Company has historically experienced stronger sales and income in its second, third and fourth quarters, comprised of the three-month periods ending May 31, August 31, and November 30. The Company's performance in the first quarter (December through February) has historically been weaker and less profitable due to generally lower levels of customer manufacturing, construction and refurbishment activities during the holidays and cold weather months.

The Company's chief operating decision maker ("CODM"), its CEO, evaluates performance and allocates resources by operating segment. Segment information has been prepared in accordance with authoritative guidance promulgated by the Financial Accounting Standards Board ("FASB"). The Company's two operating segments were determined based on the products and services provided. Accounting policies of the segments are the same as those described in Note A of the Company's Unaudited Interim Consolidated Financial Statements. For a reconciliation of the Company's segment operating performance information, please refer to the Business Segment Information footnote of the Company's Unaudited Interim Consolidated Financial Statements.

A majority of the Company's raw materials are derived from petrochemicals and chemical feedstocks, the prices of which are cyclical and volatile. Generally, the Company attempts to pass along increased raw material prices to customers in the form of price increases of its products; however, due to sales contracts with certain customers, there may be a time delay between a change in raw material prices and the Company's ability to change the prices of its products. Additionally, the Company may experience competitive pricing pressures and other factors that may not allow it to increase the prices of its products.

OMNOVA had sales price index contracts related to approximately 29.3% of its sales in the first nine months of 2017. The index is generally comprised of several components: a negotiated fixed amount per pound and the market price of key raw materials (i.e., styrene and butadiene). The contract mechanisms, however, generally allow for the pass-through of the changes, either increases or decreases, in the prices of key raw materials within a 30 to 60 day period. Contracts vary in length from 12 to 36 months.

The remainder of OMNOVA's sales are not indexed. OMNOVA periodically negotiates with each customer regarding pricing changes based on the raw material components and the value-added and performance attributes of OMNOVA's product. OMNOVA's pricing objective, which may or may not be met, is to recover raw material price increases within a 30 to 60 day period and to improve gross margins during periods when raw material prices decrease.

Styrene, a key raw material component, is generally available worldwide, and OMNOVA has supply contracts with several producers. OMNOVA believes there is adequate global capacity to serve demand. OMNOVA's styrene purchases for 2014 through 2016 and estimated purchases for 2017 and an estimated range of market prices are as follows:

	Pounds Purchased (in Millions)	Market Price Range Per Pound
2017 (estimated)	126	\$0.47 - \$0.72
2016	144	\$0.39 - \$0.54
2015	166	\$0.41 - \$0.68
2014	177	\$0.69 - \$0.84

Butadiene, a key raw material component, is generally available worldwide. OMNOVA has supply contracts with several producers. At times, when the demand of butadiene exceeds supply, it is sold on an allocated basis.

OMNOVA's butadiene purchases for 2014 through 2016 and estimated purchases for 2017 and an estimated range of market prices are as follows:

Pounds Purchased	Market Price Range
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	(in Millions)	Per Pound
2017 (estimated)	110	\$0.39 - \$1.42
2016	111	\$0.24 - \$0.71
2015	132	\$0.29 - \$0.65
2014	142	\$0.55 - \$0.82

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Key Indicators

Key economic measures relevant to the Company include global economic growth rates, discretionary spending for durable goods, print advertising, oil and gas consumption and drilling levels, U.S. commercial real estate occupancy rates, U.S. office furniture sales, manufactured housing shipments, housing starts and sales of existing homes, and forecasts of raw material pricing for certain petrochemical feedstocks. Key original equipment manufacturer industries that provide a general indication of demand drivers to the Company include paper, commercial and residential construction and refurbishment, automotive and tire production, furniture, flooring, coating and acrylonitrile butadiene styrene ("ABS") manufacturing. These measures provide general information on trends relevant to the demand for the Company's products, but the trend information does not necessarily directly correlate with demand levels in the markets that ultimately use the Company's products in part because the Company's market share is relatively small in a number of specialty markets.

Key operating measures utilized by the business segments include orders, sales and pricing, working capital days, inventory, productivity, plant utilization, new product vitality, cost of quality and order fill-rates, which provide key indicators of business trends, and safety and other internal metrics. These measures are reported on various cycles including daily, weekly and monthly, depending on the needs established by operating management.

Key financial measures utilized by management to evaluate the results of its businesses and to understand the key variables impacting the current and future results of the Company include: sales and pricing; gross profit; selling, general, and administrative expenses; adjusted operating profit; adjusted net income; consolidated earnings before interest, taxes, depreciation, and amortization ("EBITDA"); Adjusted EBITDA; EBITDA calculated in accordance with the Company's Term Loan B Credit Agreement; working capital; operating cash flows; capital expenditures; cash interest expense; adjusted earnings per share; and applicable ratios, such as inventory turnover; working capital turnover; return on sales and assets; and leverage ratios. These measures, as well as objectives established by the Board of Directors of the Company, are reviewed at monthly, quarterly, and annual intervals and compared with historical periods.

Results of Operations for the Three months ended August 31, 2017 Compared to the Three months ended August 31, 2016

The Company's net sales in the third quarter of 2017 were \$200.9 million compared to \$195.6 million in the third quarter of 2016. China Coated Fabrics (CCF), which was sold in July 2017, accounted for \$0.9 million in sales in this year's third quarter and \$5.0 million in last year's comparable quarter. Excluding the effect of CCF, sales increased 5.2%. Specialty Solutions sales increased \$8.0 million, or 7.5%, and Performance Materials sales increased \$1.9 million, or 2.3%, excluding the effect of CCF. Pricing increased \$17.7 million, or 9.0%, and volume decreased \$9.5 million or 4.9%. Volumes declined primarily due to continued soft market conditions in paper, equipment start-up issues at an antioxidant plant and a strong comparable quarter last year for oil & gas related to initial orders for a new customer, which were partially offset by improved overall volumes in laminates & films, nonwovens and carpet. Improved pricing reflects the effect of index pricing adjustments and the results of the Company's non-indexed price increase initiatives. Currency translation was favorable by \$1.0 million in the third quarter of 2017 compared to the same quarter last year.

Gross profit in the third quarter of 2017 was \$57.8 million with a gross profit margin of 28.8%, compared to gross profit of \$52.1 million and a gross profit margin of 26.6% in the third quarter of 2016. The increase from the comparable quarter resulted from improved pricing, primarily within Performance Materials, and improved mix from specialty products, offsetting raw material cost increases earlier in the year.

Selling, general and administrative expense in the third quarter of 2017 was \$28.9 million, compared to \$29.3 million in the third quarter of 2016. The \$0.4 million, or 1.4%, decrease reflects the sale of CCF and the "One OMNOVA" cost reduction initiatives partially offset by inflation and investments in specialty markets.

Interest expense in the third quarter of 2017 was \$5.5 million, compared to \$5.9 million in the third quarter of 2016. The decrease of \$0.4 million, or 6.8%, was attributed to the favorable debt refinancing actions performed during the third quarter of 2016.

Income tax expense was \$6.1 million in the third quarter of 2017, compared to income tax expense of \$1.9 million in the third quarter of 2016. The increase in tax expense for the third quarter of 2017, compared to the third quarter of 2016, primarily relates to increased pre-tax earnings of approximately \$7.4 million. The Company's effective tax rate of 43.6% for the third quarter of 2017 was higher than the U.S. federal statutory rate primarily due to losses in jurisdictions in which no tax benefit was recognized. The Company's effective tax rate of 28.8% for the third quarter 2016 was primarily driven by foreign statutory tax rates lower than the U.S. rate in Asia and Europe.

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Net income for the third quarter of 2017 was \$7.9 million, or \$0.18 per diluted share, compared to net income of \$4.7 million, or \$0.10 per diluted share, during the same quarter in the prior year.

Segment Discussion

The following Segment Discussion presents information used by the Company in assessing the results of operations by business segment. The Company believes that this presentation is useful for providing the investor with an understanding of the Company's business and operating performance because these measures are used by the CODM in evaluating performance and allocating resources.

The following table reconciles segment sales to consolidated net sales and segment operating profit to consolidated income before income taxes:

(Dollars in millions)	Three Months Ended August 31,	
	2017	2016
Net Sales		
Specialty Solutions	\$115.1	\$107.1
Performance Materials	85.8	88.5
Consolidated Net Sales	\$200.9	\$195.6
Segment Operating Profit:		
Specialty Solutions	\$18.9	\$16.9
Performance Materials	8.3	4.3
Interest expense	(5.5)	(5.9)
Corporate expense	(7.5)	(6.6)
Acquisition and integration costs	(.2)	(.4)
Debt issue costs write-off	—	(1.7)
Income Before Income Taxes	\$14.0	\$6.6

Specialty Solutions

Specialty Solutions' net sales increased \$8.0 million, or 7.5%, to \$115.1 million in the third quarter of 2017 from \$107.1 million in the third quarter of 2016. The improvement was driven by pricing and mix increases of \$6.2 million and volume increased \$1.1 million and foreign currency translation was favorable by \$0.6 million, compared to the same quarter last year. Volumes were strong in laminates & films and non-wovens but oil & gas was down compared to particularly strong sales in the third quarter last year from a new customer's initial orders.

Segment operating profit was \$18.9 million for the third quarter of 2017 compared to \$16.9 million for the third quarter of 2016. Increased pricing, favorable mix, and lower SG&A spending drove the increase in operating profit compared to last year. Segment operating profit also includes items which management excludes when evaluating the results of the Company's segments. There were no excluded items for the third quarter of 2017, while the third quarter of 2016 included unfavorable adjustments of \$0.1 million related to restructuring and severance and \$0.2 million related to asset impairment, facility closure costs and other partially offset by favorable adjustments of \$0.3 million related to operational and other improvement initiatives.

Performance Materials

Performance Materials net sales decreased \$2.7 million, or 3.1%, to \$85.8 million during the third quarter of 2017, compared to \$88.5 million during the third quarter of 2016. CCF recorded \$0.9 million of sales in the third quarter of

2017 before it was sold and \$5.0 million in last year's comparable quarter. Excluding the impact of CCF, sales increased 2.3%, driven by pricing increases of \$11.3 million, favorable foreign currency translation effect of \$0.4 million, which were partially offset by volume declines of \$10.6 million. Growth in carpet partially offset declines in paper and antioxidants.

The Performance Materials' segment recognized an operating profit of \$8.3 million in the third quarter of 2017 compared to operating profit of \$4.3 million in the third quarter of 2016. During the third quarter of 2017, favorable pricing and lower

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SG&A spending more than offset lower volume and higher raw material cost. The segment operating profit includes items that management excludes when evaluating the results of the Company's segments. Those items for the third quarter of 2016 include \$0.3 million of restructuring and severance expense, \$0.6 million of facility closure costs, and a \$0.5 million favorable adjustment related to operational and other improvement initiatives.

Corporate

Corporate expenses were \$7.7 million in the third quarter of 2017, compared to \$8.7 million in the third quarter of 2016. Lower corporate spending in the third quarter of 2017 was partially offset by severance costs associated with the implementation of the "One OMNOVA" corporate support structure at the end of the first quarter 2017.

Results of Operations for the Nine Months Ended August 31, 2017 Compared to the Nine Months Ended August 31, 2016

The Company's net sales in the first nine months of 2017 were \$596.8 million, compared to \$572.9 million in the first nine months of 2016. CCF accounted for \$10.6 million in sales year to date 2017 and \$19.5 million during the prior year comparable period and India accounted for \$3.4 million in sales during 2016. Excluding the effect of CCF and India, net sales increased 6.7% year to date. The Specialty Solutions business segment revenue increased \$27.4 million, or 9.0%, and Performance Materials business segment revenue increased by \$8.8 million, or 3.6%, excluding the CCF and India sales. Contributing to the net sales increase in 2017 were improved pricing of \$54.6 million and favorable foreign exchange of \$1.5 million, which was partially offset by unfavorable volume of \$20.0 million. The improved pricing was primarily due to higher raw material costs and their related impact on pricing index formulas in certain markets and the Company's non-indexed price increase initiatives.

Gross profit in the first nine months of 2017 was \$154.9 million with a gross profit margin of 26.0%, compared to \$154.8 million and 27.0% in the first nine months of 2016. The slight increase in gross profit, which was due to improved pricing, was partially offset by higher raw material costs.

Selling, general, and administrative expense in the first nine months of 2017 was \$88.2 million, or 14.8% of sales, compared to \$91.0 million, or 15.9% of net sales, in the first nine months of 2016. The decrease in expense for the first nine months of 2017 is primarily due to cost reduction initiatives and the sale of CCF, partially offset by inflation and investments in specialty markets.

Interest expense was \$16.0 million in the first nine months of 2017, compared to \$17.4 million for the first nine months of 2016. The decrease in the current year is due to the favorable debt refinancing actions performed during the first nine months of 2016.

Income tax expense was \$7.0 million for the first nine months of 2017, compared to income tax expense of \$5.4 million for the first nine months of 2016. The effective tax rate of 57.9% for the first nine months of 2017 was higher than the Company's U.S. federal statutory rate primarily due to a \$13.3 million foreign impairment charge recorded, primarily in the second quarter of 2017 for which no tax benefit was allowed. The Company's effective tax rate was 33.3% for the first nine months of 2016.

Cash tax payments in the U.S. are expected to be minimal over the next few years as the Company has \$98.9 million of U.S. federal net operating loss carryforwards, \$8.6 million of U.S. federal capital loss carryforwards, and \$108.7 million of state and local net operating loss carryforwards. The \$108.7 million of state and local net operating loss carryforwards have a realizable deferred tax asset value of \$3.8 million. The majority of the federal, state and local net operating loss carryforwards will expire between tax years 2023 and 2034 and the federal capital loss will expire in tax year 2022.

The Company generated net income of \$5.1 million, or \$0.11 per diluted share, in the first nine months of 2017, compared to net income of \$10.8 million, or \$0.24 per diluted share, in the first nine months of 2016.

Segment Discussion

The following table reconciles segment sales to consolidated net sales and segment operating profit to consolidated income from continuing operations before income taxes:

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(Dollars in millions)	Nine Months Ended August 31,	
	2017	2016
Net sales		
Specialty Solutions	\$330.3	\$302.9
Performance Materials	266.5	270.0
Net sales	\$596.8	\$572.9
Segment Operating Profit:		
Specialty Solutions	\$45.6	\$47.6
Performance Materials	5.8	8.6
Interest expense	(16.0)	(17.4)
Corporate expense	(23.1)	(20.9)
Operational improvement costs	—	.4
Acquisition and integration costs	(.2)	(.4)
Debt issuance write-off	\$—	\$(1.7)
Income (loss) before income taxes	\$12.1	\$16.2

Specialty Solutions

Specialty Solutions net sales increased \$27.4 million, or 9.0%, to \$330.3 million in the first nine months of 2017 from \$302.9 million in the first nine months of 2016 primarily due to favorable pricing of \$18.0 million and higher volumes of \$8.5 million, and favorable foreign currency translation of \$0.9 million.

Segment operating profit was \$45.6 million for the first nine months of 2017, compared to \$47.6 million for the first nine months of 2016. Segment operating profit decreased 4.2% in the first nine months of 2017 as a result of higher raw material costs, which were partially offset by improved volumes and pricing. Segment operating profit also includes items which management excludes when evaluating the results of the Company's segments. Those items for the first nine months of 2017 were \$0.6 million of restructuring and severance costs. These items for 2016 included \$0.2 million of severance costs, \$0.8 million of asset impairment, facility closure costs and other, and favorable adjustments of \$1.0 million related to operational and other improvement items.

Performance Materials

Performance Materials' net sales decreased \$3.5 million, or 1.3%, to \$266.5 million during the first nine months of 2017, compared to \$270.0 million during the first nine months of 2016. The divestitures of the Company's India operations in February 2016 and CCF operations in July 2017 resulted in a reduction in net sales of \$3.4 million and \$8.8 million, respectively. Excluding CCF and India sales, improved customer pricing of \$35.6 million driven by higher contract-based index prices and the Company's non-indexed price increase initiatives, were offset by lower volumes of \$27.5 million driven primarily by weakness in antioxidants, paper, carpet and coated fabrics markets. Foreign currency translation was favorable \$0.6 million in the first nine months of 2017 compared to the prior year.

This segment generated operating profit of \$5.8 million in the first nine months of 2017 compared to operating profit of \$8.6 million in the first nine months of 2016. Segment operating profit also includes items which management excludes when evaluating the results of the Company's segments. Those items for the first nine months of 2017 included a \$12.3 million impairment charge related to the CCF business, \$1.7 million of severance costs, and favorable environmental reserve adjustments of \$2.2 million. Those items for the first nine months of 2016 were \$2.8 million of restructuring and severance costs, \$3.0 million of accelerated depreciation, \$0.2 million of asset impairment, facility closure costs and other, \$1.1 million of acquisition and integration related expense, and a favorable adjustment of \$1.4 million to operational improvement initiatives. Excluding these items, operating profit in 2017 improved 26.6% compared to 2016, driven by higher pricing and lower SG&A spending, partially offset by lower volumes.

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Corporate

Corporate expenses were \$23.3 million in the first nine months of 2017, compared to \$20.5 million in the first nine months of 2016. Lower corporate spending was offset by severance costs associated with the implementation of the "One OMNOVA" corporate support structure.

Financial Resources

(Dollars in millions)	Nine Months Ended		
	August 31,		
	2017	2016	Change
Net cash provided by operating activities	\$28.2	\$41.0	\$(12.8)
Net cash used in investing activities	\$(20.5)	\$(11.1)	\$(9.4)
Net cash used in financing activities	\$(5.5)	\$(4.1)	\$(1.4)
Net increase (decrease) in cash and cash equivalents	\$2.6	\$25.4	\$(22.8)

Cash provided by operating activities was \$28.2 million and \$41.0 million for the nine months ended August 31, 2017 and 2016, respectively. Cash provided by operations decreased in 2017 compared to 2016, primarily due to a larger increase in accounts receivable in 2017 compared to 2016. Total working capital days improved in the third quarter of 2017 compared to the third quarter of 2016, decreasing from 59.0 days to 55.9 days year-over-year, primarily driven by the Company's focused effort on working capital improvement.

Cash used in investing activities was \$20.5 million and \$11.1 million in the nine months ended August 31, 2017 and 2016, respectively. Cash used in 2017 was primarily for routine ongoing capital expenditures, \$2.5 million paid for the acquisition of a business and \$4.8 million of cash balances in the divested CCF business, partially offset by the collection of a \$3.8 million note receivable. The Company expects approximately \$20.0 to \$25.0 million of capital expenditures during 2017. Capital expenditures are planned principally for asset replacement, new product capability, cost reduction, safety and productivity improvements and environmental protection. The Company expects to fund remaining capital expenditures with cash flow generated from operations.

Cash used by financing activities was \$5.5 million and \$4.1 million in the nine months ended August 31, 2017 and 2016, respectively. The first nine months of 2017 includes debt repayments of \$3.3 million and \$2.2 million for employee withholding taxes on the Company's share-based compensation programs, primarily related to the Company's CEO transition in December 2016. Financing activities for the first nine months of 2016 includes the refinancing activities related to the Term Loan B. Total debt was \$362.9 million as of August 31, 2017, which includes \$346.5 million for the Term Loan and \$16.4 million for capital lease obligations, compared to \$366.0 million as of November 30, 2016.

The Company's cash balance of \$74.6 million as of August 31, 2017 consists of \$38.4 million in the U.S., \$17.8 million in Asia and \$18.4 million in Europe. The Company is not aware of any restrictions regarding the repatriation of its non-U.S. cash, however, repatriation of cash from certain countries may require certain tax considerations if repatriated and may not be able to be completed in a timely manner.

The Company believes that its cash flows from operations, together with existing credit facilities and cash on hand will be adequate to fund its operations and capital requirements for the next twelve months.

Debt

Please refer to Note H to the Unaudited Interim Consolidated Financial Statements for a discussion of debt.

Significant Accounting Policies and Management Judgments

The Company's discussion and analysis of its results of operations, financial condition, and liquidity are based upon the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates

and judgments that affect the amounts of assets and liabilities, revenues, and expenses and disclosure of contingent assets and liabilities as of the date of the financial statements. The Company periodically reviews its estimates and judgments including those related to product returns, accounts receivable, inventories, litigation and environmental reserves, pensions, and income taxes. The Company bases its estimates and judgments on historical experience and on various assumptions that it believes to be reasonable under the circumstances. Actual results may differ materially from these estimates and judgments under different assumptions.

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Information with respect to the Company's significant accounting policies and management judgments which the Company believes could have the most significant effect on the Company's reported results and require subjective or complex judgments by management is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended November 30, 2016, as filed with the SEC. The Company has not made any changes in estimates or judgments that have had a significant effect on the reported amounts.

Environmental Matters

The Company's policy is to conduct its businesses with due regard for the preservation and protection of the environment. The Company devotes significant resources and management attention to comply with environmental laws and regulations. The Company's Consolidated Balance Sheet as of August 31, 2017 reflects reserves for environmental remediation of \$1.6 million. The Company's estimates are subject to change and actual results may materially differ from the Company's estimates. Management believes, on the basis of presently available information, that resolution of known environmental matters will not materially affect liquidity, capital resources, or the consolidated financial condition of the Company.

Employee Matters

At August 31, 2017, the Company employed approximately 1,800 employees at offices, plants and other facilities located principally throughout the United States, France, China and Thailand. Approximately 11% of the Company's employees are covered by collective bargaining agreements in the United States. In addition, certain of our foreign employees are covered by collective bargaining agreements.

New Accounting Pronouncements

Please refer to Note A to the Unaudited Interim Consolidated Financial Statements for a discussion of accounting standards adopted in 2017 and accounting standards not yet adopted.

Forward-Looking Statements

This quarterly report on Form 10-Q includes descriptions of our current business, operations, assets and other matters affecting the Company as well as "forward-looking statements" as defined by federal securities laws. All forward-looking statements by the Company, including verbal statements, are intended to qualify for the protections afforded forward-looking statements under the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect management's current expectation, judgment, belief, assumption, estimate or forecast about future events, circumstances or results and may address business conditions and prospects, strategy, capital structure, debt and cash levels, sales, profits, earnings, markets, products, technology, operations, customers, raw materials, claims and litigation, financial condition, and accounting policies among other matters. Words such as, but not limited to, "will," "may," "should," "projects," "forecasts," "seeks," "believes," "expects," "anticipates," "estimates," "intends," "plans," "likely," "would," "could," "committed," and similar expressions or phrases identify forward-looking statements.

All descriptions of our business, operations and assets, as well as all forward-looking statements, involve risks and uncertainties. Many risks and uncertainties are inherent in business generally and the markets in which the Company operates or proposes to operate. Other risks and uncertainties are more specific to the Company's businesses including businesses the Company acquires. There also may be risks and uncertainties not currently known to us. The occurrence of any such risks and uncertainties and the impact of such occurrences is often not predictable or within the Company's control. Such impacts could adversely affect the Company's business, operations or assets as well as the Company's results and the value of your investment in OMNOVA and, in some cases, such effect could be material.

Certain risks and uncertainties facing the Company are described below or elsewhere in this Form 10-Q.

All written and verbal descriptions of our business, operations and assets and all forward-looking statements attributable to the Company or any person acting on the Company's behalf are expressly qualified in their entirety by the risks, uncertainties, and cautionary statements contained and referenced herein.

All such descriptions and any forward-looking statement speak only as of the date on which such description or statement is made, and the Company undertakes no obligation, and specifically declines any obligation, other than that imposed by law, to publicly update or revise any such description or forward-looking statements whether as a result of new information, future events or otherwise.

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Risks and uncertainties that may adversely affect our business, operations, assets, or other matters affecting the Company and may cause actual results and the value of your investment in OMNOVA to materially differ from expectations include, but are not limited to: (1) the Company's exposure to general economic, business, and industry conditions; (2) the risk of doing business in foreign countries and markets; (3) changes in raw material prices and availability; (4) the highly competitive markets the Company serves; (5) extraordinary events such as natural disasters, political disruptions, terrorist attacks and acts of war; (6) extensive and increasing United States and international governmental regulation, including environmental, health and safety regulations; (7) the Company's failure to protect its intellectual property or defend itself from intellectual property claims; (8) claims and litigation; (9) changes in accounting policies, standards, and interpretations; (10) the actions of activist shareholders; (11) the Company's inability to achieve or achieve in a timely manner the objectives and benefits of cost reduction initiatives; (12) the Company's ability to develop and commercialize new products at competitive prices; (13) the concentration of certain of OMNOVA's businesses and market segments among several large customers; (14) the creditworthiness of the Company's customers; (15) the failure of a joint venture partner to meet its commitments; (16) the Company's ability to identify and complete strategic transactions; (17) the Company's ability to successfully integrate acquired companies; (18) unanticipated capital expenditures; (19) risks associated with the use, production, storage, and transportation of chemicals; (20) information system failures and breaches in security; (21) continued increases in healthcare costs; (22) the Company's ability to retain or attract key employees; (23) the Company's ability to renew collective bargaining agreements with employees on acceptable terms and the risk of work stoppages; (24) the Company's contribution obligations under its U.S. pension plan; (25) the Company's reliance on foreign financial institutions to hold some of its funds; (26) the effect of goodwill impairment charges; (27) the volatility in the market price of the Company's common shares; (28) the Company's substantial debt position; (29) the decision to incur additional debt; (30) the operational and financial restrictions contained in the Company's indenture; (31) a default under the Company's term loan or revolving credit facility; (32) the Company's ability to generate sufficient cash to service its outstanding debt; and (33) the Company's subsidiaries ability to provide cash in order to pay debt.

We provide greater detail regarding these risks and uncertainties in our 2016 Form 10-K and subsequent filings, which are available online at www.omnova.com and www.sec.gov.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to market risk from changes in interest rates on its long-term debt obligations. As described in Note H to the Unaudited Consolidated Financial Statements, the Company's Term Loan Facility and non-domestic borrowings bear interest at variable rates. Borrowings under the Term Loan, and the Facility were \$346.5 million as of August 31, 2017. There were no non-U.S. borrowings with banks as of August 31, 2017. The weighted average effective interest rate of the Company's outstanding debt was 5.38% as of August 31, 2017. A hypothetical increase or decrease of 100 basis points would impact the Company's interest expense on its variable rate debt by approximately \$3.5 million annually. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes.

The Company is subject to foreign currency exchange rate risk. The Company has an accumulated currency translation loss of \$23.0 million as of August 31, 2017, which is included in accumulated other comprehensive loss.

Item 4. Controls and Procedures

Controls and Procedures

Management of the Company, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) as of August 31, 2017 and based on this evaluation, has determined that the Company's disclosure controls and procedures are effective as of such date. There were no changes in the Company's internal control over financial reporting during the quarter ended August 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

From time to time, the Company is subject to various claims, proceedings and lawsuits related to products, services, contracts, employment, environmental, safety, intellectual property, and other matters. The ultimate resolution of such claims,

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proceedings, and lawsuits is inherently unpredictable and, as a result, the Company's estimates of liability, if any, are subject to change. Actual results may materially differ from the Company's estimates and an unfavorable resolution of any matter could have a material adverse effect on the financial condition, results of operations, and/or cash flows of the Company. However, subject to the above and taking into account such amounts, if any, as are accrued from time to time on the Company's balance sheet, the Company does not believe, based on the information currently available to it, that the ultimate resolution of these matters will have a material effect on the consolidated financial condition, results of operations, or cash flows of the Company.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in Item 1A of the Company's Annual Report on Form 10-K for the year ended November 30, 2016. Those risk factors, in addition to the other information set forth in this report, could materially affect the Company's consolidated financial condition, results of operations, or cash flows. Additional unrecognized risks and uncertainties may materially adversely affect the Company's consolidated financial condition, results of operations, or cash flows.

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

From time to time, the Company may seek to retire, repurchase, or exchange its outstanding debt or capital securities through various methods including open market repurchases, negotiated block transactions, or open market solicitations for shares, all or some of which may be effected through Rule 10b5-1 plans. Such transactions, if any, depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, and other factors, and may involve material amounts.

The following table summarizes the Company's activity related to its common shares for the three months ended August 31, 2017.

Month	Total Number of shares repurchased ^(a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum dollar value of shares that may yet be purchased under the plans or programs
June 1-30	33,827	\$8.53	—	—
July 1-31	7,042	\$9.75	—	—
August 1-31	4,000	\$7.31	—	—
Total	44,869	\$8.53	—	—

(a) Share repurchases resulted from common shares deemed surrendered by employees in connection with the Company's stock compensation and benefit plans to satisfy tax obligations.

Item 6. Exhibits

a.) Exhibits

12.1 Ratio of Earnings to fixed charges.(x)

31.1 Rule 13a-14(a) Certification of the Company's Chief Executive Officer.(x)

31.2 Rule 13a-14(a) Certification of the Company's Chief Financial Officer.(x)

32.1 Section 1350 Certification of the Company's Chief Executive Officer and Chief Financial Officer.(x)

101 The following financial information from our Quarterly Report on Form 10-Q for the third quarter of 2017, filed with the SEC on September 28, 2017, formatted in XBRL: (i) the Condensed Consolidated Statements of

Operations for the three and nine months ended August 31, 2017 and 2016; (ii) the Consolidated Statements of Comprehensive Income for the three and nine months ended August 31, 2017 and 2016; (iii) the Consolidated Statements of Financial Position at August 31, 2017 and 2016; (iv) the Consolidated Statements of Cash Flows for the nine months ended August 31, 2017 and 2016; and (v) the Notes to the Unaudited Interim Consolidated Financial Statements.

(x) Filed herewith.

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SIGNATURES

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.

OMNOVA Solutions Inc.

Date: September 28, 2017 By /s/ Anne P. Noonan
Anne P. Noonan
President and Chief Executive Officer
(Principal Executive Officer)

Date: September 28, 2017 By /s/ Paul F. DeSantis
Paul F. DeSantis
Senior Vice President and Chief Financial Officer; Treasurer
(Principal Financial Officer)

Date: September 28, 2017 By /s/ Donald B. McMillan
Donald B. McMillan
Chief Accounting Officer
(Principal Accounting Officer)

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INDEX TO EXHIBITS

Exhibit Number	Description
12.1	<u>Ratio of Earnings to fixed charges.</u>
31.1	<u>Principal Executive Officer's Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Principal Financial Officer's Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	The following financial information from our Quarterly Report on Form 10-Q for the third quarter of 2017, filed with the SEC on September 28, 2017, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations for the three and nine months ended August 31, 2017 and 2016; (ii) the Consolidated Statements of Comprehensive Income for the three and nine months ended August 31, 2017 and 2016; (iii) the Consolidated Statements of Financial Position at August 31, 2017 and 2016; (iv) the Consolidated Statements of Cash Flows for the nine months ended August 31, 2017 and 2016; and (v) the Notes to the Unaudited Interim Consolidated Financial Statements.

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