OMNOVA SOLUTIONS INC
Form 10-Q/A
September 18, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended May 31, 2003

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.)**
175 Ghent Road Fairlawn, Ohio	**44333-3300**

(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (330) 869-4200

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

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

At June 30, 2003, there were 39,954,624 outstanding shares of OMNOVA Solutions Common Stock, par value $0.10.

EXPLANATORY NOTE

OMNOVA Solutions Inc. is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended May 31, 2003, which was originally filed with the Securities and Exchange Commission on July 14, 2003 (the Quarterly Report), to amend and restate in their entirety Item 2, Item 4 and Item 6 in response to comments from the Staff at the Securities and Exchange Commission. This Amendment No. 1 continues to speak as of the date of the original filing of the Quarterly Report, and the Company has not updated the disclosures contained therein to reflect any events that occurred at a later date.

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

Results of Operations Three and Six Months Ended May 31, 2003 and 2002

The Company is an innovator of decorative and functional surfaces, emulsion polymers and specialty chemicals for a variety of commercial, industrial and residential end uses. The Company has two reportable business segments: Decorative & Building Products and Performance Chemicals. Decorative & Building Products segment develops, designs, produces and markets a broad line of decorative and functional surfacing products, including commercial wallcoverings, coated and performance fabrics, printed and solid color surface laminates, industrial films, transfer printed products and commercial roofing systems. These products are used in numerous applications, including building refurbishment and remodeling, new construction, furniture, cabinets, transportation, manufactured housing, retail display, consumer electronics, flooring and home furnishings. Performance Chemicals segment produces a broad range of emulsion polymers and specialty chemicals based primarily on styrene butadiene, styrene butadiene acrylonitrile, vinyl acetate, acrylic, styrene acrylic, vinyl acrylic, glyoxal and fluorochemical chemistries. Performance Chemicals custom-formulated products include coatings, binders and adhesives, which are used in paper, carpet, nonwovens, textiles, construction, floor care, tires, plastic parts and various other specialty chemical applications.

The Company s management discusses its operating performance by reportable business segment and provides segment operating profit performance excluding segment restructuring and severance items because this is the manner in which segment operating results are reported to management for purposes of assessing the Company s business segment performance and in making decisions regarding the allocation of resources to the Company s business segments. Management also believes that this presentation provides a better basis for investors to understand its businesses and to be better able to compare operating results year over year.

Net sales increased one percent to $176.6 million for the second quarter of fiscal 2003 compared to $175.0 million during the same period a year ago. The Company s Performance Chemicals business segment experienced a 7.1 percent revenue increase, while the Decorative & Building Products business segment decreased 4.0 percent. Sales for the six months ended May 31, 2003 decreased 0.4 percent to $330.0 million compared to $331.3 million for the same period a year ago.

The Company s segment operating profit declined to $4.1 million for the second quarter of fiscal 2003 as compared to $10.7 million for the second quarter of fiscal 2002. Operating margins declined to 2.3 percent during the period as compared to 6.1 percent for the comparable period in the prior fiscal year. The overall decline was due to higher raw material costs mitigated somewhat by productivity increases and reduced discretionary spending. The second quarter of fiscal 2002 was positively impacted by the gain on sale of the Greensboro, North Carolina facility for $2.2 million partially offset by other restructuring expenses of $0.5 million. For the six months ended May 31, 2003, operating profit declined to $1.4 million as compared to $16.3 million for the same period last year. Operating margins for the six months ended May 31, 2003 were 0.4 percent compared to 4.9 percent for the same period a year ago. Included in segment operating profit for the first half of fiscal 2003 was a net charge of $1.0 million primarily related to the reduction in workforce program initiated in the first quarter of fiscal 2003 as compared to a net gain of $1.7 million primarily related to the sale of the Greensboro, North Carolina facility in fiscal 2002. Excluding these restructuring and severance items, segment operating profit was $2.4 million for the six months ended May 31, 2003 as compared to $14.6 million for the six months ended May 31, 2002. Excluding the restructuring and severance items, operating margins for the six months ended May 31, 2003 were 0.7 percent compared to 4.4 percent for the same period a year ago. The decline in margins in the first half of fiscal 2003 as compared to the first half of fiscal 2002 stemmed mainly from higher raw material costs.

Net sales for Decorative & Building Products during the second quarter of fiscal 2003 declined 4.0 percent to $93.6 million compared to $97.5 million in the second quarter of fiscal 2002. Sales declined due to lower refurbishment activity in corporate offices and hotels resulting in a decline in wallcovering, coated fabrics and decorative laminates. The decline was partially mitigated by increased sales of commercial roofing products which improved over the prior period in fiscal 2002 due to demand created by severe winter weather conditions from the first quarter of fiscal 2003. Segment operating profit for the second quarter of fiscal 2003 was $2.1 million compared to $2.5 million for the same period a year ago. Included in segment operating profit in fiscal 2003 was a net gain of $0.2 million related to the sale of a design facility offset by costs associated with a reduction in workforce program initiated in the first quarter of fiscal 2003. Segment operating profit in the second quarter of fiscal 2002 included charges of $0.4 million for severance costs related to the segment s U.K. wallcovering business offset by reversals of anticipated legal settlements. Excluding these restructuring and severance items, segment operating profit was $1.9 million for the second quarter of fiscal 2003 as compared to $2.9 million for the second quarter of fiscal 2002. The decline in segment operating profit was primarily due to lower sales in the Decorative Products group of $6.0 million offset by a sales increase in Building Products of $2.1 million. The sales decline in Decorative Products was across all product lines. The sales decline affected segment operating profit by $3.2 million and was partially offset by price increases of $0.9 million for the segment. Segment operating profit was also negatively impacted by higher raw material costs of $0.9 million primarily related to price increases for PVC resin and labor and overhead of $2.4 million, offset by improvements in manufacturing productivity and lower spending of $2.2 million. Excluding the restructuring and severance items, segment operating profit margins decreased to 2.0 percent in the second quarter of fiscal 2003 from 3.0 percent in the second quarter of fiscal 2002. In addition, the segment recognized pension income of $0.3 million for the second quarter of fiscal 2003 compared to $0.8 million for the same period one year ago.

For the six-month period ended May 31, 2003, sales declined to $172.3 million from $185.0 million in the comparable period in the prior fiscal year due to overall weakness of the segment s end use markets. The segment incurred an operating loss of $1.9 million for the first half of fiscal 2003 compared to an operating profit of $1.2 million for the first half of fiscal 2002. Included in segment operating profit for the six months ended May 31, 2003 and 2002 are restructuring and severance charges of $0.6 million and $0.4 million, respectively. Excluding the restructuring and severance charges, segment operating profit was a loss of $1.3 million for the six months ended May 31, 2003 as compared to an operating profit of $1.6 million for the six months ended May 31, 2002. The decline in segment operating profit was primarily due to lower sales in both the Decorative Products group of $10.1 million and $2.6 million for Building Products. The sales decline in Decorative Products was across all product lines. The sales decline affected segment operating profit by $6.2 million and was partially offset by price increases of $0.9 million for the segment. Segment operating profit was also negatively impacted by higher raw material costs of $1.4 million, offset by improvements in manufacturing productivity and lower spending of $3.8 million. In addition, the segment recognized pension income of $0.7 million for the six-month period ended May 31, 2003 compared to $1.7 million for the same period one year ago.

Net sales for Performance Chemicals during the second quarter of fiscal 2003 increased 7.1 percent to $83.0 million compared to $77.5 million in the second quarter of fiscal 2002. The increase resulted primarily from product pricing actions of $7.0 million offset by volume declines of $1.5 million. The price increases and volume declines primarily affected the paper and carpet product lines. Segment operating profit for the second quarter of fiscal 2003 was $2.0 million compared to $8.2 million for the same period a year ago. Included in segment operating profit for the second quarter of fiscal 2003 was a restructuring charge of $0.2 million associated with a reduction in workforce program initiated in the first quarter of fiscal 2003. Segment operating profit in the second quarter of fiscal 2002 included a gain of $2.1 million primarily related to the sale of the Greensboro, North Carolina facility. Excluding these restructuring and severance items, segment operating profit was $2.2 million for the second quarter of fiscal 2003 as compared to $6.1 million for the second quarter of fiscal 2002. The decline was due to increased raw material costs of $10.5 million during the quarter related primarily to significantly higher prices for oil and natural gas feedstocks. The increase in raw material costs affected all product lines. In response to the raw material inflation, the segment implemented price increases across all product lines in the second quarter. In addition to the announced price increases, the increase in raw material prices was partially offset by improvements in productivity of $1.1 million. Segment operating profit margins, excluding these restructuring and severance items, decreased to 2.7 percent in the second quarter of fiscal 2003 from 7.9 percent in the second quarter of fiscal 2002. The segment recognized pension income of $0.2 million for the second quarter of fiscal 2002. There was no pension income recognized during the second quarter of 2003.

For the six-month period ended May 31, 2003, sales increased to $157.7 million from $146.3 million in the comparable period in the prior fiscal year primarily from product pricing actions of $8.0 million and increased volume of $3.4 million. The price increases primarily affected the paper and carpet product lines, while both paper and carpet and specialty chemicals volumes were above last fiscal year. The segment incurred an operating profit of $3.3 million for the first half of fiscal 2003 compared to an operating profit of $15.1 million for the first half of fiscal 2002. Included in segment operating profit for the six months ended May 31, 2003 was a restructuring and severance charge of $0.4 million for a reduction in workforce program initiated in the first quarter of fiscal 2003. For the same period a year ago, a $2.1 million gain was included in segment operating profit primarily related to the sale of the Greensboro, North Carolina facility. Excluding these restructuring and severance items, segment operating profit declined to $3.7 million in the first half of fiscal 2003 from $13.0 million in the same period a year ago primarily due to raw material price increases of approximately $20 million, which affected all product lines. In addition to the announced price increases, the increase in raw material prices was partially offset by improvements in productivity and lower spending of $4.0 million. The segment recognized pension income of $0.5 million for the six-month period ended May 31, 2003. There was no pension income recognized during the six-month period ended 2003.

Cost of products sold for the second quarter ended May 31, 2003 increased 6.9 percent to $133.1 million from $124.5 million for the same period a year ago. The increase was due to higher raw material costs primarily in the Company s Performance Chemicals segment. For the first half of fiscal 2003, cost of products sold increased 5.7 percent as compared to the first half of fiscal 2002.

Selling, general and administrative costs for the second quarter of fiscal 2003 declined 4.7 percent to $34.8 million from $36.5 million in the same period a year ago. The decline resulted primarily from a reduction in workforce program initiated in the first quarter of fiscal 2003 across the Company. Similarly, these costs declined 3.1 percent to $68.9 million from $71.1 million for the six months ended May 31, 2003 compared to the first half of fiscal 2002.

Interest expense for the second quarter of fiscal 2003 increased 38.1 percent to $2.9 million compared to $2.1 million for the second quarter of fiscal 2002. The increase related primarily to higher borrowing costs during fiscal 2003. Similarly, for the first half of fiscal 2003, interest expense increased 11.4 percent to $4.9 million from $4.4 million during the same period in fiscal 2002.

Depreciation and amortization declined to $6.8 million from $7.3 million for the second quarter of fiscal 2002. For the six month period ended May 31, 2003, depreciation and amortization expense declined to $13.6 million from $14.5 million in fiscal 2002. The decrease for the three- and six-month periods ended May 31, 2003 related to the effect of a declining fixed asset base and certain intangible assets being fully amortized at the end of fiscal 2002.

Corporate expense declined 6.1 percent to $3.1 million from $3.3 million in the second quarter of fiscal 2003 from the second quarter of fiscal 2002 due to discretionary spending controls. This trend continued for the first half of fiscal 2003, as corporate expense declined 6.9 percent to $5.4 million from $5.8 million in fiscal 2002. The Company also wrote off $3.1 million of deferred financing costs in the second quarter of fiscal 2003 due to the termination of the Company s revolving credit facility.

Accounts receivable, net increased $58.8 million to $101.6 million at May 31, 2003 from $42.8 million at November 30, 2002. The increase related to the termination of the receivables sale program during the second quarter of fiscal 2003.

Financial Resources and Capital Spending

Cash flow used by operating activities for the first six months of fiscal 2003 was $57.2 million compared to cash flow provided by operations of $5.0 million in the first six months of fiscal 2002. The change was primarily related to long term debt incurred for the termination of the receivables sale program in the second quarter of fiscal 2003, which required a payment of $47.7 million to fund the repurchase of trade accounts receivable, combined with negative operating results for the period. For the first six months of fiscal 2003, $2.7 million was used for investing activities, which consisted of $4.6 million of capital expenditures offset by the proceeds of $1.9 million from the sale of a design facility. For the same period a year ago, $2.0 million was used for investing activities for capital expenditures of $4.8 million, offset by the proceeds of $2.8 million from the sale of a closed facility. For the first six months of fiscal 2003, $58.0 million was provided by financing activities compared to $3.2 million used for financing activities for the same period a year ago. The change was primarily related to the termination of the receivables sale program in the current quarter, which required a payment of $47.7 million, and the decline in operating performance.

As described in Note D to the Condensed Consolidated Financial Statements, the Company issued $165 million of 11.25% Senior Secured Notes (Notes) due June 1, 2010. Interest on the Notes will be paid semi-annually on June 1st, and December 1st, commencing on December 1, 2003. The Company used the proceeds from this offering to repay outstanding amounts under its existing revolving credit facility, to terminate its receivables sale program and to pay related fees and expenses. In addition, on May 28, 2003, the Company entered into a $100 million, three-year senior secured revolving credit facility (Facility). Advances under the Facility bear interest, at the Company s option, at either an alternate base rate or a eurodollar rate, in each case plus an applicable margin. The alternate base interest rate is a fluctuating rate equal to the higher of the lender s prime rate and the Federal Funds Effective rate plus 50 basis points. The applicable margin for the alternate base rate will vary from 1.1875 percent to 1.75 percent depending on the Company s fixed charge coverage ratio and is initially 1.5 percent. The eurodollar rate is a periodic fixed rate equal to LIBOR. The applicable margin for the eurodollar rate will vary from 2.625 percent to 3.25 percent depending on the Company s fixed charge coverage ratio and is initially 3.0 percent. The Facility requires a commitment fee based on the unused portion of the Facility. The commitment fee will vary from 0.375 percent to 0.625 percent based on the Company s fixed charge coverage ratio and is initially 0.5 percent. The Company s total debt outstanding at May 31, 2003 was $198.0 million and its average debt outstanding during the second quarter of fiscal 2003 was $206.7 million. At May 31, 2003, the unused and available balance under the Facility was $40.1 million.

Based upon current and anticipated levels of operations, the Company believes that its cash flow from operations, combined with borrowings that will be available under the Facility, will be sufficient to enable the Company to meet its current and anticipated cash operating requirements, including scheduled interest and principal payments, capital expenditures and working capital needs, for the next twelve months. Currently, a portion of the Company s long-term debt bears interest at variable rates; therefore, the Company s liquidity and financial condition will continue to be affected by changes in prevailing interest rates.

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 as of May 31, 2003, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities as of the date of the financial statements. On an ongoing basis, the Company evaluates its estimates, including those related to product returns, accounts receivable, inventories, warranty obligations, litigation and environmental reserves, pensions and income taxes. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. The Company reviews its estimates at least quarterly to ensure that the estimates appropriately reflect changes in its business or as new information becomes available. Actual results may materially differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies affect its more significant estimates and assumptions used in the preparation of its consolidated financial statements:

A) Revenue Recognition

Sales are recognized when both title and risk of loss transfer to the customer, which is generally upon shipment. Sales are recorded net of an allowance for sales returns and rebate programs. Sales returns are estimated based upon historical returns. The Company also records estimated reductions to revenue for quantity rebates. If the actual costs of sales returns and rebate programs significantly exceed the recorded estimated allowance, the Company s sales would be adversely affected.

B) Allowance For Doubtful Accounts

The Company s policy is to identify all specific customers that would be considered doubtful based upon the customer s financial condition, payment history, credit rating and other relevant factors, or those that have been turned over for collection and to reserve for the portion of those outstanding balances that collection does not appear to be likely. If the financial condition of the Company s customers were to deteriorate, resulting in an inability to make payments, additional allowances may be required. The allowance for doubtful accounts was approximately $3.5 million at November 30, 2002 and $4.0 million at May 31, 2003.

C) Allowance For Inventory Obsolescence

The Company s policy is to maintain an inventory obsolescence reserve based upon specifically identified, discontinued or obsolete items and a percentage of quantities on hand compared with usage and sales levels over the last year to two years. The policy has been applied on a consistent basis for all years presented. A sudden and unexpected change in design trends and/or preferences for patterns, colors and/or material could reduce the rate of inventory turnover and require the Company to increase its reserve for obsolescence. The reserve for inventory obsolescence was approximately $11.0 million at November 30, 2002 and $12.1 million at May 31, 2003.

D) Allowance For Warranty Claims

On an on-going basis, the Company updates its building systems warranty reserve for specifically identified or new matters and performs a detailed study of the reserve on a semi-annual basis to reserve for estimated future costs associated with any open warranty year. The reserve is a highly sensitive estimate based on historical costs and failure rates. A change in these factors could result in a significant change in the reserve balance. The warranty reserve was approximately $13.5 million at November 30, 2002 and $12.7 million at May 31, 2003.

E) Litigation and Environmental Reserves

The Company reserves for the probable costs associated with any legal claims and environmental remediation projects. The Company s legal department performs on-going analyses of legal claims and remediation efforts. Reserves are based upon their analyses and established at the best estimate.

F) Pensions

The Company accounts for its defined benefit pension plans in accordance with SFAS No. 87, Employers Accounting for Pensions, which requires that amounts recognized in financial statements be determined on an actuarial basis. SFAS No. 87 and the policies used by the Company, notably the use of a calculated value of plan assets (which is further described below), generally reduce the volatility of pension income (expense) from changes in pension liability discount rates and the performance of the pension plan s assets.

The most significant element in determining the Company s pension income (expense) in accordance with SFAS No. 87 is the expected return on plan assets. The assumed long-term rate of return on assets is applied to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over five years. This produces the expected return on plan assets that is included in pension income (expense). The difference between this expected return and the actual return on plan assets is deferred. The net deferral of past asset gains (losses) affects the calculated value of plan assets and, ultimately, future pension income (expense).

The combination of several factors may require us to begin recording pension expense of approximately $3.5 million in fiscal 2005. The lower investment performance by the Company s pension plan assets, caused by the decline in the stock market, has significantly reduced the surplus position of the plan. Changes in long-term expectations for inflation and the equity markets have led to the lowering of the assumed rate of return for asset performance. Although the Company had been using an assumed rate of return for assets of 8.75 percent, the Company expects to use an assumed rate of return for assets of 8.5 percent for the plan year beginning September 1, 2003. A 25 basis point change in the assumed rate of return for assets would increase or decrease the assets by approximately $0.5 million.

The Company determined the discount rate to be used to discount the plan liabilities at the plan s measurement date, which was August 31, 2002. The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of the year. In estimating this rate, the Company looks to rates of return on high quality, fixed-income investments that receive one of the two highest ratings given by a recognized investment ratings agency. Changes in discount rates over the past three years have not materially affected pension income (expense), and the net effect of changes in the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, have been deferred as allowed by SFAS No. 87.

With the low interest rate environment, the Company will also decrease the discount rate used to measure the defined benefit pension plan obligations. Although the Company had been using a discount rate of 7.25 percent, the Company expects to use a discount rate of 6.5 percent for the plan year beginning September 1, 2003. An increase of 25 basis points in the discount rate would decrease expense on an annual basis by approximately $0.2 million. A decrease of 25 basis points in the discount rate would increase expense on an annual basis by approximately $0.7 million. The Company s pension expense is more sensitive to a drop in the discount rate rather than an increase because at a 6.5 percent discount rate, the plan is approaching the 10 percent gain/loss amortization corridor. The plan would remain inside the corridor and would not amortize any losses in the current year if the discount rate increases. The plan would be outside the corridor if the discount rate were lower and would, therefore, be forced to amortize some of the outstanding losses.

The Company does not anticipate making cash contributions to the pension fund until 2007. However, in order to manage the pension fund over the long term, the Company may find it prudent to make contributions before 2007. In addition, the Company cannot predict whether changing economic conditions or other factors will lead or require us to make contributions in excess of the Company s current expectations, which would divert funds that the Company would otherwise apply to other uses. Additionally, the Company may not have the funds necessary to meet any minimum pension funding requirements.

The annual cost of the consolidated pension plan is expected to grow to $3.5 million by fiscal 2005. Currently, the plan has a credit balance that will cover contribution requirements over the next four to five years. Factors that could alter the cash requirements and timing of any such cash equivalents are:

A continued persistent market downturn.

Failure of Congress to replace the 30-year treasury rate for the current liability measure (artificially low interest rates forces additional funding charges (accelerating funding)).

Significant improvements to the pension plan (e.g., large early retirement window).

Opportunities to reduce future cash requirements by accelerating contributions ahead of the minimum required schedule. By following certain strategies, smaller contributions in the near term may prevent the need for larger contributions in the future. Some of those strategies might include, but are not limited to, contributions to avoid Pension Benefit Guaranty Corporation variable premiums, a charge to Other Comprehensive Income, and maintain funded status to avoid additional funding requirements under Section 412(I) of the Internal Revenue Code. These types of contributions would allow us to manage the overall cash flow to the plan.

At May 31, 2003, the Company s consolidated prepaid pension asset was $56.5 million compared to $55.4 million at the end of 2002. For the six-month periods ended May 31, 2003 and May 31, 2002, the Company recognized consolidated pre-tax pension income of $1.1 million and $3.1 million, respectively.

G) Tax Valuation Allowance

The Company provided a valuation allowance against its net deferred tax assets due to the uncertainty of recovery of such assets. As of May 31, 2003, the Company had approximately $59.8 million of net deferred tax assets primarily related to domestic loss carryforwards that expire by 2022, goodwill impairment losses created as a result of the cumulative effect of an accounting change and other temporary differences for which a valuation allowance of $59.8 million has been provided. The Company provided a valuation allowance for its deferred tax assets after having considered its recent history of limited income since its spin-off from GenCorp, projections of future taxable income and on-going prudent and feasible tax planning strategies in assessing the need for the valuation allowance.

H) Stock-Based Employee Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of the stock option equals the market price of the underlying stock on the date of grant (intrinsic value method), no compensation expense is recognized.

Environmental Matters

OMNOVA Solutions policy is to conduct its businesses with due regard for the preservation and protection of the environment. OMNOVA Solutions devotes significant resources and management attention to environmental matters and actively manages its ongoing processes to comply with environmental laws and regulations. OMNOVA Solutions Condensed Consolidated Balance Sheet as of May 31, 2003 reflects environmental reserves of $0.8 million. 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. The effect of resolution of these matters on results of operations cannot be predicted because any such effect depends on both future results of operations and the amount and timing of the resolution of such matters. However, there can be no assurance that future costs and liabilities will not exceed the Company s reserves or be material.

Forward-Looking Statements

This quarterly report on Form 10-Q includes forward-looking statements, as defined by federal securities laws, with respect to the Company s financial condition, results of operations and business and the Company s expectations or beliefs concerning future events. Words such as, but not limited to, believe, expect, anticipate, estimate, intend, plan, targets, likely, will, would, could, and similar expressions forward-looking statements.

All forward-looking statements involve risks and uncertainties. Many risks and uncertainties are inherent in the end-use markets in which the Company operates. Others are more specific to the Company s operations. The occurrence of the events described, and the achievement of expected results, depend on many events, some or all of which are not predictable or within the Company s control. Actual results may differ materially from expected results.

Factors that may cause actual results to differ from expected results include, among others:

General economic trends affecting OMNOVA Solutions end-use markets;

Raw material prices for petrochemicals and chemical feedstocks, including polyvinyl chloride, styrene and butadiene;

Acts of war or terrorism;

Competitive pressure on pricing;

Ability to develop successful new products;

Customer and/or competitor consolidation;

Operational issues at the Company s facilities;

Availability of financing to fund operations at anticipated rates and terms;

Ability to successfully implement productivity enhancement and cost reduction initiatives;

Prolonged work stoppage;

Governmental and regulatory policies;

Rapid increases in health care costs;

Risks associated with foreign operations including fluctuations in exchange rates of foreign currencies;

The Company s strategic alliance and acquisition activities;

Substantial debt and leverage and the ability to service that debt;

Lower investment performance of pension plan assets; and

Compliance with extensive environmental, health and safety laws and regulations.

All future written and oral forward-looking statements attributable to the Company or any person acting on the Company s behalf are expressly qualified in their entirety by the cautionary statements contained or referred to above. The Company undertakes no obligation, and specifically declines any obligation, other than that imposed by law, to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this quarterly report might not occur.

Item 4. Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. As of the end of the period covered by this Quarterly Report, an evaluation was carried out under the supervision and with the participation of the Company s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective.

Subsequent to the date of their evaluation, there have been no significant changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused amendment No. 1 to this report to be signed on its behalf by the undersigned thereunto duly authorized.

OMNOVA SOLUTIONS INC.

Date	September 18, 2003	By	/s/ M. E. HICKS
			M. E. Hicks Senior Vice President and Chief Financial Officer; Treasurer (Principal Financial Officer and Principal Accounting Officer)
Date	September 18, 2003	By	/s/ J. C. LEMAY
			J. C. LeMay Senior Vice President, Business Development; General Counsel (Duly Authorized Officer)

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

4.1	Indenture, dated as of May 28, 2003, by and among OMNOVA Solutions Inc., as issuer, and The Bank of New York, as trustee, including the form of OMNOVA Solutions 11 1/4% Senior Secured Notes due June 1, 2010 (incorporated by reference to Exhibit 4.1 to the registrant s Registration Statement on Form S-4 filed on June 27, 2003 (Registration No. 333-106619)).
4.2	Registration Rights Agreement, dated as of May 28, 2003, by and among OMNOVA Solutions Inc. and Deutsche Bank Securities Inc., Banc One Capital Markets, Inc. and McDonald Investments Inc., as initial purchasers (incorporated by reference to Exhibit 4.2 to the registrant s Registration Statement on Form S-4 filed on June 27, 2003 (Registration No. 333-106619)).
10.1	Credit Agreement, dated as of May 28, 2003, among OMNOVA Solutions Inc., as borrower, the financial institutions named therein, as lenders, Bank One, NA, as agent, and Banc One Capital Markets, Inc., as lead arranger and sole book runner.
31.1	Principal Executive Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (previously filed as Exhibit 99.1 to the Form 10-Q for the quarter ended May 31, 2003 filed on July 14, 2003).

b) Reports on Form 8-K

OMNOVA Solutions filed a report on Form 8-K on May 12, 2003 incorporating its press release dated May 8, 2003 that discussed its plans to sell $165 million of Senior Secured Notes.

OMNOVA Solutions filed a report on Form 8-K on May 30, 2003 incorporating its press release dated May 16, 2003 that announced it had agreed to sell $165 million of 11 1/4% Senior Secured Notes due June 1, 2010.

OMNOVA Solutions filed a report on Form 8-K on June 2, 2003 incorporating its press release dated May 28, 2003 that announced it had completed a $165 million Senior Secured Notes offering.

OMNOVA Solutions furnished a report on Form 8-K on June 25, 2003 incorporating its press release dated June 24, 2003 that announced the Company s results for the fiscal quarter ended May 31, 2003.

EXHIBIT INDEX

4.1	Indenture, dated as of May 28, 2003, by and among OMNOVA Solutions Inc., as issuer, and The Bank of New York, as trustee, including the form of OMNOVA Solutions 11 ¼% Senior Secured Notes due June 1, 2010 (incorporated by reference to Exhibit 4.1 to the registrant s Registration Statement on Form S-4 filed on June 27, 2003 (Registration No. 333-106619)).
4.2	Registration Rights Agreement, dated as of May 28, 2003, by and among OMNOVA Solutions Inc. and Deutsche Bank Securities Inc., Banc One Capital Markets, Inc. and McDonald Investments Inc., as initial purchasers (incorporated by reference to Exhibit 4.2 to the registrant s Registration Statement on Form S-4 filed on June 27, 2003 (Registration No. 333-106619)).
10.1	Credit Agreement, dated as of May 28, 2003, among OMNOVA Solutions Inc., as borrower, the financial institutions named therein, as lenders, Bank One, NA, as agent, and Banc One Capital Markets, Inc., as lead arranger and sole book runner.
31.1	Principal Executive Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002 (previously filed as Exhibit 99.1 to the Form 10-Q for the quarter ended May 31, 2003 filed on July 14, 2003).