

OMNOVA SOLUTIONS INC
Form 10-Q
September 26, 2012
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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, 2012
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 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

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, 2012, there were 46,735,656 outstanding shares of OMNOVA Solutions' Common Stock, par value \$0.10.

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OMNOVA SOLUTIONS INC.

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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 | | Nine Months Ended | |
|--|--------------------|---------|-------------------|---------|
| | August 31, | | August 31, | |
| | 2012 | 2011 | 2012 | 2011 |
| Net Sales | \$288.2 | \$315.0 | \$871.6 | \$899.7 |
| Cost of products sold | 230.4 | 264.6 | 692.9 | 736.9 |
| Gross Profit | 57.8 | 50.4 | 178.7 | 162.8 |
| Selling, general and administrative | 30.4 | 26.8 | 92.1 | 82.5 |
| Depreciation and amortization | 7.8 | 8.4 | 23.9 | 24.8 |
| Asset impairment | — | 2.4 | .2 | 2.4 |
| Restructuring and severance | .3 | .2 | 1.0 | 1.5 |
| Interest expense | 8.8 | 9.5 | 27.8 | 28.4 |
| Deferred financing fees write-off | — | — | — | 1.0 |
| Acquisition and integration related expense | — | (.4 |) — | 2.3 |
| Other expense (income), net | .2 | (.1 |) (.6 |) .6 |
| | 47.5 | 46.8 | 144.4 | 143.5 |
| Income From Continuing Operations Before Income Taxes | 10.3 | 3.6 | 34.3 | 19.3 |
| Income tax expense | 3.4 | 2.2 | 9.8 | 8.9 |
| Income From Continuing Operations | 6.9 | 1.4 | 24.5 | 10.4 |
| Discontinued Operations | | | | |
| Loss from discontinued operations (net of tax) | (.5 |) (1.0 |) (3.6 |) (2.8 |
| Gain on sale of discontinued operations (net of tax) | — | — | 6.0 | — |
| Total discontinued operations | (.5 |) (1.0 |) 2.4 | (2.8 |
| Net Income | \$6.4 | \$.4 | \$26.9 | \$7.6 |
| Income Per Share | | | | |
| Basic | | | | |
| Basic income from continuing operations per share | \$.15 | \$.03 | \$.54 | \$.23 |
| Basic (loss) income from discontinued operations per share | (.01 |) (.02 |) .05 | (.06 |
| Basic Net Income Per Share | \$.14 | \$.01 | \$.59 | \$.17 |
| Diluted | | | | |
| Diluted income from continuing operations per share | \$.15 | \$.03 | \$.54 | \$.23 |
| Diluted (loss) income from discontinued operations per share | (.01 |) (.02 |) .05 | (.06 |
| Diluted Net Income Per Share | \$.14 | \$.01 | \$.59 | \$.17 |
| Weighted average shares outstanding - Basic | 45.7 | 44.4 | 45.2 | 44.4 |
| Weighted average shares outstanding - Diluted | 45.8 | 44.6 | 45.3 | 44.7 |

See notes to the 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, 2012 (Unaudited) | November 30, 2011 |
|---|-----------------------------------|----------------------|
| ASSETS: | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 145.5 | \$ 98.9 |
| Restricted cash | 5.5 | 4.2 |
| Accounts receivable, net | 147.6 | 163.2 |
| Inventories | 94.6 | 84.5 |
| Prepaid expenses and other | 4.9 | 3.9 |
| Deferred income taxes - current | 8.6 | 6.5 |
| Assets held for sale - current | — | 16.6 |
| Total Current Assets | 406.7 | 377.8 |
| Property, plant and equipment, net | 215.3 | 220.8 |
| Trademarks and other intangible assets, net | 80.2 | 87.5 |
| Goodwill | 85.5 | 88.0 |
| Deferred income taxes - non-current | 67.5 | 69.1 |
| Deferred financing fees | 11.8 | 13.6 |
| Other assets | 11.8 | 8.3 |
| Total Assets | \$ 878.8 | \$ 865.1 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current Liabilities | | |
| Amounts due banks | \$ 9.5 | \$ 11.3 |
| Accounts payable | 112.5 | 108.5 |
| Accrued payroll and personal property taxes | 15.1 | 16.8 |
| Employee benefit obligations | 2.2 | 2.2 |
| Deferred income taxes - current | .5 | .1 |
| Accrued interest | 6.8 | 1.8 |
| Other current liabilities | 18.6 | 7.3 |
| Liabilities held for sale - current | — | 8.5 |
| Total Current Liabilities | 165.2 | 156.5 |
| Senior notes | 250.0 | 250.0 |
| Long-term debt - other | 193.1 | 194.3 |
| Postretirement benefits other than pensions | 7.4 | 7.8 |
| Pension liabilities | 75.5 | 91.5 |
| Deferred income taxes - non-current | 26.3 | 28.3 |
| Other liabilities | 16.5 | 15.0 |
| Total Liabilities | 734.0 | 743.4 |
| Shareholders' Equity | | |
| Preference stock - \$1.00 par value; 15 million shares authorized; none outstanding | — | — |
| Common stock - \$0.10 par value; 135 million shares authorized, 47.4 million and 46.1 million shares issued as of August 31, 2012 and November 30, 2011, respectively | 4.7 | 4.6 |
| Additional contributed capital | 330.6 | 324.9 |
| Retained deficit | (87.9 |) (114.8 |
| Treasury stock at cost; .6 million shares at August 31, 2012 and .4 million shares at November 30, 2011 | (4.4 |) (2.7 |

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| | | | |
|--|---------|---------|---|
| Accumulated other comprehensive loss | (98.2 |) (90.3 |) |
| Total Shareholders' Equity | 144.8 | 121.7 | |
| Total Liabilities and Shareholders' Equity | \$878.8 | \$865.1 | |

See notes to the 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, | |
|---|---------------------------------|------------|
| | 2012 | 2011 |
| Operating Activities | | |
| Net income | \$26.9 | \$7.6 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 23.9 | 24.8 |
| Gain on sale of business | (6.0 |) — |
| Impairment of long-lived assets | .2 | 2.4 |
| Non-cash stock compensation expense | 3.4 | 2.9 |
| Deferred income taxes | (.6 |) .5 |
| Provision for obsolete inventories | (.2 |) 1.7 |
| Provision for doubtful accounts | — | 3.5 |
| Other | 2.1 | 2.3 |
| Changes in operating assets and liabilities: | | |
| Current assets | 13.4 | (57.6) |
| Current liabilities | 11.8 | 20.3 |
| Other non-current assets | (9.3 |) (11.4) |
| Other non-current liabilities | .6 | (2.4) |
| Contribution to defined benefit plan | (16.0 |) (2.8) |
| Discontinued operations | 4.8 | — |
| Net Cash Provided By (Used In) Operating Activities | 55.0 | (8.2) |
| Investing Activities | | |
| Capital expenditures | (19.6 |) (15.5) |
| Proceeds from asset sales | .4 | 1.0 |
| Proceeds from sale of businesses | 12.3 | — |
| Acquisition of business, net of cash acquired | — | (271.6) |
| Restricted cash | — | 253.2 |
| Discontinued operations | — | (.2) |
| Net Cash Used In Investing Activities | (6.9 |) (33.1) |
| Financing Activities | | |
| Proceeds from borrowings | — | 199.0 |
| Repayment of debt obligations | (1.5 |) (143.3) |
| Short-term debt payments, net | (1.5 |) 2.0 |
| Payments for deferred financing fees | — | (10.4) |
| Payments received from exercise of stock options | 1.9 | 2.4 |
| Restricted cash | (1.3 |) — |
| Net Cash (Used In) Provided By Financing Activities | (2.4 |) 49.7 |
| Effect of exchange rate changes on cash | .9 | 10.8 |
| Net Increase In Cash And Cash Equivalents | 46.6 | 19.2 |
| Cash and cash equivalents at beginning of period | 98.9 | 71.2 |
| Cash And Cash Equivalents At End Of Period | \$145.5 | \$90.4 |
| Supplemental Cash Flows Information | | |
| Cash paid for: | | |
| Interest | \$19.8 | \$19.2 |

| | | |
|--------------|-------|-------|
| Income taxes | \$3.5 | \$2.7 |
|--------------|-------|-------|

See notes to the unaudited interim consolidated financial statements.

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OMNOVA SOLUTIONS INC.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF AUGUST 31, 2012

(In Millions of Dollars, Except Per 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, 2011, previously filed with the Securities and Exchange Commission (“SEC”).

The balance sheet at November 30, 2011 has been derived from the audited consolidated financial statements at that date but does 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.

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, 2011, 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 decorative and functional surfaces for a variety of industrial, commercial and residential end uses. Our products provide a variety of important functional and aesthetic benefits to hundreds of products that people use daily. We hold 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. We utilize 23 strategically located manufacturing, technical and other facilities in North America, Europe and Asia to service our broad customer base. OMNOVA operates two business segments: Performance Chemicals and Decorative Products.

Performance Chemicals – The Performance Chemicals segment produces a broad range of emulsion polymers and specialty chemicals based primarily on styrene butadiene (SB), styrene butadiene acrylonitrile (SBA), styrene butadiene vinyl pyridine, nitrile butadiene (NBR), polyvinyl acetate, acrylic, styrene acrylic, vinyl acrylic, glyoxal, phenolic and diphenylamine antioxidants, hollow plastic pigment, fluorochemicals and bio-based chemistries. Performance Chemicals’ custom-formulated products are tailored resins, binders, adhesives, specialty rubbers, antioxidants and elastomeric modifiers which are used in paper, specialty coatings, carpet, nonwovens, construction, oil/gas drilling, adhesives, tape, tire cord, floor care, textiles, graphic arts, polymer stabilization, industrial rubbers & hoses, bio-based polymers and various other specialty applications. Its products provide a variety of functional properties to enhance the Company’s customers’ products, including greater strength, adhesion, dimensional stability, water resistance, flow and leveling, improved processibility and enhanced appearance.

The Performance Chemicals segment consists of two product lines. The Paper and Carpet Chemicals product line encompasses products that have applications in the paper and carpet industries. Paper 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. The Specialty Chemicals product line

encompasses products that have applications for nonwovens (such as hygiene products, engine filters, roofing mat, scrub pads, towels and wipes), specialty coatings, floor care, tape, adhesives, tire cord, textiles, construction, oil/gas drilling, plastic part coatings and ink coating additives.

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Note A – Basis of Presentation (Continued)

Decorative Products – The Decorative Products segment develops, designs, produces and markets a broad line of decorative and functional surfacing products, including coated fabrics, vinyl, paper and specialty laminates and industrial films. These products are used in numerous applications, including commercial building refurbishment, remodeling and new construction, residential cabinets, flooring, ceiling tile and furnishings, transportation markets including school busses and mass transit vehicles, marine and automotive, health care, manufactured housing and recreational vehicles and a variety of performance films applications.

The Decorative Products segment consists of two product lines – Coated Fabrics and Laminates/Performance Films. 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; and automotive soft tops. Laminates and Performance Films product line applications include kitchen and bath cabinets; manufactured housing and recreational vehicle interiors; flooring; commercial and residential furniture; retail display fixtures; home furnishing; consumer electronics; and a variety of industrial film applications.

As part of the Company’s strategy to focus on businesses with greater global growth potential, the Company decided in the fourth quarter of 2011 to exit the commercial wallcovering business. Assets held for sale are disclosed separately on the balance sheet (see Note B – Discontinued Operations). The results of operations and cash flows from these businesses have been classified as discontinued operations for all periods presented.

The Company’s operations are located primarily in the United States, France, China, India and Thailand.

Subsequent Events – The Company has evaluated subsequent events from the date on the balance sheet through the date that these financial statements are being filed with the Securities and Exchange Commission (“SEC”). No material events or transactions have occurred during this subsequent event reporting period which required recognition or disclosure in the financial statements.

Accounting Standards Adopted in 2012 – In December 2010, the FASB issued ASU 2010-29, “Business Combinations” which provides guidance on disclosure of supplementary pro forma information for business combinations. The new guidance specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The new guidance became effective for the Company on December 1, 2011. The adoption of this ASU did not have an impact on the Company’s consolidated financial position, results of operations or cash flows.

In September 2011, the FASB issued ASU 2011-08, “Intangibles – Goodwill and Other” which allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 was effective for the Company December 1, 2011. The adoption of this ASU did not have an impact on the Company’s consolidated financial position, results of operations or cash flows.

Accounting Standard Not Yet Adopted – In June 2011, the FASB issued ASU 2011-05, “Presentation of Comprehensive Income” which amends current comprehensive income guidance. This accounting update requires companies to report comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of shareholders’ equity. ASU 2011-05 will be effective for the Company December 1, 2012. Early adoption is permitted. The adoption of this ASU will not have an impact on the Company’s consolidated financial position, results of operations or cash flows.

In July 2012, the FASB issued ASU 2012-2, “Intangibles - Goodwill and Other” which allows an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived asset is impaired for determining whether it is necessary to perform the quantitative impairment test. ASU 2012-2 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is

permitted. The adoption of this ASU will not have an impact on the Company's consolidated financial position, results of operations or cash flows.

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Note B – Discontinued Operations

As part of the Company's strategy to focus on businesses with greater global growth potential, the Company committed to divesting its commercial wallcovering businesses in the fourth quarter of 2011.

On December 12, 2011, the Company completed the sale of its North American wallcovering business to J. Josephson, Inc., a private commercial wallcovering producer based in New Jersey. The sale included print cylinders, certain equipment, trademarks, contracts and other assets associated with the Company's domestically-produced wallcovering. Under terms of the sale, the Company received \$10.0 million in cash and may receive up to three years of royalty payments based on future sales of OMNOVA commercial wallcovering patterns. The Company retained the net working capital, the Columbus, Mississippi manufacturing facility and certain production assets, which are also used by its other businesses.

The Company recognized a net after-tax gain of approximately \$6.0 million (\$9.9 million before tax) from the sale transaction during the first quarter of 2012, which represents the excess of the sale price over the book value of the assets sold.

The Company will continue to manufacture commercial wallcovering products for J. Josephson as part of an orderly transition of production from the Company's Columbus, Mississippi plant to J. Josephson's plant in New Jersey. The Company expects the transition period to be completed by November 30, 2012, however it could be extended for an additional three months at the exclusive direction of the buyer.

For the North American wallcovering business, the Company allocated the book value of certain shared manufacturing assets, as well as the associated shared manufacturing and selling costs between the wallcovering products and the coated fabrics products based on the relative manufacturing volume produced in the Columbus, Mississippi facility. The Company will transfer the manufacturing of certain coated fabrics products to other company facilities by the end of the year.

During and following the transfer of coated fabrics production, the Company expects to incur certain cash outflows related to severance and outplacement; equipment decommissioning and relocation; facility maintenance, security and idling; and increased inventory levels to facilitate the transfer of certain products to the Company's other manufacturing facilities. After the transfer, the Company expects to receive proceeds from the sale of excess equipment and the facility.

On March 6, 2012, the Company sold its U.K.-based Muraspec commercial wallcovering business to affiliates of a2e Venture Catalysts Limited and its principal Amin Amiri for \$2.4 million in cash and a note receivable for \$3.8 million. The note receivable is secured by a first lien on a building owned by the sold business. The Company recognized losses of \$0.9 million related to this transaction during 2012 to reflect the fair value of the assets and liabilities sold to the buyer.

Held for Sale Classification

As a result of the decision to exit the commercial wallcovering business, the assets and liabilities of the commercial wallcovering business were reflected as assets and liabilities held for sale at November 30, 2011 and were comprised of the following:

| (in Millions) | November 30, 2011 |
|---|----------------------|
| Cash | \$2.8 |
| Accounts receivable | 7.1 |
| Inventories, net | 4.0 |
| Other current assets | 2.7 |
| Assets Held For Sale – Current | \$16.6 |
| Accounts payable | \$6.6 |
| Accrued payroll and personal property tax | 1.1 |
| Other current liabilities | .8 |

Liabilities Held For Sale – Current

\$8.5

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Note C – Fair Value Measurements and Risk

Financial Risk Management Objectives and Policies

The Company is exposed primarily to credit, interest rate and currency exchange 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 to the Company, as and when they fall due. The primary credit risk for the Company is its accounts receivable and the maximum exposure of credit risk would be represented primarily by the carrying amount of those receivables. The Company has established credit limits for customers and monitors their balances to mitigate its risk of loss. There was no single customer which represented more than 10% of the Company's net trade receivables at August 31, 2012 or greater than 10% of consolidated net sales during the third quarter of 2012.

On March 6, 2012, pursuant to the sale of its European wallcovering business, the Company entered into a note receivable with a notional amount of \$3.8 million, which will be repaid after five years. The note receivable is recognized at its fair value using discounted cash flows associated with the note receivable. The note receivable has a balance of \$3.7 million at August 31, 2012.

Interest Rate Risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's \$200 million Term Loan B and various foreign subsidiary borrowings, which bear interest at variable rates, approximating market interest rates.

Foreign Currency Risk

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

Foreign currency exchange contracts are used by the Company's Thailand subsidiary to manage risks from the change in the exchange rate of the Thai Baht on sales and purchases made in U.S. dollars. These forward contracts are used on a continuing basis for periods of less than one year, consistent with the underlying transactions. The use of these contracts minimizes the impact of foreign exchange rate movements on the Company's operating results. The notional amount of outstanding foreign exchange contracts was \$0.4 million as of August 31, 2012. These forward exchange contracts are not designated as hedging instruments.

Derivative Instruments

The Company recognizes the fair value of derivative instruments as either an asset or a liability within its statement of financial position. For a cash flow hedge, the fair value of the effective portion of the derivative is recognized as an asset or liability with a corresponding amount in Accumulated Other Comprehensive Income (Loss) ("AOCI"). Amounts in AOCI are recognized in earnings when the underlying hedged transaction is recognized in earnings. Ineffectiveness, if any, is measured by comparing the present value of the cumulative change in the expected future cash flows of the derivative to the present value of the cumulative change in the expected future cash flows of the related instrument. Any ineffective portion of a cash flow hedge is recognized in earnings immediately. For derivative instruments not designated as hedges, the change in fair value of the derivative is recognized in earnings each reporting period.

As of August 31, 2012 and November 30, 2011, the fair value of the Company's foreign currency contracts was less than \$0.1 million and was recorded in other current assets. Gains and losses on these contracts are recognized in other expense (income).

The Company does not enter into derivative instruments for trading or speculative purposes.

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Note C – Fair Value Measurements and Risk (Continued)

Fair Value Measurements

Assets and liabilities that are within the provisions of the Fair Value Measurements and Disclosure topic of the Accounting Standards Codification (“ASC”), such as the Company’s foreign currency exchange contracts and long-term notes receivable, are recorded at fair value using market and income valuation approaches and considering the credit risk of the Company and/or the counterparty, as appropriate. The Company’s foreign currency exchange contracts are not exchange traded instruments, however, they are valued based on observable inputs for similar assets or liabilities and accordingly are classified as Level 2 inputs.

The value of the note receivable is based on estimated future cash flows associated with the note as well as giving consideration to the credit risk of the issuer and other unobservable inputs for similar assets, and accordingly, is classified as a Level 3 input.

Note D – Inventories

Inventories are stated at the lower of cost or market value. All U.S. inventories are valued using the last-in, first-out (“LIFO”) method and represented approximately \$65.3 million or 49.6% and \$65.6 million or 52.4% of inventories at August 31, 2012 and November 30, 2011, respectively. The remaining portion of inventories (which are located outside of the U.S.) are valued using the first-in, first-out (“FIFO”) or average cost method. 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.

| (in Millions) | August 31, 2012 | November 30, 2011 |
|--|--------------------|----------------------|
| Raw materials and supplies | \$46.1 | \$42.3 |
| Work-in-process | 7.6 | 5.7 |
| Finished products | 77.9 | 77.1 |
| Acquired cost of inventories | 131.6 | 125.1 |
| Excess of acquired cost over LIFO cost | (27.8 |) (30.4 |
| Obsolescence reserves | (9.2 |) (10.2 |
| Net Inventories | \$94.6 | \$84.5 |

Note E – Debt and Credit Lines

Amounts due banks consist of the following debt obligations that are due within the next twelve months:

| (in Millions) | August 31, 2012 | November 30, 2011 |
|--|--------------------|----------------------|
| \$200 million Term Loan B – current portion (interest at 5.5%) | \$2.0 | \$2.0 |
| Foreign subsidiaries borrowings (interest at 5.9% - 12.70%) | 7.5 | 9.3 |
| Total | \$9.5 | \$11.3 |

The Company has borrowing facilities at certain of its foreign subsidiaries in China, India and Thailand, which consist of working capital credit lines and facilities for the issuance of letters of credit. Borrowings by foreign subsidiaries that were unsecured totaled \$3.6 million at August 31, 2012 and \$4.7 million at November 30, 2011. Foreign borrowings that were secured by a compensating cash balance in the U.S. were \$3.9 million as of August 31, 2012 and \$4.6 million as of November 30, 2011. As of August 31, 2012, total borrowing capacity for these foreign working capital credit lines was \$16.0 million. Also, as of August 31, 2012, there were \$6.3 million in letters of credit issued under the foreign letters of credit facilities.

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Note E – Debt and Credit Lines (Continued)

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

| (in Millions) | August 31, 2012 | November 30, 2011 |
|--|--------------------|----------------------|
| \$200 million Term Loan B (interest at 5.5%) | \$196.5 | \$198.0 |
| Senior Unsecured Notes (interest at 7.875%) | 250.0 | 250.0 |
| Senior Revolving Credit Facility (interest at 1.75%) | — | — |
| | 446.5 | 448.0 |
| Less: current portion | (2.0) | (2.0) |
| Unamortized original issue discount | (1.4) | (1.7) |
| Total Long-Term Debt | \$443.1 | \$444.3 |

In connection with the acquisition of ELIOKEM, the Company issued \$250 million of Senior Notes with a 7.875% interest rate, payable semi-annually. The Senior Notes mature on November 1, 2018 and are unsecured. The Company may redeem a portion of the outstanding Senior Notes any time after October 31, 2014 at a premium above par, subject to certain restrictions. The Senior Notes are fully and unconditionally and jointly and severally guaranteed on a senior, unsecured basis by all of OMNOVA Solutions Inc.'s existing and future material domestic subsidiaries that from time to time guarantee obligations under the Company's Senior Notes.

Additionally, on December 9, 2010, the Company refinanced its existing \$150 million Term Loan that had a balance of \$140.9 million with a new \$200 million Term Loan ("New Term Loan"). The New Term Loan is secured by the property, plant and equipment and intangible assets of the combined companies. The New Term Loan carries a variable interest rate based on, at the Company's option, either a eurodollar rate or a base rate, in each case plus an applicable margin. The eurodollar rate is a periodic fixed rate equal to the London Inter Bank Offered Rate ("LIBOR") subject to a floor of 1.75%. The applicable margin for the eurodollar rate is initially 4.0%. However, if the Company's net leverage ratio falls below 2.75, the applicable margin will decrease to 3.75%. The base interest rate is a fluctuating rate equal to the higher of (i) the Prime Rate, (ii) the sum of the Federal Funds Effective Rate plus 0.50% or (iii) the one-month eurodollar rate plus 1.0%. The applicable margin for the base rate is 3.0%. However, if the Company's net leverage ratio, as defined in the New Term Loan, falls below 2.75, the applicable margin will decrease to 2.75%. As of August 31, 2012, the Net Leverage Ratio was 2.5x. Annual principal payments consist of \$2.0 million, due in quarterly installments, and potential annual excess free cash flow payments as defined in the New Term Loan agreement, with any remaining balance to be paid on May 31, 2017. The Company does not expect to make any annual excess free cash flow payments for 2012. The Company can prepay any amount at any time without penalty upon proper notice and subject to a minimum dollar requirement. Prepayments will be applied towards any required annual excess free cash flow payment. The New Term Loan is secured by all real property and equipment of the Company's domestic facilities and guaranteed by the material domestic subsidiaries of the Company. Additionally, the New Term Loan provides for additional borrowings of the greater of \$75 million or an amount based on a senior secured leverage ratio, as defined in the New Term Loan, provided that certain requirements are met including an interest coverage ratio of 2.0. The New Term Loan contains affirmative and negative covenants, including limitations on additional debt, certain investments and acquisitions outside of the Company's line of business. The New Term Loan requires the Company to maintain an initial senior secured net leverage ratio of less than 3.25 to 1, which decreases annually by 25 basis points through December 1, 2014 and then remains at 2.5 to 1 thereafter. The Company is in compliance with this covenant with a senior secured net leverage ratio of .4 to 1 at August 31, 2012. The Company issued the New Term Loan at a discount of \$2.0 million, receiving cash of \$198 million. This original issue discount is reflected as a reduction of debt outstanding and is being amortized over the respective term of the debt as a non-cash component of interest expense.

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Note E – Debt and Credit Lines (Continued)

In December 2010, the Company amended and restated its Senior Secured Revolving Credit Facility (“Facility”), increasing potential availability to \$100 million, which can be further increased up to \$150 million subject to additional borrowing base assets and lender approval, and extended the Facility until December 8, 2015. The Facility is secured by domestic accounts receivable, inventory (collectively the “Eligible Borrowing Base”) and intangible assets. Availability under the Facility will fluctuate depending on the Eligible Borrowing Base and is determined by applying customary advance rates to the Eligible Borrowing Base. The Facility includes a \$15 million sublimit for the issuance of commercial and standby letters of credit and a \$10 million sublimit for swingline loans. Outstanding letters of credit on August 31, 2012 were \$2.2 million. The Facility contains affirmative and negative covenants, similar to the New Term Loan, 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 as defined in the agreement. Average excess availability is defined as the average daily amount available for borrowing under the Facility during the Company’s fiscal quarter. The Company was in compliance with this requirement as the average excess availability did not fall below \$25 million during the third quarter of 2012 and averaged \$91.1 million. 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 prime rate or the sum of the federal funds effective rate plus 0.50%. The eurodollar rate is a periodic fixed rate equal to LIBOR. Applicable margins are based on the Company’s average daily excess availability during the previous fiscal quarter. If average excess availability is greater than or equal to \$50 million, the applicable margin will be 2.25% on eurodollar loans, 1.25% on base rate borrowings and 0.625% on commitments for unused credit lines. If average excess availability is greater than or equal to \$25 million but less than \$50 million, the applicable margin will be 2.5% on eurodollar loans, 1.5% on base rate borrowings and 0.5% on commitments for unused credit lines. If average excess availability is less than \$25 million, the applicable margin will be 2.75% on eurodollar loans, 1.75% on base rate borrowings and 0.375% on commitments for unused credit lines.

At August 31, 2012, the Company had \$84.1 million of eligible inventory and receivables to support the borrowing base which is capped at \$100 million under the Facility. At August 31, 2012, domestic letters of credit outstanding under the Facility were \$2.2 million, there were no amounts borrowed under the Facility and the amount available for borrowing under the Facility was \$81.8 million.

The weighted-average interest rate on the Company’s debt was 6.95% and 6.94% during the first nine months of 2012 and 2011, respectively.

The Company incurred approximately \$15.5 million of deferred financing costs in connection with the issuance of the Senior Notes, the New \$200 million Term Loan and the Facility. These new deferred financing costs are being amortized over the respective terms of the underlying debt. Total amortization expense of deferred financing costs was \$2.1 million for both of the nine months ended August 31, 2012 and 2011, respectively. The Company’s prior deferred financing fees of \$1.0 million as of December 9, 2010 related to the \$150 million Term Loan B and were written-off in the first quarter of 2011.

The fair value of the Company’s debt at August 31, 2012 approximated \$460.6 million, which is higher than the carrying value of \$454.0 million as a result of prevailing market rates on the Company’s debt and is classified as a level 2 input.

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Note F – Income Per Share

The following table sets forth the computation of earnings per common share and fully diluted earnings per common share as calculated under the two-class method:

| (Dollars in millions) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------|-------------------|---------|
| | August 31, | | August 31, | |
| | 2012 | 2011 | 2012 | 2011 |
| Basic Earnings Per Share: | | | | |
| Income from continuing operations | \$6.9 | \$1.4 | \$24.5 | \$10.4 |
| Income from continuing operations allocated to participating securities | .1 | — | .3 | .2 |
| Income from continuing operations allocated to common stockholders | \$6.8 | \$1.4 | \$24.2 | \$10.2 |
| (Loss) income from discontinued operations | \$(0.5) | \$(1.0) | \$2.4 | \$(2.8) |
| Income (loss) from discontinued operations allocated to participating securities | — | — | — | — |
| (Loss) income from discontinued operations allocated to common stockholders | \$(0.5) | \$(1.0) | \$2.4 | \$(2.8) |
| Net income | \$6.4 | \$0.4 | \$26.9 | \$7.6 |
| Net income allocated to participating securities | .1 | — | .3 | .2 |
| Net income allocated to common stockholders | \$6.3 | \$0.4 | \$26.6 | \$7.4 |
| Weighted-average common shares outstanding – basic | 45.7 | 44.4 | 45.2 | 44.4 |
| Income from continuing operations per common share – basic | \$.15 | \$.03 | \$.54 | \$.23 |
| (Loss) income from discontinued operations per common share – basic | \$(.01) | \$(.02) | \$.05 | \$(.06) |
| Net income per common share – basic | \$.14 | \$.01 | \$.59 | \$.17 |
| Diluted Earnings Per Share: | | | | |
| Income from continuing operations | \$6.9 | \$1.4 | \$24.5 | \$10.4 |
| Income from continuing operations allocated to participating securities | .1 | — | .3 | .2 |
| Income from continuing operations allocated to common stockholders | \$6.8 | \$1.4 | \$24.2 | \$10.2 |
| (Loss) income from discontinued operations | \$(0.5) | \$(1.0) | \$2.4 | \$(2.8) |
| Income (loss) from discontinued operations allocated to participating securities | — | — | — | — |
| (Loss) income from discontinued operations allocated to common stockholders | \$(0.5) | \$(1.0) | \$2.4 | \$(2.8) |
| Net income | \$6.4 | \$0.4 | \$26.9 | \$7.6 |
| Net income allocated to participating securities | .1 | — | .3 | .2 |
| Net income allocated to common stockholders | \$6.3 | \$0.4 | \$26.6 | \$7.4 |
| Weighted-average common shares outstanding – basic | 45.7 | 44.4 | 45.2 | 44.4 |
| Dilutive effect of stock options | .1 | .2 | .1 | .3 |
| Weighted-average common shares outstanding – assuming dilution | 45.8 | 44.6 | 45.3 | 44.7 |
| Income from continuing operations per common share – assuming dilution | \$.15 | \$.03 | \$.54 | \$.23 |
| (Loss) income from discontinued operations per common share – assuming dilution | \$(.01) | \$(.02) | \$.05 | \$(.06) |
| Net income per common share – assuming dilution | \$.14 | \$.01 | \$.59 | \$.17 |

Options to purchase common stock and restricted shares of the Company totaling 0.4 million and 0.6 million during the third quarters of 2012 and 2011, respectively, and 0.4 million and 0.7 million during the first nine months of 2012 and 2011, respectively, were not included in the computation of dilutive per share amounts as they would have had an anti-dilutive effect.

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Note G – Share-Based Employee Compensation

The OMNOVA Solutions' Third Amended and Restated 1999 Equity and Performance Incentive Plan (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 stock. The Plan authorizes up to an aggregate of 9.6 million shares of Company stock for awards of options to purchase shares of OMNOVA Solutions' common stock, performance stock and performance units, restricted stock, deferred stock or appreciation rights. Shares used may be either newly issued shares or treasury shares or both. All options granted under the Plan have been granted at exercise prices equal to the market value of the Company's common stock on the grant date. Additionally, the Plan provides that the term of any stock option granted under the Plan may not exceed 10 years. As of August 31, 2012, approximately 3.5 million shares of Company common stock remained available for grants under the Plan.

The Company estimates the fair value of each option award using a Black-Scholes based option valuation model. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods within the contractual life of the option. The expected volatility is based on a blend of the Company's peer group in the industry in which it does business and the Company's historical volatility. The expected term of options granted is estimated considering the vesting periods and historical trends within the Company's equity plans and represents the period of time that options granted are expected to be outstanding. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards.

During the first nine months of 2012, no stock options were issued, 526,801 stock options expired or were forfeited and 461,000 stock options were exercised.

Cash received for stock option exercises during the first nine months of 2012 was \$1.9 million.

Restricted stock grants consist of the Company's common stock. The Company's Board of Directors has set a three-year vesting period for most of the outstanding restricted shares. The fair value of each restricted share grant is equal to the market price of the Company's common stock at the grant date. Expense relating to restricted shares is amortized ratably over the vesting period.

During the first nine months of 2012, 385,700 restricted shares were issued, 592,792 restricted shares vested and 2,900 shares were forfeited.

Compensation expense for all share-based payments including defined contribution plans, included in general and administrative expense, was \$3.4 million and \$2.9 million during the first nine months of 2012 and 2011, respectively. As of August 31, 2012, there was \$3.4 million of unrecognized compensation cost related to non-vested share-based compensation arrangements.

Note H– Comprehensive Income

The components of comprehensive income (net of income tax) were as follows:

| (in Millions) | Three Months Ended | | Nine Months Ended | | |
|--|--------------------|-------|-------------------|--------|---|
| | August 31, | | August 31, | | |
| | 2012 | 2011 | 2012 | 2011 | |
| Net income | \$6.4 | \$.4 | \$26.9 | \$7.6 | |
| Amortization of unrecognized loss on terminated interest rate swap | — | .5 | 1.3 | 1.5 | |
| Foreign currency translation gain (loss) | .9 | 2.5 | (9.2 |) 10.4 | |
| Defined benefit pension plans: | | | | | |
| Amortization of net gain | .1 | (.1 |) .6 | (.5 |) |
| Amortization of prior service cost | — | .1 | (.1 |) .7 | |
| Comprehensive Income | \$7.4 | \$3.4 | \$19.5 | \$19.7 | |

In November 2010, the Company terminated and settled an interest rate swap related to its previous \$150 million Term Loan B at a cost of \$4.3 million. As required under applicable accounting guidance, this amount was recognized in Accumulated Other Comprehensive Income (Loss) and was being amortized into interest expense through May 2012, the original term of the interest rate swap agreement.

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Note I – Employee Benefit Plans

The following table sets forth the components of net periodic benefit costs for the Company's retirement programs:

| (in Millions) | Pension Plans | | Health Care Plans | |
|---|---------------|--------|-------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Three months ended August 31, 2012 and 2011 | | | | |
| Service costs | \$.3 | \$.4 | \$ — | \$ — |
| Interest costs | 3.3 | 3.4 | .1 | .1 |
| Expected return on plan assets | (3.6) | (3.7) | (.4) | — |
| Amortization of net actuarial loss (gain) | .8 | .6 | — | (.5) |
| Amortization of prior service costs | — | — | — | (.1) |
| Net periodic cost (benefit) | \$.8 | \$.7 | \$ (.3) | \$ (.5) |

| (in Millions) | Pension Plans | | Health Care Plans | |
|--|---------------|---------|-------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Nine months ended August 31, 2012 and 2011 | | | | |
| Service costs | \$ 1.1 | \$ 1.1 | \$ — | \$ — |
| Interest costs | 10.4 | 10.3 | .4 | .3 |
| Expected return on plan assets | (10.8) | (11.2) | — | — |
| Amortization of net actuarial loss (gain) | 2.4 | 1.8 | (1.1) | (1.4) |
| Amortization of prior service costs | — | — | (.2) | (.2) |
| Net periodic cost (benefit) | \$ 3.1 | \$ 2.0 | \$ (.9) | \$ (1.3) |

During 2012, the Company contributed \$16.0 million to its pension plan trust.

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. Contributions to this plan are based on either a percentage of employee contributions or on a specified percentage of employee pay based on the provisions of the applicable collective bargaining agreement. Company contributions are made with Company stock. Non-cash expense based on Company stock for this plan was \$0.6 million and \$1.8 million for the three and nine months ended August 31, 2012, respectively, and \$0.3 million and \$1.4 million for the three and nine months ended August 31, 2011, respectively.

Note J – 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 K – Business Segment Information

The Company's two operating segments were determined based on products and services provided. Accounting policies of the segments are the same as the Company's accounting policies.

The Company's two operating segments are: Performance Chemicals and Decorative Products. The Company's operating segments are strategic business units that offer different products and services. They are managed separately based on fundamental differences in their operations.

Segment operating profit represents net sales less applicable costs, expenses and provisions for restructuring and severance, asset write-offs, work stoppage costs and other items. However, management excludes restructuring and

severance, asset write-offs, work stoppage costs and other items when evaluating the results and allocating resources to the segments.

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Note K – Business Segment Information (Continued)

Segment operating profit excludes unallocated corporate headquarters expenses, provisions for corporate headquarters restructuring and severance, interest expense, amortization of deferred financing costs, acquisition related expenses, write-off of deferred financing fees, other items 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 amortization of deferred financing costs.

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

| (in Millions) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------|--------------------|---------|
| | August 31, 2012 | 2011 | August 31, 2012 | 2011 |
| Net Sales | | | | |
| Performance Chemicals | | | | |
| Paper and Carpet Chemicals | \$91.4 | \$108.8 | \$268.4 | \$290.5 |
| Specialty Chemicals | 127.3 | 143.4 | 406.6 | 420.0 |
| Total Performance Chemicals | \$218.7 | \$252.2 | \$675.0 | \$710.5 |
| Decorative Products | | | | |
| Coated Fabrics | \$33.1 | \$31.3 | \$96.4 | \$91.3 |
| Laminates and Performance Films | 36.4 | 31.5 | 100.2 | 97.9 |
| Total Decorative Products | 69.5 | 62.8 | 196.6 | 189.2 |
| Total Net Sales | \$288.2 | \$315.0 | \$871.6 | \$899.7 |
| Segment Operating Profit (Loss) | | | | |
| Performance Chemicals | \$22.0 | \$17.2 | \$71.1 | \$62.5 |
| Decorative Products | 3.0 | (2.5) | 6.8 | (2.1) |
| Total Segment Operating Profit | 25.0 | 14.7 | 77.9 | 60.4 |
| Interest expense | (8.8) | (9.5) | (27.8) | (28.4) |
| Corporate expense | (5.9) | (2.0) | (15.8) | (9.4) |
| Acquisition and integration costs | — | .4 | — | (2.3) |
| Write-off of deferred financing fees | — | — | — | (1.0) |
| Income From Continuing Operations Before Income Taxes | \$10.3 | \$3.6 | \$34.3 | \$19.3 |

Note L – Income Taxes

The Company recorded income tax expense of \$3.4 million and \$2.2 million for the three months ended August 31, 2012 and 2011, respectively, and income tax expense of \$9.8 million and \$8.9 million for the nine months ended August 31, 2012 and 2011, respectively.

For the nine months ended August 31, 2012, the Company's effective tax rate of 28.6% was lower than its domestic federal statutory rate primarily due to income in foreign jurisdictions where the rate is lower than the U.S. domestic statutory rate, and \$0.7 million of discrete tax benefits recorded during the first nine months of 2012.

At August 31, 2012 and November 30, 2011, the total unrecognized tax benefits excluding interest and penalties were \$9.8 million and \$10.6 million, respectively. The total amount of penalties and interest recognized in the statement of financial position were \$0.6 million and \$0.4 million as of August 31, 2012 and November 30, 2011, respectively.

Interest and penalties related to unrecognized tax benefits are recorded as a component of income tax expense. During the nine months ended August 31, 2012, the Company recognized \$0.2 million of interest and penalty expense.

During the next twelve months, due to the expiration of open statutes of limitations, the Company's unrecognized tax benefits, excluding interest and penalties, are expected to decrease by \$4.3 million. Of the \$4.3 million unrecognized tax benefit that is reasonably expected to decrease during the next twelve months, \$1.4 million would, if recognized, impact the Company's effective rate. It is also possible that additional unrecognized tax benefits could arise during the next twelve months that would change such estimate.

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Note L – Income Taxes (Continued)

As of August 31, 2012, the Company had approximately \$121.7 million of domestic federal net operating loss carryforwards (NOLCs), \$109.1 million of state and local NOLCs, \$0.7 million foreign tax credit carryforwards and \$0.2 million of AMT credit carryforwards. The majority of the federal, state and local NOLCs expire in the tax years 2022 through 2032 while the foreign tax credit carryforwards expire between tax years 2012 and 2021. The Company has approximately \$19.6 million of domestic capital loss carryforward, which are expected to expire by the tax year 2017. The Company has provided a valuation allowance against the capital loss carryforward as the Company does not anticipate the opportunity to utilize the carryforward before the expiration period.

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 2007.

Note M – Restructuring and Severance

During the first nine months of 2012, the Company recognized restructuring and severance costs related to its continuing operations of \$1.0 million for Decorative Products primarily relating to workforce reduction actions. Additionally, during the first nine months of 2012, the Company recognized \$0.6 million of severance expense related to its discontinued operations, primarily due to workforce reduction actions. During the first nine months of 2011, the Company recognized restructuring and severance costs of \$1.1 million for Performance Chemicals, \$0.3 million for Decorative Products and \$0.1 million in Corporate, all related to workforce reduction actions.

Note N – Other Expense (Income)

The following table sets forth the major components of other expense (income):

| (in Millions) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------|-------------------|--------|
| | August 31, | | August 31, | |
| | 2012 | 2011 | 2012 | 2011 |
| (Gain) loss on foreign currency transactions | \$(.1) | \$.4 | \$.3 | \$ 2.8 |
| Goods and services tax settlement from customer | — | — | — | (.8) |
| Licensing and royalty revenue | (.2) | (.2) | (.7) | (.8) |
| Sale of scrap | (.5) | (.4) | (1.3) | (1.5) |
| Other bank fees and interest expense | .4 | .1 | .6 | .2 |
| Interest income | (.1) | (.1) | (.4) | (.2) |
| State and local non-income taxes | .2 | .3 | .6 | .8 |
| Other | .5 | (.2) | .3 | .1 |
| | \$.2 | \$(.1) | \$(.6) | \$.6 |

Note O – Separate Financial Information of Subsidiary Guarantors of Indebtedness

The \$250 million Senior Notes are fully and unconditionally and jointly and severally guaranteed on a senior unsecured basis by all of OMNOVA Solutions Inc.'s existing and future 100% owned domestic subsidiaries that from time to time guarantee obligations under the Company's Senior Notes, with certain exceptions (the "Guarantors"). Current guarantor subsidiaries include Decorative Products Thailand Inc. ("Ohio") and OMNOVA Wallcovering (U.S.A.) Inc. Presented below are the condensed financial statements of OMNOVA Solutions ("Parent") as borrower, its combined Guarantor subsidiaries and its combined Non-Guarantor subsidiaries. The income (loss) of the Company's subsidiary guarantors and non-guarantors in these Condensed Consolidating Statements of Operations are presented under the equity method for purposes of this disclosure only.

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Note O – Separate Financial Information of Subsidiary Guarantors of Indebtedness (Continued)
 Condensed Consolidating Statements of Operations for the Three Months Ended August 31, 2012

| (Dollars in millions) | OMNOVA Solutions (Parent) | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|--|---------------------------------|---------------------------|-----------------------------------|--------------|---------|
| Net Sales | \$196.7 | \$— | \$99.6 | \$ (8.1) | \$288.2 |
| Cost of products sold | 156.9 | — | 81.5 | (8.0) | 230.4 |
| Gross profit | 39.8 | — | 18.1 | (.1) | 57.8 |
| Selling, general and administrative | 22.0 | .3 | 8.1 | — | 30.4 |
| Depreciation and amortization | 4.0 | — | 3.8 | — | 7.8 |
| Asset impairment | — | — | — | — | — |
| Restructuring and severance | .3 | — | — | — | .3 |
| Interest expense | 7.1 | (.5) | 5.7 | (3.5) | 8.8 |
| (Income) loss from subsidiaries | (2.1) | 1.6 | — | .5 | — |
| Other (income) expense, net | (.9) | (.2) | .8 | .5 | .2 |
| | 30.4 | 1.2 | 18.4 | (2.5) | 47.5 |
| Income (loss) from continuing operations before income taxes | 9.4 | (1.2) | (.3) | 2.4 | 10.3 |
| Income tax expense | 2.7 | (.4) | 1.1 | — | 3.4 |
| Income (loss) from continuing operations | 6.7 | (.8) | (1.4) | 2.4 | 6.9 |
| Income (loss) from discontinued operations | (.3) | — | (.2) | — | (.5) |
| Net Income (loss) | \$6.4 | \$(0.8) | \$(1.6) | \$2.4 | \$6.4 |

Condensed Consolidating Statements of Operations for the Nine Months Ended August 31, 2012

| (Dollars in millions) | OMNOVA Solutions (Parent) | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|--|---------------------------------|---------------------------|-----------------------------------|--------------|---------|
| Net Sales | \$580.1 | \$— | \$314.3 | \$ (22.8) | \$871.6 |
| Cost of products sold | 462.5 | — | 252.8 | (22.4) | 692.9 |
| Gross profit | 117.6 | — | 61.5 | (.4) | 178.7 |
| Selling, general and administrative | 63.6 | .8 | 27.7 | — | 92.1 |
| Depreciation and amortization | 12.1 | — | 11.8 | — | 23.9 |
| Asset impairment | — | — | .2 | — | .2 |
| Restructuring and severance | 1.0 | — | — | — | 1.0 |
| Interest expense | 22.9 | (1.4) | 10.0 | (3.7) | 27.8 |
| (Income) loss from subsidiaries | (7.1) | (6.0) | — | 13.1 | — |
| Other (income) expense, net | (2.9) | (.6) | 2.4 | .5 | (.6) |
| | 89.6 | (7.2) | 52.1 | 9.9 | 144.4 |
| Income (loss) from continuing operations before income taxes | 28.0 | 7.2 | 9.4 | (10.3) | 34.3 |
| Income tax expense | 6.7 | 2.1 | 1.0 | — | 9.8 |
| Income (loss) from continuing operations | 21.3 | 5.1 | 8.4 | (10.3) | 24.5 |
| Income (loss) from discontinued operations | 5.6 | (.8) | (2.4) | — | 2.4 |
| Net Income (loss) | \$26.9 | \$4.3 | \$6.0 | \$(10.3) | \$26.9 |

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Note O – Separate Financial Information of Subsidiary Guarantors of Indebtedness (Continued)

Condensed Consolidating Statements of Operations for the Three Months Ended August 31, 2011

| (Dollars in millions) | OMNOVA Solutions (Parent) | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|--|---------------------------------|---------------------------|-----------------------------------|--------------|---------|
| Net Sales | \$211.8 | \$— | \$110.1 | \$(6.9) | \$315.0 |
| Cost of products sold | 179.4 | — | 91.9 | (6.7) | 264.6 |
| Gross profit | 32.4 | — | 18.2 | (.2) | 50.4 |
| Selling, general and administrative | 17.9 | .3 | 8.6 | — | 26.8 |
| Depreciation and amortization | 4.1 | — | 4.3 | — | 8.4 |
| Asset impairment | — | — | 2.4 | — | 2.4 |
| Restructuring and severance | .2 | — | — | — | .2 |
| Interest expense | 9.3 | — | .2 | — | 9.5 |
| Acquisition and integration costs | (.4) | — | — | — | (.4) |
| (Income) loss from subsidiaries | — | .6 | — | (.6) | — |
| Other (income) expense, net | (1.1) | (.7) | 1.7 | — | (.1) |
| | 30.0 | .2 | 17.2 | (.6) | 46.8 |
| Income (loss) from continuing operations before income taxes | 2.4 | (.2) | 1.0 | .4 | 3.6 |
| Income tax expense (benefit) | 1.4 | (.1) | .9 | — | 2.2 |
| Income (loss) from continuing operations | 1.0 | (.1) | .1 | .4 | 1.4 |
| Income (loss) from discontinued operations | (.6) | .3 | (.7) | — | (1.0) |
| Net Income (Loss) | \$.4 | \$.2 | \$(.6) | \$.4 | \$.4 |

Condensed Consolidating Statements of Operations for the Nine Months Ended August 31, 2011

| (Dollars in millions) | OMNOVA Solutions (Parent) | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|--|---------------------------------|---------------------------|-----------------------------------|--------------|---------|
| Net Sales | \$588.9 | \$— | \$325.9 | \$(15.1) | \$899.7 |
| Cost of products sold | 487.3 | — | 264.5 | (14.9) | 736.9 |
| Gross profit | 101.6 | — | 61.4 | (.2) | 162.8 |
| Selling, general and administrative | 54.8 | .8 | 26.9 | — | 82.5 |
| Depreciation and amortization | 12.3 | — | 12.5 | — | 24.8 |
| Asset impairment | — | — | 2.4 | — | 2.4 |
| Restructuring and severance | .8 | — | .7 | — | 1.5 |
| Interest expense | 27.8 | — | .6 | — | 28.4 |
| Acquisition and integration expense | 2.3 | — | — | — | 2.3 |
| Deferred financing fees write-off | 1.0 | — | — | — | 1.0 |
| (Income) loss from subsidiaries | (2.7) | (3.8) | — | 6.5 | — |
| Other (income) expense, net | (5.9) | (1.4) | 7.3 | .6 | .6 |
| | 90.4 | (4.4) | 50.4 | 7.1 | 143.5 |
| Income (loss) from continuing operations before income taxes | 11.2 | 4.4 | 11.0 | (7.3) | 19.3 |
| Income tax expense | 1.4 | 2.0 | 5.5 | — | 8.9 |
| Income (loss) from continuing operations | 9.8 | 2.4 | 5.5 | (7.3) | 10.4 |
| Income (loss) from discontinued operations | (2.2) | 1.1 | (1.7) | — | (2.8) |
| Net Income (Loss) | \$7.6 | \$3.5 | \$3.8 | \$(7.3) | \$7.6 |

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Note O – Separate Financial Information of Subsidiary Guarantors of Indebtedness (Continued)

Condensed Consolidating Statements of Financial Position August 31, 2012

| (Dollars in millions) | OMNOVA Solutions (Parent) | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|---|---------------------------------|---------------------------|-----------------------------------|---------------|----------|
| ASSETS: | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 100.7 | \$— | \$ 44.8 | \$— | \$ 145.5 |
| Restricted cash | 5.5 | — | — | — | 5.5 |
| Accounts receivable, net | 77.6 | — | 70.0 | — | 147.6 |
| Inventories | 47.6 | — | 47.9 | (.9) | 94.6 |
| Prepaid expenses and other | 1.7 | — | 3.2 | — | 4.9 |
| Deferred income taxes - current | 5.5 | — | 3.1 | — | 8.6 |
| Total Current Assets | 238.6 | — | 169.0 | (.9) | 406.7 |
| Property, plant and equipment, net | 108.4 | — | 106.9 | — | 215.3 |
| Trademarks, intangibles and other assets, net | 90.8 | — | 86.7 | — | 177.5 |
| Deferred income taxes - non-current | 65.2 | — | 4.7 | (2.4) | 67.5 |
| Investments in subsidiaries and intercompany | 703.3 | 198.5 | 330.5 | (1,232.3) | — |
| Other assets | 2.2 | 3.6 | 6.0 | — | 11.8 |
| Total Assets | \$ 1,208.5 | \$ 202.1 | \$ 703.8 | \$ (1,235.6) | \$ 878.8 |
| LIABILITIES AND SHARE HOLDERS' EQUITY: | | | | | |
| Current Liabilities | | | | | |
| Amounts due to banks | \$ 2.0 | \$— | \$ 7.5 | \$— | \$ 9.5 |
| Accounts payable | 64.2 | .2 | 48.1 | — | 112.5 |
| Accrued payroll and personal property taxes | 12.1 | .1 | 2.9 | — | 15.1 |
| Employee benefit obligations | 2.2 | — | — | — | 2.2 |
| Deferred income taxes - current | — | — | .5 | — | .5 |
| Other current liabilities | 19.9 | 2.2 | 2.1 | 1.2 | 25.4 |
| Total Current Liabilities | 100.4 | 2.5 | 61.1 | 1.2 | 165.2 |
| Long-term debt | 443.1 | — | — | — | 443.1 |
| Postretirement benefits other than pensions | 7.4 | — | — | — | 7.4 |
| Pension liabilities | 66.5 | — | 9.0 | — | 75.5 |
| Deferred income taxes - non-current | — | — | 30.3 | (4.0) | 26.3 |
| Intercompany | 433.1 | 140.6 | 569.0 | (1,142.7) | — |
| Other liabilities | 13.2 | — | 3.3 | — | 16.5 |
| Total Liabilities | 1,063.7 | 143.1 | 672.7 | (1,145.5) | 734.0 |
| Shareholders' Equity | | | | | |
| Common stock | 4.7 | — | 16.2 | (16.2) | 4.7 |
| Additional contributed capital | 330.6 | 144.6 | 4.9 | (149.5) | 330.6 |
| Retained (deficit) earnings | (87.9) | (86.8) | 16.6 | 70.2 | (87.9) |
| Treasury stock | (4.4) | — | — | — | (4.4) |
| Accumulated other comprehensive (loss) income | (98.2) | 1.2 | (6.6) | 5.4 | (98.2) |
| Total Shareholders' Equity | 144.8 | 59.0 | 31.1 | (90.1) | 144.8 |
| Total Liabilities and Shareholders' Equity | \$ 1,208.5 | \$ 202.1 | \$ 703.8 | \$ (1,235.6) | \$ 878.8 |

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Note O – Separate Financial Information of Subsidiary Guarantors of Indebtedness (Continued)

Condensed Consolidating Statements of Financial Position November 30, 2011

| (Dollars in millions) | OMNOVA Solutions (Parent) | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|---|---------------------------------|---------------------------|-----------------------------------|------------------|----------------|
| ASSETS: | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$55.1 | \$— | \$43.8 | \$— | \$98.9 |
| Restricted cash | 4.2 | — | — | — | 4.2 |
| Accounts receivable, net | 87.7 | — | 75.5 | — | 163.2 |
| Inventories | 35.9 | — | 49.0 | (.4) | 84.5 |
| Prepaid expenses and other | 2.6 | 4.0 | 1.3 | (4.0) | 3.9 |
| Deferred income taxes - current | 4.5 | — | 3.0 | (1.0) | 6.5 |
| Assets held for sale - current | — | — | 16.6 | — | 16.6 |
| Total Current Assets | 190.0 | 4.0 | 189.2 | (5.4) | 377.8 |
| Property, plant and equipment, net | 105.5 | — | 115.3 | — | 220.8 |
| Trademarks, intangibles and other assets, net | 80.5 | — | 95.0 | — | 175.5 |
| Deferred income taxes - non-current | 67.1 | — | 5.1 | (3.1) | 69.1 |
| Investments in subsidiaries and intercompany | 286.8 | 179.0 | 2.8 | (468.6) | — |
| Other assets | 15.7 | (.1) | 6.1 | .2 | 21.9 |
| Assets held for sale - non-current | .1 | — | (.1) | — | — |
| Total Assets | \$745.7 | \$182.9 | \$413.4 | \$(476.9) | \$865.1 |
| LIABILITIES AND SHARE HOLDERS' EQUITY: | | | | | |
| Current Liabilities | | | | | |
| Amounts due to banks | \$2.0 | \$— | \$9.3 | \$— | \$11.3 |
| Accounts payable | 51.9 | — | 56.6 | — | 108.5 |
| Accrued payroll and personal property taxes | 13.2 | .1 | 3.5 | — | 16.8 |
| Employee benefit obligations | 2.2 | — | — | — | 2.2 |
| Deferred income taxes - current | — | — | 1.1 | (1.0) | .1 |
| Other current liabilities | 8.6 | .6 | 4.6 | (4.7) | 9.1 |
| Liabilities held for sale - current | — | — | 8.5 | — | 8.5 |
| Total Current Liabilities | 77.9 | .7 | 83.6 | (5.7) | 156.5 |
| Long-term debt | 444.3 | — | — | — | 444.3 |
| Postretirement benefits other than pensions | 7.8 | — | — | — | 7.8 |
| Pension liabilities | 82.6 | — | 8.9 | — | 91.5 |
| Deferred income taxes - non-current | — | — | 31.4 | (3.1) | 28.3 |
| Intercompany | — | 68.4 | 245.4 | (313.8) | — |
| Other liabilities | 11.4 | — | 3.6 | — | 15.0 |
| Total Liabilities | 624.0 | 69.1 | 372.9 | (322.6) | 743.4 |
| Shareholders' Equity | | | | | |
| Common stock | 4.6 | — | 57.1 | (57.1) | 4.6 |
| Additional contributed capital | 324.9 | 140.6 | 8.9 | (149.5) | 324.9 |
| Retained (deficit) earnings | (114.8) | (28.3) | (27.1) | 55.4 | (114.8) |
| Treasury stock | (2.7) | — | — | — | (2.7) |
| Accumulated other comprehensive (loss) income | (90.3) | 1.5 | 1.6 | (3.1) | (90.3) |
| Total Shareholders' Equity | 121.7 | 113.8 | 40.5 | (154.3) | 121.7 |
| Total Liabilities and Shareholders' Equity | \$745.7 | \$182.9 | \$413.4 | \$(476.9) | \$865.1 |

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Note O – Separate Financial Information of Subsidiary Guarantors of Indebtedness (Continued)

Condensed Consolidating Statements of Cash Flows Nine Months Ended August 31, 2012

| (Dollars in millions) | OMNOVA Solutions (Parent) | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|--|---------------------------------|---------------------------|-----------------------------------|--------------|---------|
| Operating Activities | | | | | |
| Net Cash Provided By Operating Activities | \$45.9 | \$.3 | \$7.4 | \$ 1.4 | \$55.0 |
| Investing Activities | | | | | |
| Capital expenditures | (13.9) | — | (5.7) | — | (19.6) |
| Proceeds from asset sales | .4 | — | — | — | .4 |
| Proceeds from sale of businesses | 12.3 | — | — | — | 12.3 |
| Net Cash Used In Investing Activities | (1.2) | — | (5.7) | — | (6.9) |
| Financing Activities | | | | | |
| Repayment of debt obligations | (1.5) | — | — | — | (1.5) |
| Short-term debt (payments), net | — | — | (1.5) | — | (1.5) |
| Payments received from the exercise of stock options | 1.9 | — | — | — | 1.9 |
| Restricted cash | (1.3) | — | — | — | (1.3) |
| Net Cash (Used In) Provided by Financing Activities | (.9) | — | (1.5) | — | (2.4) |
| Effect of exchange rate changes on cash | 1.8 | (.3) | .8 | (1.4) | .9 |
| Net Increase (Decrease) In Cash And Cash Equivalents | 45.6 | — | 1.0 | — | 46.6 |
| Cash and cash equivalents at beginning of period | 55.1 | — | 43.8 | — | 98.9 |
| Cash And Cash Equivalents At End Of Period | \$100.7 | \$— | \$44.8 | \$— | \$145.5 |

Condensed Consolidating Statements of Cash Flows Nine Months Ended August 31, 2011

| (Dollars in millions) | OMNOVA Solutions (Parent) | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Eliminations | Total |
|---|---------------------------------|---------------------------|-----------------------------------|--------------|----------|
| Operating Activities | | | | | |
| Net Cash (Used In) Provided By Operating Activities | \$(267.2) | \$ 1.9 | \$83.5 | \$ 173.6 | \$(8.2) |
| Investing Activities | | | | | |
| Capital expenditures | (8.8) | — | (6.7) | — | (15.5) |
| Proceeds from asset sale | — | — | 1.0 | — | 1.0 |
| Acquisition of business, less cash acquired | (21.5) | (144.2) | (105.8) | (.1) | (271.6) |
| Restricted cash | 253.2 | — | — | — | 253.2 |
| Discontinued operations | (.1) | — | (.1) | — | (.2) |
| Net Cash Provided By (Used In) Investing Activities | 222.8 | (144.2) | (111.6) | (.1) | (33.1) |
| Financing Activities | | | | | |
| Proceeds from borrowings | 199.0 | — | — | — | 199.0 |
| Repayment of debt obligations | (143.3) | — | — | — | (143.3) |
| Short-term debt (payments), net | — | — | 1.9 | .1 | 2.0 |
| Payments for deferred financing fees | (10.4) | — | — | — | (10.4) |

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| | | | | | |
|--|--------|-------|--------|--------|--------|
| Other | 2.4 | 140.6 | 30.9 | (171.5 |) 2.4 |
| Net Cash Provided by (Used In) Financing Activities | 47.7 | 140.6 | 32.8 | (171.4 |) 49.7 |
| Effect of exchange rate changes on cash | (1.8 |) 1.7 | 12.8 | (1.9 |) 10.8 |
| Net Increase (Decrease) In Cash And Cash Equivalents | 1.5 | — | 17.5 | .2 | 19.2 |
| Cash and cash equivalents at beginning of period | 49.6 | — | 21.6 | — | 71.2 |
| Cash And Cash Equivalents At End Of Period | \$51.1 | \$— | \$39.1 | \$.2 | \$90.4 |

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

Overview

The Company is an innovator of emulsion polymers, specialty chemicals, and decorative and functional surfaces for a variety of commercial, residential and industrial end uses. As discussed in Note A to the Company's Consolidated Interim Financial Statements, the Company operates two reportable business segments: Performance Chemicals and Decorative Products. The Performance Chemicals segment produces a broad range of emulsion polymers and specialty chemicals based primarily on styrene butadiene (SB), styrene butadiene acrylonitrile (SBA), styrene butadiene vinyl pyridine, nitrile butadiene (NBR), polyvinyl acetate, acrylic, styrene acrylic, vinyl acrylic, glyoxal, phenolic and diphenylamine antioxidants, hollow plastic pigment, fluorochemicals and bio-based chemistries. Performance Chemicals' custom-formulated products are tailored resins, binders, adhesives, specialty rubbers, antioxidants and elastomeric modifiers which are used in paper, specialty coatings, carpet, nonwovens, construction, oil/gas drilling, adhesives, tape, tire cord, floor care, textiles, graphic arts, polymer stabilization, industrial rubbers & hoses, bio-based polymers and various other specialty applications. The Decorative Products segment develops, designs, produces and markets a broad line of functional and decorative surfacing products, including coated fabrics, performance fabrics, printed and solid color surface laminates and performance films. These products are used in numerous applications, including commercial building refurbishment, remodeling and new construction; kitchen and bath cabinets; transportation including automotive, bus and other mass transit, marine and motorcycle; recreational vehicles and manufactured housing; flooring; ceiling tiles; commercial and residential furniture; retail display fixtures; home furnishings and consumer electronics; and performance films for pool liners, banners, tents, ceiling tiles and medical devices. Please refer to Item 1, Business, of the Company's 2011 Annual Report on Form 10-K for further description of and background on the Company's operating segments.

The Company's products are primarily sold to manufacturers and end users directly and through agents.

The Company has strategically located manufacturing facilities in the United States, France, China, India and Thailand.

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, 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 products and services provided. Accounting policies of the segments are the same as those described in Note A of the Company's Consolidated Interim Financial Statements. For a reconciliation of the Company's segment operating performance information, please refer to Note K of the Company's Consolidated Interim Financial Statements.

A majority of the Company's raw materials are derived from petrochemicals and chemical feedstocks whose prices 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 increased raw material prices and the Company's ability to increase the prices of its products.

Additionally, the Company may also experience, from time to time, competitive price pressures and other factors which may not allow it to increase the prices of its products.

OMNOVA's Performance Chemicals segment had sales price index contracts related to approximately 44% of its sales in the third quarter of 2012. Customers with sales price index contracts are primarily in the paper and carpet chemicals product line. The index is generally comprised of several components: a negotiated fixed amount per pound; the market price of key raw materials (i.e., styrene and butadiene); and the price per barrel of oil. The contract mechanisms 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 Performance Chemicals' 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.

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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 2009 through 2011 and estimated purchases for 2012 and an estimated range of market prices are as follows:

| | Pounds Purchased (in Millions) | Market Price Range Per Pound |
|------------------|-----------------------------------|---------------------------------|
| 2012 (estimated) | 180 | \$0.57 - \$0.74 |
| 2011* | 205 | \$0.65 - \$0.77 |
| 2010 | 180 | \$0.54 - \$0.68 |
| 2009 | 170 | \$0.38 - \$0.61 |

*The increase over 2010 is partially due to the requirements of the acquired ELIOKEM business.

Butadiene, a key raw material component, is generally available worldwide but subject to regional shortages from time to time and significant price volatility. OMNOVA has supply contracts with several producers. At times, when the demand of butadiene exceeds supply, it is sold on an allocated basis. New butadiene capacity is expected to become operational in Asia over the next two years. OMNOVA's butadiene purchases for 2009 through 2011 and estimated purchases for 2012 and an estimated range of market prices are as follows:

| | Pounds Purchased (in Millions) | Market Price Range Per Pound |
|------------------|-----------------------------------|---------------------------------|
| 2012 (estimated) | 160 | \$0.83 - \$1.68 |
| 2011* | 175 | \$0.86 - \$2.06 |
| 2010 | 135 | \$0.63 - \$0.94 |
| 2009 | 125 | \$0.25 - \$0.68 |

*The increase over 2010 is partially due to the requirements of the acquired ELIOKEM business.

OMNOVA's Decorative Products segment does not utilize sales price index contracts with its customers; rather, it negotiates pricing with each customer. OMNOVA's pricing objective, which may or may not be met, is to recover raw material price increases within a 90 day period. Key raw materials utilized by the Decorative Products segment include polyvinyl chloride (PVC) resins, textiles and plasticizers. These raw materials are generally readily available worldwide from multiple suppliers.

Key Indicators

Key economic measures relevant to the Company include global economic growth rates, discretionary spending for durable goods, print advertising, oil and gas 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 feed stocks. Key OEM industries which provide a general indication of demand drivers to the Company include paper, commercial and residential construction and refurbishment, automotive and tire products, furniture manufacturing, flooring manufacturing and 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 which ultimately use the Company's products.

Key operating measures utilized by the business segments include orders, sales, working capital turnover, inventory, productivity, new product vitality, cost of quality and order fill-rates which provide key indicators of business trends. These measures are reported on various cycles including daily, weekly, monthly and quarterly 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, gross profit, selling, general and administrative expenses, adjusted operating profit, adjusted net income, consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") as set forth in the Net Leverage Ratio in the Company's \$200,000,000 Term

Loan Credit Agreement, working capital, operating cash flows, capital expenditures, cash interest expense and adjusted earnings per share, including 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.

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Discontinued Operations

As part of the Company's strategy to focus on businesses with greater global growth potential, the Company committed to divesting its commercial wallcovering businesses in the fourth quarter of 2011.

On December 12, 2011, the Company completed the sale of its North American wallcovering business to J. Josephson, Inc., a private commercial wallcovering producer based in New Jersey. The sale included print cylinders, certain equipment, trademarks, contracts and other assets associated with the Company's domestically-produced wallcovering. Under terms of the sale, the Company received \$10.0 million in cash and may receive up to three years of royalty payments based on future sales of OMNOVA commercial wallcovering patterns. The Company retained the net working capital, the Columbus, Mississippi manufacturing facility and certain production assets, which are also used by its other businesses.

The Company recognized a net after-tax gain of approximately \$6.0 million (\$9.9 million before tax) from the sale transaction during the first quarter of 2012, which represents the excess of the sale price over the book value of the assets sold.

The Company will continue to manufacture commercial wallcovering products for J. Josephson as part of an orderly transition of production from the Company's Columbus, Mississippi plant to J. Josephson's plant in New Jersey. The Company expects the transition period to be completed by November 30, 2012, however it could be extended for an additional three months at the exclusive direction of the buyer.

For the North American wallcovering business, the Company allocated the book value of certain shared manufacturing assets, as well as the associated shared manufacturing and selling costs between the wallcovering products and the coated fabrics products based on the relative manufacturing volume produced in the Columbus, Mississippi facility. The Company will transfer the manufacturing of certain coated fabrics products to other company facilities by the end of the year.

During and following the transfer of coated fabrics production, the Company expects to incur certain cash outflows related to severance and outplacement; equipment decommissioning and relocation; facility maintenance, security and idling; and increased inventory levels to facilitate the transfer of certain products to the Company's other manufacturing facilities. After the transfer, the Company expects to receive proceeds from the sale of excess equipment and the facility.

On March 6, 2012, the Company sold its U.K.-based Muraspec commercial wallcovering business to affiliates of a2e Venture Catalysts Limited and its principal Amin Amiri for \$2.4 million in cash and a note receivable for \$3.8 million. The note receivable is secured by a first lien on a building owned by the sold business. The Company recognized losses of \$0.9 million related to this transaction during 2012 to reflect the fair value of the assets and liabilities sold to the buyer.

Held for Sale Classification

As a result of the decision to exit the commercial wallcovering business, the assets and liabilities of the commercial wallcovering business were reflected as assets and liabilities held for sale at November 30, 2011 and were comprised of the following:

| (in Millions) | November 30, 2011 |
|---|----------------------|
| Cash | \$2.8 |
| Accounts receivable | 7.1 |
| Inventories, net | 4.0 |
| Other current assets | 2.7 |
| Assets Held For Sale – Current | \$16.6 |
| Accounts payable | \$6.6 |
| Accrued payroll and personal property tax | 1.1 |
| Other current liabilities | .8 |
| Liabilities Held For Sale – Current | \$8.5 |

Unless otherwise noted, the following discussions of the results of operations of the Company and its segments exclude the discontinued businesses.

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Results of Operations for the Three and Nine Months Ended August 31, 2012 Compared to the Three and Nine Months Ended August 31, 2011

The Company's net sales in the third quarter of 2012 were \$288.2 million compared to \$315.0 million in the third quarter of 2011. The Performance Chemicals business segment revenue decreased by 13.3% while the Decorative Products business segment revenue increased 10.7%. Contributing to the net sales decrease in the quarter were lower pricing due to a reduction in raw material costs and volume decreases as well as unfavorable currency exchange translation effects. The Company's net sales in the first nine months of 2012 were \$871.6 million compared to \$899.7 million in the first nine months of 2011. The Performance Chemicals business segment revenue decreased by 5.0% while the Decorative Products business segment revenue increased 3.9%. Contributing to the decrease during the first nine months of 2012 was lower volumes and unfavorable currency exchange translation effects, which were partially offset by favorable product mix and higher pricing, primarily in the first half of 2012.

Gross profit in the third quarter of 2012 was \$57.8 million with a gross profit margin of 20.1% compared to gross profit of \$50.4 million and a gross profit margin of 16.0% in the third quarter of 2011. The increase in gross profit margin was primarily due to better sales mix and lower raw material costs, which were partially offset by a decline in selling prices. Raw material costs decreased by \$18.7 million in the third quarter versus the same period last year, however, the Company anticipates raw material costs to increase moderately from current levels during the fourth quarter of 2012. Gross profit in the first nine months of 2012 was \$178.7 million with a gross profit margin of 20.5% compared to gross profit of \$162.8 million and a gross profit margin of 18.1% in the first nine months of 2011. The increase in gross profit margin was primarily due to positive pricing actions in the first half of 2012 partially offset by higher raw material costs.

Selling, general and administrative expense in the third quarter of 2012 increased \$3.6 million, to \$30.4 million, or 10.5% of sales, compared to \$26.8 million, or 8.5% of net sales in the third quarter of 2011. Selling, general and administrative expense in the first nine months of 2012 increased \$9.6 million, to \$92.1 million, or 10.6% of sales, compared to \$82.5 million, or 9.2% of net sales in the first nine months of 2011. The increase for both the third quarter and first nine months of 2012 was primarily due to investments in future growth for research and development, information technology system enhancements and increased staffing and employment costs.

Interest expense was \$8.8 million and \$9.5 million for the third quarters of 2012 and 2011, respectively, and \$27.8 million and \$28.4 million for the first nine months of 2012 and 2011, respectively. Included in interest expense for the first nine months of 2012 and 2011 is approximately \$1.3 million and \$2.0 million, respectively, related to an interest rate swap that was settled in the first quarter of 2011. The interest rate swap settlement was being amortized over the original term of the swap which expired in May 2012.

Income tax expense was \$3.4 million in the third quarter of 2012, a 33.0% effective income tax rate, compared to income tax expense of \$2.2 million, or a 61.1% effective tax rate in the third quarter of 2011. The higher rate in the third quarter of 2011 was primarily due to an asset impairment charge in China for which no tax benefit was recognized due to an off setting tax valuation allowance. Income tax expense was \$9.8 million, representing a 28.6% effective income tax rate, for the first nine months of 2012, compared to income tax expense of \$8.9 million, or a 46.1% effective tax rate in the first nine months of 2011. The lower rate in the first nine months of 2012 was primarily due to income in foreign jurisdictions where the rate is lower than the U.S. domestic federal statutory rate, while the higher rate in the first nine months of 2011 was related to a one-time tax charge of \$1.1 million resulting from the merger of ELIOKEM U.S. into OMNOVA Solutions. Cash tax payments in the U.S. are expected to be minimal for the next few years as the Company has \$121.7 million of U.S. federal net operating loss carryforwards, \$109.1 million of state and local net operating loss carryforwards, \$0.7 million of foreign tax credit carryforwards and \$0.2 million of AMT credit carryforwards. The majority of the federal, state and local net operating loss carryforwards expire between 2022 and 2032.

The Company has not provided 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. However, based on the Company's policy of permanent reinvestment, it is not practicable

to determine the U.S. federal income tax liability, if any, which would be payable if such earnings were not permanently reinvested. As of November 30, 2011, the non-U.S. subsidiaries have a cumulative unremitted foreign loss position of \$11.7 million.

The Company generated income from continuing operations of \$6.9 million or \$0.15 per diluted share in the third quarter of 2012 compared to \$1.4 million or \$0.03 per diluted share in the third quarter of 2011. For the nine months of 2012, the Company generated income from continuing operations of \$24.5 million or \$0.54 per diluted share compared to \$10.4 million or \$0.23 per diluted share in the first nine months of 2011. Included in the first nine months of 2011 are a \$1.0 million write-off of deferred

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financing fees as a result of refinancing actions, \$2.7 million of acquisition and integration expense and a \$1.1 million tax charge resulting from the liquidation transaction.

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 chief operating decision maker in evaluating performance and allocating resources.

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

| (Dollars in millions) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------|--------------------|---------|
| | August 31, 2012 | 2011 | August 31, 2012 | 2011 |
| Net Sales: | | | | |
| Performance Chemicals | | | | |
| Paper and Carpet Chemicals | \$91.4 | \$108.8 | \$268.4 | \$290.5 |
| Specialty Chemicals | 127.3 | 143.4 | 406.6 | 420.0 |
| Total Performance Chemicals | 218.7 | 252.2 | 675.0 | 710.5 |
| Decorative Products | | | | |
| Coated Fabrics | 33.1 | 31.3 | 96.4 | 91.3 |
| Laminates and Performance Films | 36.4 | 31.5 | 100.2 | 97.9 |
| Total Decorative Products | 69.5 | 62.8 | 196.6 | 189.2 |
| Consolidated Net Sales | \$288.2 | \$315.0 | \$871.6 | \$899.7 |
| Segment Gross Profit: | | | | |
| Performance Chemicals | \$43.2 | \$40.5 | \$138.3 | \$131.1 |
| Decorative Products | 14.6 | 9.9 | 40.5 | 31.7 |
| Consolidated Gross Profit | \$57.8 | \$50.4 | \$178.8 | \$162.8 |
| Segment Operating Profit: | | | | |
| Performance Chemicals | \$22.0 | \$17.2 | \$71.1 | \$62.5 |
| Decorative Products | 3.0 | (2.5) | 6.8 | (2.1) |
| Interest expense | (8.8) | (9.5) | (27.8) | (28.4) |
| Corporate expense | (5.9) | (2.0) | (15.8) | (9.4) |
| Acquisition and integration related expense | — | .4 | — | (2.3) |
| Write-off of deferred financing fees | — | — | — | (1.0) |
| Consolidated Income from Continuing Operations Before Income Taxes | \$10.3 | \$3.6 | \$34.3 | \$19.3 |

Performance Chemicals

Performance Chemicals' net sales decreased \$33.5 million to \$218.7 million during the third quarter of 2012 compared to \$252.2 million during the third quarter of 2011. The decrease was primarily due to volume decreases, lower customer pricing as raw material costs decreased and unfavorable foreign currency translation effects. Net sales for the Paper and Carpet Chemicals product line decreased \$17.4 million to \$91.4 million during the third quarter of 2012 compared to \$108.8 million during the third quarter of 2011 driven by lower volumes in both markets and lower pricing. Net sales for the Specialty Chemicals product line decreased \$16.1 million to \$127.3 million during the third quarter of 2012 compared to \$143.4 million during the third quarter of 2011 driven by a decline in volumes, unfavorable foreign currency translation and lower pricing, partially offset by increased sales in oil and gas drilling chemicals and tape adhesives.

In the first nine months of 2012, Performance Chemicals' net sales decreased \$35.5 million to \$675.0 million compared to \$710.5 million during the first nine months of 2011. The decrease was primarily due to volume decreases

and unfavorable foreign currency translation effects partially offset by positive pricing actions, primarily in the first half of 2012. Net sales for the Paper and Carpet Chemicals product line decreased \$22.1 million to \$268.4 million during the first nine months of 2012 compared to \$290.5 million during the first nine months of 2011 driven by volume decreases which were partially offset by positive pricing actions. Net sales for the Specialty Chemicals product line decreased \$13.4 million to \$406.6 million during the first nine months of 2012 compared to \$420.0 million during the first nine months of 2011 driven by a decline in volumes and unfavorable foreign currency translation, partially offset by positive pricing actions.

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Performance Chemicals' gross profit was \$43.2 million with a gross profit margin of 19.8% during the third quarter of 2012 and \$138.3 million with a gross profit margin of 20.5% in the first nine months of 2012 compared to \$40.5 million with a gross profit margin of 16.0% in the third quarter of 2011 and \$131.1 million with a gross profit margin of 18.5% in the first nine months of 2011. The improvement in gross profit margin in the third quarter of 2012 was primarily due to better sales mix and lower raw material costs, which were partially offset by lower pricing and decreased volumes. The improvement in the first nine months of 2012 was primarily due to better sales mix and positive pricing actions, partially offset by lower volumes and higher raw material costs.

This segment generated an operating profit of \$22.0 million in the third quarter of 2012 compared to \$17.2 million in the third quarter of 2011. The increase in segment operating profit was primarily due to better sales mix and lower raw material costs, partially offset by lower volumes and pricing. The segment operating profit also includes items which management excludes when evaluating the results of the Company's segments. Those items for the third quarter of 2011 include a trade receivable allowance charge of \$2.6 million.

This segment generated an operating profit of \$71.1 million in the first nine months of 2012 compared to \$62.5 million in the first nine months of 2011. The increase in segment operating profit was primarily due to pricing actions, partially offset by higher raw material costs and lower volumes. The 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 2011 include \$2.7 million due to a one-time fair value adjustment for ELIOKEM inventory, a trade receivable allowance charge of \$2.6 million and workforce reduction costs for ELIOKEM of \$1.0 million.

Decorative Products

Decorative Products' net sales increased \$6.7 million, or 10.7%, to \$69.5 million in the third quarter of 2012 from \$62.8 million in the third quarter of 2011 primarily due to increased volumes and positive pricing actions. Coated Fabrics net sales were \$33.1 million in the third quarter of 2012 compared to \$31.3 million in the third quarter of 2011 as sales improved in the transportation, contract upholstery markets. Net sales for the Laminates and Performance Films product lines were \$36.4 million during the third quarter of 2012 compared to \$31.5 million during the third quarter of 2011. Laminate product line sales increased \$5.5 million as sales improved in the flooring and furniture and fixtures markets while the Performance Film product line sales declined \$0.6 million on weakness in industrial applications partially offset by improvements in medical applications.

Decorative Products' net sales increased \$7.4 million to \$196.6 million in the first nine months of 2012 from \$189.2 million in the first nine months of 2011 primarily due to positive pricing actions and increased volumes. Coated Fabrics net sales were \$96.4 million in the first nine months of 2012 compared to \$91.3 million in the first nine months of 2011 as sales improved in the transportation, contract upholstery and marine markets. Net sales for the Laminates and Performance Films product lines were \$100.2 million during the first nine months of 2012 compared to \$97.9 million during the first nine months of 2011. Laminate product line sales increased \$9.1 million as sales improved in furniture, fixtures, flooring and recreational vehicle markets partially offset by decreases in home furnishing and interior construction markets. Performance Film product line sales declined \$6.8 million on weakness in pool liner, medical and industrial applications.

Decorative Products' gross profit was \$14.6 million with a gross profit margin of 21.0% during the third quarter of 2012 compared to \$9.9 million and a gross profit margin of 15.8% in the third quarter of 2011. Decorative Products' gross profit was \$40.5 million with a gross profit margin of 20.6% during the first nine months of 2012 compared to \$31.7 million and a gross profit margin of 16.8% in the first nine months of 2011. The improvement for both the third quarter and first nine months of 2012 was primarily due to increased volumes and positive pricing actions.

Segment operating profit was \$3.0 million for the third quarter of 2012 compared to a loss of \$2.5 million for the third quarter of 2011. The third quarter of 2012 includes favorable volume and positive pricing actions, partially offset by higher manufacturing and selling costs compared to the prior year. Segment operating profit also includes items which management excludes when evaluating the results of the Company's segments. Those items for the third quarter of 2012 include asset impairment and other charges of \$0.3 million while the third quarter of 2011 includes asset impairment and other charges of \$2.5 million.

Segment operating profit was \$6.8 million for the first nine months of 2012 compared to a loss of \$2.1 million for the first nine months of 2011. The improvement was primarily due to positive pricing actions, higher volumes and lower

raw material costs, partially offset by higher manufacturing and selling expenses. 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 2012 include workforce reduction costs of \$0.5 million and asset impairment and other charges of \$0.8 million. Those items for the first nine months of 2011 include asset impairment charges of \$2.4 million, a tax indemnification charge of \$0.2 million and workforce reduction costs of \$0.3 million.

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Corporate

Corporate expenses were \$5.9 million in the third quarter of 2012 compared to \$2.0 million in the third quarter of 2011 and \$15.8 million in the first nine months of 2012 compared to \$9.4 million in the first nine months of 2011. The increase is primarily due to increased staffing and employment costs, information technology enhancements and outside services.

Financial Resources

| | Nine Months Ended August 31, | | |
|---|------------------------------|----------|----------|
| | 2012 | 2011 | Change |
| Cash provided by (used in) operating activities | \$55.0 | \$(8.2) | \$63.2 |
| Cash used in investing activities | \$(6.9) | \$(33.1) | \$26.2 |
| Cash (used in) provided by financing activities | \$(2.4) | \$49.7 | \$(52.1) |
| Increase in cash and cash equivalents | \$46.6 | \$19.2 | \$27.4 |

Cash provided by operating activities was \$55.0 million in the nine months ended August 31, 2012 compared to cash used of \$8.2 million in the nine months ended August 31, 2011. Cash provided by operations increased in 2012 primarily due to improved profitability and a reduction of funds used for working capital. Accounts receivable decreased as the Company's Days Sales Outstanding ("DSO") declined from 47.9 days at November 30, 2011 to 46.7 days at August 31, 2012. Additionally, during 2012, the Company contributed \$16.0 million to its pension trust to moderate its expected funding contributions over the next several years, to reduce its Pension Benefit Guaranty Corporation ("PBGC") premiums and to reduce expected annual pension expense.

Cash used in investing activities was \$6.9 million in the nine months ended August 31, 2012, compared to cash used of \$33.1 million in the nine months ended August 31, 2011. Included in 2012 is \$12.3 million of proceeds from the sale of the Company's wallcovering businesses. Included in 2011 is the cash paid for the acquisition of ELIOKEM of \$299.8 million, less cash acquired in the businesses of \$30.1 million. Also included in 2011 was the use of \$253.2 million of restricted cash, which primarily consisted of \$250.0 million in proceeds from the issuance of the Senior Notes, which was placed in an escrow account in November 2010 until the completion of the acquisition of ELIOKEM and refinancing of the Company's existing debt on December 9, 2010. Additionally, the Company incurred \$19.6 million of capital expenditures in the nine months ended August 31, 2012 compared to \$15.5 million in the nine months ended August 31, 2011. The Company expects to spend approximately \$25.0 million—\$30.0 million for capital expenditures during 2012. Capital expenditures were made and are planned principally for asset replacement, new product capability, cost reduction, safety and productivity improvements and environmental protection.

Cash used in financing activities in the nine months ended August 31, 2012 was \$2.4 million which was primarily due to debt repayments of \$3.0 million. Cash provided by financing activities in the nine months ended August 31, 2011 was \$49.7 million due to the refinancing and increase of the Company's Term Loan B from \$140.9 million to \$200 million. This increase was used to complete the acquisition of ELIOKEM. Total debt was \$454.0 million as of August 31, 2012, which includes the Senior Notes, \$196.5 million for the Term Loan and \$7.5 million of foreign debt, compared to \$457.3 million as of November 30, 2011. The Company's cash balance of \$145.5 million, excluding restricted cash of \$5.5 million, at August 31, 2012 consists of \$100.6 million in the U.S., \$18.9 million in Europe and \$26.0 million in Asia. The Company is not aware of any restrictions regarding the repatriation of its non-U.S. cash.

Debt

Please refer to Note E to the Unaudited 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 reviews its estimates and judgments including those related to product returns, accounts receivable, inventories, warranty obligations, 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

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be reasonable under the circumstances. Actual results may differ materially from these estimates and judgments under different assumptions.

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 of the Company's Annual Report on Form 10-K for the year ended November 30, 2011, 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, 2012 reflects reserves for environmental remediation of \$0.6 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, 2012, the Company employed approximately 2,360 employees at offices, plants and other facilities located principally throughout the United States, France, China, India and Thailand. Approximately 10.0% or 236 of the Company's employees are covered by collective bargaining agreements in the United States. In addition, certain of our foreign employees are also covered by collective bargaining agreements.

New Accounting Pronouncements

Please refer to Note A to the Unaudited Consolidated Financial Statements for a discussion of accounting standards adopted in 2012 and accounting standards not yet adopted.

Forward-Looking Statements

This quarterly report on Form 10-Q includes "forward-looking statements" as defined by federal securities laws. These statements, as well as any verbal statements by the Company in connection with this quarterly report, 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, sales, profits, earnings, markets, products, technology, operations, customers, raw materials, 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," "targets," "optimistic," "could," and similar expressions or phrases identify forward-looking statements.

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. The occurrence of 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 results and, in some cases, such effect could be material. Certain risk factors facing the Company are described below or elsewhere in this Form 10-Q.

All written and verbal 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 herein. Any forward-looking statement speaks only as of the date on which such 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 forward-looking statements whether as a result of new information, future events or otherwise.

Risks and uncertainties that may cause actual results to differ materially from expected results include, among others: economic trends and conditions affecting the economy in general and/or the Company's end-use markets; prices and

availability of raw materials including styrene, butadiene, vinyl acetate monomer, polyvinyl chloride, acrylonitrile, acrylics and textiles; ability to increase pricing to offset raw material cost increases; product substitution and/or demand destruction due to product technology, performance or cost disadvantages; high degree of customer concentration and potential loss of a significant customer; supplier, customer and/or competitor consolidation; customer credit and bankruptcy risk; failure to

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successfully develop and commercialize new products; a decrease in regional customer demand due to reduced in-region production or increased import competition; risks associated with international operations including political unrest, fluctuations in exchange rates, and regulatory uncertainty; failure to successfully implement productivity enhancement and cost reduction initiatives; risks associated with chemical handling and manufacturing and with acts of war, terrorism, natural disasters or accidents, including fires, floods, explosions and releases of hazardous substances; unplanned full or partial suspension of plant operations; ability to comply, and cost of compliance with legislative and regulatory changes, including changes impacting environmental, health and safety compliance and changes which may restrict or prohibit the Company from using or selling certain products and raw materials; losses from the Company's strategic alliance, joint venture, acquisition, integration and operational activities; rapid inflation in health care costs; loss of key employees and inability to attract and retain new key employees; prolonged work stoppage resulting from labor disputes with unionized workforce; changes in, and significant contributions required to meet pension plan funding obligations; attacks on and/or failure of the Company's information systems; infringement or loss of the Company's intellectual property; litigation and claims against the Company related to products, services, contracts, employment, environmental, safety, intellectual property and other matters; adverse litigation judgments or settlements; absence of or inadequacy of insurance coverage for litigation judgments, settlements or other losses; stock price volatility; availability of financing at anticipated rates and terms; and loan covenant default arising from substantial debt and leverage and the inability to service that debt, including increases in applicable short-term or long-term borrowing rates.

For further information on risks and uncertainties, see the Company's Annual Report on Form 10-K for the year ended November 30, 2011.

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 E to the Unaudited Consolidated Financial Statements, the Company's new Term Loan Facility and non-domestic borrowings bear interest at various rates. Borrowings under the new Term Loan and the Facility were \$196.5 million as of August 31, 2012. Non-domestic borrowings with banks were \$7.5 million as of August 31, 2012. The weighted average effective interest rate of the Company's outstanding debt was 6.95% as of August 31, 2012. A hypothetical increase or decrease of 100 basis points would impact the Company's interest expense on its variable rate debt by approximately \$2.0 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 \$7.2 million as of August 31, 2012, 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, 2012, and based on this evaluation, has determined that the Company's disclosure controls and procedures are effective as of such date. Other than described above, there were no changes in the Company's internal control over financial reporting during the quarter ended August 31, 2012 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, 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 such 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.

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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, 2011. 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 flow.

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Item 6. Exhibits

a.) Exhibits

- 12.1 Ratio of Earnings to fixed charges.
- 31.1 Principal Executive Officer's Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Principal Financial Officer's Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following financial information from our Quarterly Report on Form 10-Q for the third quarter of 2012, filed with the SEC on September 26, 2012, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations for the three and nine months ended August 31, 2012; (ii) the Consolidated Statements of Financial Position at August 31, 2012 and November 30, 2011; (iii) the Consolidated Statements of Cash Flows for the three and nine months ended August 31, 2012; and (iv) the Notes to the Unaudited Interim Consolidated Financial Statements.

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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 26, 2012

By /s/ Michael E. Hicks
Michael E. Hicks
Senior Vice President and Chief Financial
Officer
(Principal Financial Officer and Principal
Accounting Officer)

Date: September 26, 2012

By /s/ James C. LeMay
James C. LeMay
Senior Vice President, Corporate Development;
General Counsel (Duly Authorized Officer)

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INDEX TO EXHIBITS

| Exhibit Number | Description |
|----------------|--|
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