Stellus Capital Investment Corp
Form 40-17G
November 08, 2013

November 7, 2013

VIA EDGAR

U.S. Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C. 20549

Re: Stellus Capital Investment Corporation
File No. 814-00971
Rule 17g-1(g) Fidelity Bond Filing

Ladies and Gentlemen:

On behalf of Stellus Capital Investment Corporation (the "***Company***"), enclosed herewith for filing, pursuant to Rule 17g-1(g) under the Investment Company Act of 1940, as amended (the "***1940 Act***"), are the following:

1. A copy of the Company's Fidelity Bond in the amount of $1,000,000 (the "***Bond***");

2. A copy of the resolutions approved by unanimous written consent on November 4, 2013 by the Board of Directors of the Company at which a majority of the directors who are not "interested persons" of the Company as defined under Section 2(a)(19) of the 1940 Act approved the amount, type, form and coverage of the Bond; and

3. A copy of the Single-Insured Investment Bond Agreement, effective November 7, 2013, pursuant to Rule 17g-1(g) under the 1940 Act.

The premium was paid for the period beginning November 7, 2013 and ending November 7, 2014.

If you have any questions regarding this submission, please do not hesitate to call me at (713) 292-5414.

/s/ W. Todd Huskinson
W. Todd Huskinson

Chief Financial Officer, Chief Compliance Officer, Treasurer and Secretary of the Company

CERTIFICATE OF SECRETARY

The undersigned, W. Todd Huskinson, Secretary of Stellus Capital Investment Corporation, a Maryland corporation (the “***Company***”), does hereby certify that:

1. This certificate is being delivered to the Securities and Exchange Commission (the “***SEC***”) in connection with the filing of the Company’s fidelity bond (the “***Bond***”) pursuant to Rule 17g-1 of the Investment Company Act of 1940, as amended, and the SEC is entitled to rely on this certificate for purposes of the filing.

2. The undersigned is the duly elected, qualified and acting Secretary of the Company, and has custody of the corporate records of the Company and is a proper officer to make this certification.

3. Attached hereto as Exhibit A is a copy of the resolution approved by the Board of Directors of the Company, including a majority of the Board of the Directors who are not “interested persons” of the Company, approving the amount, type, form and coverage of the Bond.

4. Premiums have been paid for the period November 7, 2013 to November 7, 2014.

IN WITNESS WHEREOF, the undersigned has caused this certificate to be executed this 7th day of November, 2013.

/s/ W. Todd Huskinson
W. Todd Huskinson
Secretary

<u>EXHIBIT A</u>

<u>Approval of Fidelity Bond</u>

WHEREAS, Section 17(g) of the 1940 Act and Rule 17g-1(a) thereunder require a BDC, such as the Company, to provide and maintain a bond which has been issued by a reputable fidelity insurance company authorized to do business in the place where the bond is issued, to protect the Company against larceny and embezzlement, covering each officer and employee of the BDC who may singly, or jointly with others, have access to the securities or funds of the BDC, either directly or through authority to draw upon such funds of, or to direct generally, the disposition of such securities, unless the officer or employee has such access solely through his position as an officer or employee of a bank (each, a *"**covered person**"*);

WHEREAS, Rule 17g-1 under the 1940 Act specifies that the bond may be in the form of (i) an individual bond for each covered person, or a schedule or blanket bond covering such persons, (ii) a blanket bond which names the Company as the only insured (a *"**single insured bond**"*), or (iii) a bond which names the Company and one or more other parties as insureds (a *"**joint insured bond**"*), as permitted by Rule 17g-1 under the 1940 Act;

WHEREAS, Rule 17g-1 under the 1940 Act requires that a majority of the Non-Interested Directors approve periodically (but not less than once every 12 months) the reasonableness of the form and amount of the bond, with due consideration to the value of the aggregate assets of the Company to which any covered person may have access, the type and terms of the arrangements made for the custody and safekeeping of such assets, and the nature of securities and other investments to be held by the Company, and pursuant to factors contained in Rule 17g-1 under the 1940 Act, which are described in the accompanying memorandum attached hereto; and

WHEREAS, under Rule 17g-1 under the 1940 Act, the Company is required to make certain filings with the SEC and give certain notices to each member of the Board of Directors in connection with the bond, and designate an officer who shall make such filings and give such notices.

NOW, THEREFORE, BE IT RESOLVED, that, having considered the expected aggregate value of the securities and funds of the Company to which officers or employees of the Company may have access (either directly or through authority to draw upon such funds or to direct generally the disposition of such securities), the type and terms of the arrangements made for the custody of such securities and funds, the nature of securities and other investments to be held by the Company, the accounting procedures and controls of the Company, the nature and method of conducting the operations of the Company and the requirements of Section 17(g) of the 1940 Act and Rule 17g-1 thereunder, the Board, including a majority of the Non-Interested Directors, hereby determines that the amount, type, form, premium and coverage of the fidelity bond (the *"**Fidelity Bond**"*), covering the officers and employees of the Company and insuring the Company against loss from fraudulent or dishonest acts, including larceny and embezzlement, issued by Chubb and its affiliates having an aggregate coverage of $1,000,00 are fair and reasonable;

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed to take all appropriate actions, with the advice of legal counsel to the Company, to provide and maintain the Fidelity Bond on behalf of the Company;

FURTHER RESOLVED, that the Chief Compliance Officer of the Company be and hereby is, designated as the party responsible for making the necessary filings and giving the notices with respect to such bond required by paragraph (g) of Rule 17g-1 under the 1940 Act;

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed to file a copy of the Fidelity Bond and any other related document or instrument with the SEC;

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed, in the name and on behalf of the Company, to make or cause to be made, and to execute and deliver, all such additional agreements, documents, instruments and certifications and to take all such steps, and to make all such payments, fees and remittances, as any one or more of such officers may at any time or times deem necessary or desirable in order to effectuate the purpose and intent of the foregoing resolutions; and

FURTHER RESOLVED, that any and all actions previously taken by the Company or any of its directors, Authorized Officers or other employees in connection with the documents, and actions contemplated by the foregoing resolutions be, and they hereby are, ratified, confirmed, approved and adopted in all respects as and for the acts and deeds of the Company.

Chubb Group of Insurance Companies

15 Mountain View Road, Warren, New Jersey 07059

DECLARATIONS
FINANCIAL INSTITUTION INVESTMENT

COMPANY ASSET PROTECTION BOND

NAME OF ASSURED (including its **Subsidiaries**):

STELLUS CAPITAL INVESTMENT CORPORATION

4400 POST OAK PARKWAY, SUITE 2200

HOUSTON, TX 77027

Bond Number: 82341048

FEDERAL INSURANCE COMPANY

Incorporated under the laws of Indiana
a stock insurance company herein called the COMPANY
Capital Center, 251 North Illinois, Suite 1100
Indianapolis, IN
46204-1927

ITEM 1. BOND PERIOD: from 12:01 a.m. onNovember 7, 2013
to 12:01 a.m. onNovember 7, 2014

ITEM 2. LIMITS OF LIABILITY--DEDUCTIBLE AMOUNTS:

If "Not Covered" is inserted below opposite any specified INSURING CLAUSE, such INSURING CLAUSE and any other reference shall be deemed to be deleted. **There shall be no deductible applicable to any loss under INSURING CLAUSE 1. sustained by any Investment Company.**

INSURING CLAUSE	LIMIT OF LIABILITY	DEDUCTIBLE AMOUNT
1. Employee	$ 1,000,000	$ 0
2. On Premises	$ 1,000,000	$ 10,000
3. In Transit	$ 1,000,000	$ 10,000
4. Forgery or Alteration	$ 1,000,000	$ 10,000
5. Extended Forgery	$ 1,000,000	$ 10,000
6. Counterfeit Money	$ 1,000,000	$ 10,000
7. Threats to Person	$ 1,000,000	$ 10,000
8. Computer System	$ 1,000,000	$ 10,000
9. Voice Initiated Funds Transfer Instruction	$ 1,000,000	$ 10,000
10. Uncollectible Items of Deposit	$ 1,000,000	$ 10,000

11.	Audit Expense	$	25,000	$ 0

ITEM 3. THE LIABILITY OF THE COMPANY IS ALSO SUBJECT TO THE TERMS OF THE FOLLOWING ENDORSEMENTS EXECUTED SIMULTANEOUSLY HEREWITH:

1-7

IN WITNESS WHEREOF, THE COMPANY has caused this Bond to be signed by its authorized officers, but it shall not be valid unless also signed by an authorized representative of the Company.

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The COMPANY, in consideration of payment of the required premium, and in reliance on the APPLICATION and all other statements made and information furnished to the COMPANY by the ASSURED, and subject to the DECLARATIONS made a part of this Bond and to all other terms and conditions of this Bond, agrees to pay the ASSURED for:

Insuring Clauses

Employee

1. Loss resulting directly from **Larceny** or **Embezzlement** committed by any **Employee**, alone or in collusion with others.

On Premises

2. Loss of **Property** resulting directly from robbery, burglary, false pretenses, common law or statutory larceny, misplacement, mysterious unexplainable disappearance, damage, destruction or removal, from the possession, custody or control of the ASSURED, while such **Property** is lodged or deposited at premises located anywhere.

In Transit

3. Loss of **Property** resulting directly from common law or statutory larceny, misplacement, mysterious unexplainable disappearance, damage or destruction, while the **Property** is in transit anywhere:

a. in an armored motor vehicle, including loading and unloading thereof,

b. in the custody of a natural person acting as a messenger of the ASSURED, or

c. in the custody of a **Transportation Company** and being transported in a conveyance other than an armored motor vehicle provided, however, that covered **Property** transported in such manner is limited to the following:

(1) written records,

(2) securities issued in registered form, which are not endorsed or are restrictively endorsed, or

(3) negotiable instruments not payable to bearer, which are not endorsed

or are restrictively endorsed.

Coverage under this INSURING CLAUSE begins immediately on the receipt of such **Property** by the natural person or **Transportation Company** and ends immediately on delivery to the premises of the addressee or to any representative of the addressee located anywhere.

Insuring Clauses
(continued)

Forgery Or Alteration

4. Loss resulting directly from:
   a. **Forgery** on, or fraudulent material alteration of, any bills of exchange, checks, drafts, acceptances, certificates of deposits, promissory notes, due bills, money orders, orders upon public treasuries, letters of credit, other written promises, orders or directions to pay sums certain in money, or receipts for the withdrawal of **Property**, or

   b. transferring, paying or delivering any funds or other **Property**, or establishing any credit or giving any value in reliance on any written instructions, advices or applications directed to the ASSURED authorizing or acknowledging the transfer, payment, delivery or receipt of funds or other **Property**, which instructions, advices or applications fraudulently purport to bear the handwritten signature of any customer of the ASSURED, or shareholder or subscriber to shares of an **Investment Company**, or of any financial institution or **Employee** but which instructions, advices or applications either bear a **Forgery** or have been fraudulently materially altered without the knowledge and consent of such customer, shareholder, subscriber, financial institution or **Employee**;

excluding, however, under this INSURING CLAUSE any loss covered under INSURING CLAUSE 5. of this Bond, whether or not coverage for INSURING CLAUSE 5. is provided for in the DECLARATIONS of this Bond.

For the purpose of this INSURING CLAUSE, a mechanically reproduced facsimile signature is treated the same as a handwritten signature.

Extended Forgery

5. Loss resulting directly from the ASSURED having, in good faith, and in the ordinary course of business, for its own account or the account of others in any capacity:

   a. acquired, accepted or received, accepted or received, sold or delivered, or given value, extended credit or assumed liability, in reliance on any original **Securities, documents or other written instruments** which prove to:

(1) bear a **Forgery** or a fraudulently material alteration,

(2) have been lost or stolen, or

(3) be **Counterfeit**, or

b. guaranteed in writing or witnessed any signatures on any transfer, assignment, bill of sale, power of attorney, guarantee, endorsement or other obligation upon or in connection with any **Securities, documents or other written instruments**.

Actual physical possession, and continued actual physical possession if taken as collateral, of such **Securities, documents or other written instruments** by an **Employee, Custodian**, or a Federal or State chartered deposit institution of the ASSURED is a condition precedent to the ASSURED having relied on such items. Release or return of such collateral is an acknowledgment by the ASSURED that it no longer relies on such collateral.

Insuring Clauses

Extended Forgery (continued)

For the purpose of this INSURING CLAUSE, a mechanically reproduced facsimile signature is treated the same as a handwritten signature.

Counterfeit Money

6. Loss resulting directly from the receipt by the ASSURED in good faith of any **Counterfeit** money.

Threats To Person

7. Loss resulting directly from surrender of **Property** away from an office of the ASSURED as a result of a threat communicated to the ASSURED to do bodily harm to an **Employee** as defined in Section 1.e. (1), (2) and (5), a **Relative** or invitee of such **Employee**, or a resident of the household of such **Employee**, who is, or allegedly is, being held captive provided, however, that prior to the surrender of such **Property**:

   a. the **Employee** who receives the threat has made a reasonable effort to notify an officer of the ASSURED who is not involved in such threat, and

   b. the ASSURED has made a reasonable effort to notify the Federal Bureau of Investigation and local law enforcement authorities concerning such threat.

   It is agreed that for purposes of this INSURING CLAUSE, any **Employee** of the ASSURED, as set forth in the preceding paragraph, shall be deemed to be an ASSURED hereunder, but only with respect to the surrender of money, securities and other tangible personal property in which such **Employee** has a legal or equitable interest.

Computer System

8. Loss resulting directly from fraudulent:

   a. entries of data into, or

   b. changes of data elements or programs within,

   a **Computer System**, provided the fraudulent entry or change causes:

   (1) funds or other property to be transferred, paid or delivered,

(2) an account of the ASSURED or of its customer to be added, deleted, debited or credited, or

(3) an unauthorized account or a fictitious account to be debited or credited.

Insuring Clauses
(continued)

Voice Initiated Funds Transfer Instruction

9. Loss resulting directly from **Voice Initiated Funds Transfer Instruction** directed to the ASSURED authorizing the transfer of dividends or redemption proceeds of **Investment Company** shares from a **Customer's** account, provided such **Voice Initiated Funds Transfer Instruction** was:

a. received at the ASSURED'S offices by those **Employees** of the ASSURED specifically authorized to receive the **Voice Initiated Funds Transfer Instruction**,

b. made by a person purporting to be a **Customer**, and

c. made by said person for the purpose of causing the ASSURED or **Customer** to sustain a loss or making an improper personal financial gain for such person or any other person.

In order for coverage to apply under this INSURING CLAUSE, all **Voice Initiated Funds Transfer Instructions** must be received and processed in accordance with the Designated Procedures outlined in the APPLICATION furnished to the COMPANY.

Uncollectible Items of Deposit

10. Loss resulting directly from the ASSURED having credited an account of a customer, shareholder or subscriber on the faith of any **Items of Deposit** which prove to be uncollectible, provided that the crediting of such account causes:

a. redemptions or withdrawals to be permitted,

b. shares to be issued, or

c. dividends to be paid,

from an account of an **Investment Company**.

In order for coverage to apply under this INSURING CLAUSE, the ASSURED must hold **Items of Deposit** for the minimum number of days stated in the APPLICATION before permitting any redemptions or withdrawals, issuing any shares or paying any dividends with respect to such **Items of Deposit**.

Items of Deposit shall not be deemed uncollectible until the ASSURED'S standard collection procedures have failed.

Audit Expense

11. Expense incurred by the ASSURED for that part of the cost of audits or examinations required by any governmental regulatory authority or self-regulatory organization to be conducted by such authority, organization or their appointee by reason of the discovery of loss sustained by the ASSURED and covered by this Bond.

General Agreements

Additional Companies Included As Assured

A. If more than one corporation, or **Investment Company**, or any combination of them is included as the ASSURED herein:

(1) The total liability of the COMPANY under this Bond for loss or losses sustained by any one or more or all of them shall not exceed the limit for which the COMPANY would be liable under this Bond if all such loss were sustained by any one of them.

(2) Only the first named ASSURED shall be deemed to be the sole agent of the others for all purposes under this Bond, including but not limited to the giving or receiving of any notice or proof required to be given and for the purpose of effecting or accepting any amendments to or termination of this Bond. The COMPANY shall furnish each **Investment Company** with a copy of the Bond and with any amendment thereto, together with a copy of each formal filing of claim by any other named ASSURED and notification of the terms of the settlement of each such claim prior to the execution of such settlement.

(3) The COMPANY shall not be responsible for the proper application of any payment made hereunder to the first named ASSURED.

(4) Knowledge possessed or discovery made by any partner, director, trustee, officer or supervisory employee of any ASSURED shall constitute knowledge or discovery by all the ASSUREDS for the purposes of this Bond.

(5) If the first named ASSURED ceases for any reason to be covered under this Bond, then the ASSURED next named on the APPLICATION shall thereafter be considered as the first named ASSURED for the purposes of this Bond.

Representation Made By Assured

B. The ASSURED represents that all information it has furnished in the APPLICATION for this Bond or otherwise is complete, true and correct. Such APPLICATION and other information constitute part of this Bond.

The ASSURED must promptly notify the COMPANY of any change in any fact or circumstance which materially affects the risk assumed by the COMPANY under this Bond.

Any intentional misrepresentation, omission, concealment or incorrect statement of a material fact, in the APPLICATION or otherwise, shall be grounds for recision of this Bond.

General Agreements
(continued)

Additional Offices Or Employees - Consolidation, Merger Or Purchase Or Acquisition Of Assets Or Liabilities - Notice To Company

C. If the ASSURED, other than an **Investment Company**, while this Bond is in force, merges or consolidates with, or purchases or acquires assets or liabilities of another institution, the ASSURED shall not have the coverage afforded under this Bond for loss which has:

(1) occurred or will occur on premises, or

(2) been caused or will be caused by an employee, or

(3) arisen or will arise out of the assets or liabilities,

of such institution, unless the ASSURED:

a. gives the COMPANY written notice of the proposed consolidation, merger or purchase or acquisition of assets or liabilities prior to the proposed effective date of such action, and

b. obtains the written consent of the COMPANY to extend some or all of the coverage provided by this Bond to such additional exposure, and

c. on obtaining such consent, pays to the COMPANY an additional premium.

Change Of Control - Notice To Company

D. When the ASSURED learns of a change in control (other than in an **Investment Company**), as set forth in Section 2(a) (9) of the Investment Company Act of 1940, the ASSURED shall within sixty (60) days give written notice to the COMPANY setting forth:

(1) the names of the transferors and transferees (or the names of the beneficial owners if the voting securities are registered in another name),

(2) the total number of voting securities owned by the transferors and the transferees (or the beneficial owners), both immediately before and after the transfer, and

(3) the total number of outstanding voting securities.

Failure to give the required notice shall result in termination of coverage for any loss involving a transferee, to be effective on the date of such change in control.

Court Costs And Attorneys' Fees

E. The COMPANY will indemnify the ASSURED for court costs and reasonable attorneys' fees incurred and paid by the ASSURED in defense, whether or not successful, whether or not fully litigated on the merits and whether or not settled, of any claim, suit or legal proceeding with respect to which the ASSURED would be entitled to recovery under this Bond. However, with respect to INSURING CLAUSE 1., this Section shall only apply in the event that:

(1) an **Employee** admits to being guilty of **Larceny or Embezzlement**,

(2) an **Employee** is adjudicated to be guilty of **Larceny or Embezzlement**, or

General Agreements

Court Costs And Attorneys' Fees (continued)

(3) in the absence of 1 or 2 above, an arbitration panel agrees, after a review of an agreed statement of facts between the COMPANY and the ASSURED, that an **Employee** would be found guilty of **Larceny or Embezzlement** if such **Employee** were prosecuted.

The ASSURED shall promptly give notice to the COMPANY of any such suit or legal proceeding and at the request of the COMPANY shall furnish copies of all pleadings and pertinent papers to the COMPANY. The COMPANY may, at its sole option, elect to conduct the defense of all or part of such legal proceeding. The defense by the COMPANY shall be in the name of the ASSURED through attorneys selected by the COMPANY. The ASSURED shall provide all reasonable information and assistance as required by the COMPANY for such defense.

If the COMPANY declines to defend the ASSURED, no settlement without the prior written consent of the COMPANY nor judgment against the ASSURED shall determine the existence, extent or amount of coverage under this Bond.

If the amount demanded in any such suit or legal proceeding is within the DEDUCTIBLE AMOUNT, if any, the COMPANY shall have no liability for court costs and attorney's fees incurred in defending all or part of such suit or legal proceeding.

If the amount demanded in any such suit or legal proceeding is in excess of the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS for the applicable INSURING CLAUSE, the COMPANY'S liability for court costs and attorney's fees incurred in defending all or part of such suit or legal proceedings is limited to the proportion of such court costs and attorney's fees incurred that the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS for the applicable INSURING CLAUSE bears to the total of the amount demanded in such suit or legal proceeding.

If the amount demanded is any such suit or legal proceeding is in excess of the DEDUCTIBLE AMOUNT, if any, but within the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS for the applicable INSURING CLAUSE, the COMPANY'S liability for court costs and attorney's fees incurred in defending all or part of such suit or legal proceedings shall be limited to the proportion of such court costs or attorney's fees that the amount demanded that would be payable under this Bond after application of the DEDUCTIBLE AMOUNT, bears to the total amount demanded.

Amounts paid by the COMPANY for court costs and attorneys' fees shall be in addition to the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS.

Conditions And Limitations

Definitions

1. As used in this Bond:

a. **Computer System** means a computer and all input, output, processing, storage, off-line media libraries, and communication facilities which are connected to the computer and which are under the control and supervision of the operating system(s) or application(s) software used by the ASSURED.

b. **Counterfeit** means an imitation of an actual valid original which is intended to deceive and be taken as the original.

c. **Custodian** means the institution designated by an **Investment Company** to maintain possession and control of its assets.

d. **Customer** means an individual, corporate, partnership, trust customer, shareholder or subscriber of an **Investment Company** which has a written agreement with the ASSURED for **Voice Initiated Funds Transfer Instruction**.

e. **Employee** means:

(1) an officer of the ASSURED,

(2) a natural person while in the regular service of the ASSURED at any of the ASSURED'S premises and compensated directly by the ASSURED through its payroll system and subject to the United States Internal Revenue Service Form W-2 or equivalent income reporting plans of other countries, and whom the ASSURED has the right to control and direct both as to the result to be accomplished and details and means by which such result is accomplished in the performance of such service,

(3) a guest student pursuing studies or performing duties in any of the ASSURED'S premises,

(4) an attorney retained by the ASSURED and an employee of such

attorney while either is performing legal services for the ASSURED,

(5) a natural person provided by an employment contractor to perform employee duties for the ASSURED under the ASSURED'S supervision at any of the ASSURED'S premises,

(6) an employee of an institution merged or consolidated with the ASSURED prior to the effective date of this Bond,

(7) a director or trustee of the ASSURED, but only while performing acts within the scope of the customary and usual duties of any officer or other employee of the ASSURED or while acting as a member of any committee duly elected or appointed to examine or audit or have custody of or access to **Property** of the ASSURED, or

Conditions And Limitations

Definitions (continued)

(8) each natural person, partnership or corporation authorized by written agreement with the ASSURED to perform services as electronic data processor of checks or other accounting records related to such checks but only while such person, partnership or corporation is actually performing such services and not:

a. creating, preparing, modifying or maintaining the ASSURED'S computer software or programs, or

b. acting as transfer agent or in any other agency capacity in issuing checks, drafts or securities for the ASSURED,

(9) any partner, officer or employee of an investment advisor, an underwriter (distributor), a transfer agent or shareholder accounting recordkeeper, or an administrator, for an **Investment Company** while performing acts coming within the scope of the customary and usual duties of an officer or employee of an **Investment Company** or acting as a member of any committee duly elected or appointed to examine, audit or have custody of or access to **Property** of **an Investment Company**.

The term **Employee** shall not include any partner, officer or employee of a transfer agent, shareholder accounting recordkeeper or administrator:

a. which is not an "affiliated person" (as defined in Section 2(a) of the Investment Company Act of 1940) of an **Investment Company** or of the investment advisor or underwriter (distributor) of such **Investment Company**, or

b. which is a "bank" (as defined in Section 2(a) of the Investment Company Act of 1940).

This Bond does not afford coverage in favor of the employers of persons as set forth in e. (4), (5) and (8) above, and upon payment to the ASSURED by the COMPANY resulting directly from **Larceny or Embezzlement** committed by any of the partners, officers or employees of such employers, whether acting alone or in collusion with others, an assignment of such of the ASSURED'S rights and causes of action as it may have against such employers by reason of such acts so committed shall, to the extent of such payment, be given by the ASSURED to the COMPANY, and the ASSURED shall execute all papers necessary to secure to the COMPANY the rights provided for herein.

Each employer of persons as set forth in e.(4), (5) and (8) above and the partners, officers and other employees of such employers shall collectively be deemed to be one person for all the purposes of this Bond; excepting, however, the fifth paragraph of Section 13.

Independent contractors not specified in e.(4), (5) or (8) above, intermediaries, agents, brokers or other representatives of the same general character shall not be considered **Employees**.

Conditions And Limitations

Definitions (continued)

f. **Forgery** means the signing of the name of another natural person with the intent to deceive but does not mean a signature which consists in whole or in part of one's own name, with or without authority, in any capacity for any purpose.

g. **Investment Company** means any investment company registered under the Investment Company Act of 1940 and listed under the NAME OF ASSURED
on the DECLARATIONS.

h. **Items of Deposit** means one or more checks or drafts drawn upon a financial institution in the United States of America.

i. **Larceny or Embezzlement** means larceny or embezzlement as defined in Section 37 of the Investment Company Act of 1940.

j. **Property** means money, revenue and other stamps; securities; including any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of deposit, certificate of interest or participation in any profit-sharing agreement, collateral trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or
other mineral rights, any interest or instruments commonly known as a security under the Investment Company Act of 1940, any other certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase any of the foregoing; bills of exchange; acceptances; checks; withdrawal orders; money orders; travelers' letters of credit; bills of lading; abstracts of title; insurance policies, deeds, mortgages on real estate and/or upon chattels and interests therein; assignments of such policies, deeds or mortgages; other valuable papers, including books of accounts and other records used by the ASSURED in the conduct of its business (but excluding all electronic data processing records); and, all other instruments similar to or in the nature of the foregoing in which the ASSURED acquired an interest at the time of the ASSURED'S consolidation or merger with, or purchase of the principal assets of, a predecessor or which are held by the ASSURED for any purpose or in any capacity and whether so held gratuitously or not and whether or not the ASSURED is liable therefor.

k. **Relative** means the spouse of an **Employee** or partner of the ASSURED and any unmarried child supported wholly by, or living in the home of, such **Employee** or partner and being related to them by blood, marriage or legal guardianship.

l. **Securities, documents or other written instruments** means original (including original counterparts) negotiable or non-negotiable instruments, or
assignments thereof, which in and of themselves represent an equitable interest, ownership, or debt and which are in the ordinary course of business transferable by delivery of such instruments with any necessary endorsements or assignments.

Conditions And Limitations

Definitions

(continued)

m. **Subsidiary** means any organization that, at the inception date of this Bond, is named in the APPLICATION or is created during the BOND PERIOD and of which more than fifty percent (50%) of the outstanding securities or voting rights representing the present right to vote for election of directors is owned or controlled by the ASSURED either directly or through one or more of its subsidiaries.

n. **Transportation Company** means any organization which provides its own or its leased vehicles for transportation or which provides freight forwarding or air express services.

o. **Voice Initiated Election** means any election concerning dividend options available to **Investment Company** shareholders or subscribers which is requested by voice over the telephone.

p. **Voice Initiated Redemption** means any redemption of shares issued by an **Investment Company** which is requested by voice over the telephone.

q. **Voice Initiated Funds Transfer Instruction** means any **Voice Initiated Redemption** or **Voice Initiated Election**.

For the purposes of these definitions, the singular includes the plural and the plural includes the singular, unless otherwise indicated.

General Exclusions - Applicable to All Insuring Clauses

2. **This bond does not directly or indirectly cover:**

a. loss not reported to the COMPANY in writing within sixty (60) days after termination of this Bond as an entirety;

b. loss due to riot or civil commotion outside the United States of America and Canada, or any loss due to military, naval or usurped power, war or insurrection. This Section 2.b., however, shall not apply to loss which occurs

in transit in the circumstances recited in INSURING CLAUSE 3., provided
that when such transit was initiated there was no knowledge on the part of any person acting for the ASSURED of such riot, civil commotion, military,
naval or usurped power, war or insurrection;

c. loss resulting from the effects of nuclear fission or fusion or radioactivity;

d. loss of potential income including, but not limited to, interest and dividends
not realized by the ASSURED or by any customer of the ASSURED;

e. damages of any type for which the ASSURED is legally liable, except compensatory damages, but not multiples thereof, arising from a loss covered under this Bond;

f. costs, fees and expenses incurred by the ASSURED in establishing the existence of or amount of loss under this Bond, except to the extent covered
under INSURING CLAUSE 11.;

g. loss resulting from indirect or consequential loss of any nature;

Conditions And Limitations

General Exclusions - Applicable to All Insuring Clauses (continued)

h. loss resulting from dishonest acts by any member of the Board of Directors or Board of Trustees of the ASSURED who is not an **Employee**, acting alone or in collusion with others;

i. loss, or that part of any loss, resulting solely from any violation by the ASSURED or by any **Employee**:
   (1) of any law regulating:
      a. the issuance, purchase or sale of securities,
      b. securities transactions on security or commodity exchanges or the over the counter market,
      c. investment companies,
      d. investment advisors, or
   (2) of any rule or regulation made pursuant to any such law; or

j. loss of confidential information, material or data;

k. loss resulting from voice requests or instructions received over the telephone, provided however, this Section 2.k. shall not apply to INSURING CLAUSE 7. or 9.

Specific Exclusions - Applicable To All Insuring Clauses Except Insuring Clause 1.

3. **This Bond does not directly or indirectly cover:**

a. loss caused by an **Employee**, provided, however, this Section 3.a. shall not apply to loss covered under INSURING CLAUSE 2. or 3. which results directly from misplacement, mysterious unexplainable disappearance, or damage or destruction of **Property**;

b. loss through the surrender of property away from premises of the ASSURED as a result of a threat:
   (1) to do bodily harm to any natural person, except loss of **Property** in transit in the custody of any person acting as messenger of the ASSURED, provided that when such transit was initiated there was no knowledge by the ASSURED of any such threat, and provided further that this Section 3.b. shall not apply to INSURING CLAUSE 7., or
   (2) to do damage to the premises or **Property** of the ASSURED;

c. loss resulting from payments made or withdrawals from any account involving erroneous credits to such account;

d. loss involving **Items of Deposit** which are not finally paid for any reason provided however, that this Section 3.d. shall not apply to INSURING CLAUSE 10.;

e. loss of property while in the mail;

Conditions And Limitations

Specific Exclusions - Applicable To All Insuring Clauses Except Insuring Clause 1. (continued)

f. loss resulting from the failure for any reason of a financial or depository institution, its receiver or other liquidator to pay or deliver funds or other **Property** to the ASSURED provided further that this Section 3.f. shall not apply to loss of **Property** resulting directly from robbery, burglary, misplacement, mysterious unexplainable disappearance, damage, destruction or removal from the possession, custody or control of the ASSURED.

g. loss of **Property** while in the custody of a **Transportation Company**, provided however, that this Section 3.g. shall not apply to INSURING CLAUSE 3.;

h. loss resulting from entries or changes made by a natural person with authorized access to a **Computer System** who acts in good faith on instructions, unless such instructions are given to that person by a software contractor or its partner, officer, or employee authorized by the ASSURED to design, develop, prepare, supply, service, write or implement programs for the ASSURED's **Computer System**; or

i. loss resulting directly or indirectly from the input of data into a **Computer System** terminal, either on the premises of the customer of the ASSURED or under the control of such a customer, by a customer or other person who had authorized access to the customer's authentication mechanism.

Specific Exclusions - Applicable To All Insuring Clauses Except Insuring Clauses 1., 4., And 5.

4. **This bond does not directly or indirectly cover:**

a. loss resulting from the complete or partial non-payment of or default on any loan whether such loan was procured in good faith or through trick, artifice, fraud or false pretenses; provided, however, this Section 4.a. shall not apply to INSURING CLAUSE 8.;

b. loss resulting from forgery or any alteration;

c. loss involving a counterfeit provided, however, this Section 4.c. shall not apply to INSURING CLAUSE 5. or 6.

Limit Of Liability/Non-Reduction And Non-Accumulation Of Liability

5. At all times prior to termination of this Bond, this Bond shall continue in force for the limit stated in the applicable sections of ITEM 2. of the DECLARATIONS,

notwithstanding any previous loss for which the COMPANY may have paid or be
liable to pay under this Bond provided, however, that the liability of the COMPANY
under this Bond with respect to all loss resulting from:

a. any one act of burglary, robbery or hold-up, or attempt thereat, in which no **Employee** is concerned or implicated, or

b. any one unintentional or negligent act on the part of any one person resulting in damage to or destruction or misplacement of **Property**, or

c. all acts, other than those specified in a. above, of any one person, or

Conditions And Limitations

Limit Of Liability/Non-Reduction And Non-Accumulation Of Liability (continued)

d. any one casualty or event other than those specified in a., b., or c. above, shall be deemed to be one loss and shall be limited to the applicable LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS of this Bond irrespective of the total amount of such loss or losses and shall not be cumulative in amounts from year to year or from period to period.

All acts, as specified in c. above, of any one person which

i. directly or indirectly aid in any way wrongful acts of any other person or persons, or

ii. permit the continuation of wrongful acts of any other person or persons

whether such acts are committed with or without the knowledge of the wrongful acts of the person so aided, and whether such acts are committed with or without the intent to aid such other person, shall be deemed to be one loss with the wrongful acts of all persons so aided.

Discovery

6. This Bond applies only to loss first discovered by an officer of the ASSURED during the BOND PERIOD. Discovery occurs at the earlier of an officer of the ASSURED being aware of:

a. facts which may subsequently result in a loss of a type covered by this Bond, or

b. an actual or potential claim in which it is alleged that the ASSURED is liable to a third party,

regardless of when the act or acts causing or contributing to such loss occurred, even though the amount of loss does not exceed the applicable DEDUCTIBLE AMOUNT, or the exact amount or details of loss may not then be known.

Notice To Company - Proof - Legal Proceedings Against Company

7. a. The ASSURED shall give the COMPANY notice thereof at the earliest practicable moment, not to exceed sixty (60) days after discovery of loss, in an amount that is in excess of 50% of the applicable DEDUCTIBLE AMOUNT, as stated in ITEM 2. of the DECLARATIONS.

b.

The ASSURED shall furnish to the COMPANY proof of loss, duly sworn to, with full particulars within six (6) months after such discovery.

c. Securities listed in a proof of loss shall be identified by certificate or bond numbers, if issued with them.

d. Legal proceedings for the recovery of any loss under this Bond shall not be brought prior to the expiration of sixty (60) days after the proof of loss is filed with the COMPANY or after the expiration of twenty-four (24) months from the discovery of such loss.

e. This Bond affords coverage only in favor of the ASSURED. No claim, suit, action or legal proceedings shall be brought under this Bond by anyone other than the ASSURED.

Conditions And Limitations

Notice To Company - Proof - Legal Proceedings Against Company (continued)

f. Proof of loss involving **Voice Initiated Funds Transfer Instruction** shall include electronic recordings of such instructions.

Deductible Amount

8. The COMPANY shall not be liable under any INSURING CLAUSES of this Bond on account of loss unless the amount of such loss, after deducting the net amount of all reimbursement and/or recovery obtained or made by the ASSURED, other

1.25%. The applicable margin for the eurodollar rate is 3.0%. 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 2.0%. Annual principal payments consist of $2.0 million, due in quarterly installments, and potential annual excess free cash flow payments as defined in the Term Loan agreement, with any remaining balance to be paid on May 31, 2018. The Company does not expect to make any annual excess free cash flow payments during 2016. The Company can prepay any amount at anytime 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.

Additionally, the 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 Term Loan, provided that certain requirements are met. The 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 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 2.0 to 1 at February 29, 2016. The Company’s EBITDA, as defined in the Term Loan for covenant purposes, was $83.0 million for the last twelve months ended February 29, 2016, which provided a cushion of approximately $17.8 million for covenant measurement purposes.

The Company issued the 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 I – Debt and Credit Lines (continued)
Senior Revolving Credit Facility
The Company also has a Senior Secured Revolving Credit Facility (“Facility”) with a potential availability of $100 million, which can be further increased up to $150 million subject to additional borrowing base assets and lender approval. The Facility matures December 9, 2017. The Facility is secured by U.S. accounts receivable, inventory (collectively the “Eligible Borrowing Base”) and intangible assets. Availability under the Facility fluctuates 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 February 29, 2016 were $0.4 million. The Facility contains affirmative and negative covenants, similar to the 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 first quarter of 2016 and averaged $61.3 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 1.75% on eurodollar loans and 0.75% on base rate borrowings. If average excess availability is greater than or equal to $25 million but less than $50 million, the applicable margin will be 2.0% on eurodollar loans and 1.0% on base rate borrowings. If average excess availability is less than $25 million, the applicable margin will be 2.25% on eurodollar loans and 1.25% on base rate borrowings. The commitment fee for unused credit lines will be 0.25% if outstanding borrowings on the Facility are greater than or equal to 50% of the maximum revolver amount and 0.375% if outstanding borrowings are less than 50% of the maximum revolver amount.
At February 29, 2016, there were no amounts borrowed under the Facility, letters of credit outstanding under the Facility were $0.4 million and the amount available for borrowing under the Facility was $63.1 million.
The weighted-average interest rate on the Company’s debt was 5.80% and 6.01% during the first quarters of 2016 and 2015, respectively.
Capital Lease Obligations

At February 29, 2016, the Company had assets under capital leases totaling $17.1 million, which is included in building and land.

The following is a schedule by year of future minimum lease payments for this capital lease together with the present value of the net minimum lease payments as of February 29, 2016.

Year Ending November 30:	(Dollars in millions)
2016	$.9
2017	1.4
2018	1.5
2019	1.5
2020	1.5
Thereafter	19.5
Total minimum lease payments	26.3
Less: Amount representing estimated executory costs	(.7)
Net minimum lease payments	25.6

Less: Amount representing interest	(8.5)
Present value of minimum lease payments	$17.1

Deferred Financing Fees

Deferred financing costs and original issue discounts incurred in connection with the issuance of the Company's debt are being amortized over the respective terms of the underlying debt, including any amendments. Total amortization expense of deferred financing costs and original issue discounts was $0.5 million for the first quarters of 2016 and 2015, respectively.

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Note J – 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 shares. The Plan, by virtue of the three amendments approved by shareholders since the original plan was approved in 1999, authorizes up to 9.6 million Company common shares in the aggregate for (a) awards of options to purchase Company common shares, (b) performance shares and performance units, (c) restricted shares, (d) deferred shares, or (e) appreciation rights. Shares used may be either newly issued shares or treasury shares or both. As of February 29, 2016, approximately 1.6 million Company common shares remained available for grants under the Plan. All options granted under the Plan have been granted at exercise prices equal to the market value of the Company's common shares on the date of grant. Additionally, the Plan provides that the term of any option granted under the Plan may not exceed 10 years.

Share-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period).

For options, the fair value calculation is estimated using a Black-Scholes based option valuation model. For restricted share grants, the fair value is equal to the market price of the Company's common shares on the date of grant. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company.

During the first three months of 2016, 274,700 restricted shares were issued, 149,200 restricted shares vested and 6,450 shares were forfeited.

Compensation expense for all share-based payments included in general and administrative expense was $0.6 million for the first three months of 2016 and, $0.6 million for the first three months of 2015.

As of February 29, 2016, there was $3.9 million of unrecognized compensation cost related to non-vested share-based compensation arrangements.

Note K – Employee Benefit Plans

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

(Dollars in millions)	Pension Plans		Health Care Plans	
Three months ended February 29, 2016 and February 28, 2015	2016	2015	2016	2015
Service costs	$.5	$.3	$—	$—
Interest costs	2.4	3.3	.1	.1
Expected return on plan assets	(3.8)	(3.8)	—	—
Amortization of net actuarial loss (gain)	1.2	1.3	(.3)	(.4)
Net periodic cost (benefit)	$.3	$1.1	$(.2)	$(.3)

During the fourth quarter of 2015, the Company adopted the spot rate method for determining its interest and service costs. The Company estimates that the service and interest costs for its U.S. Plans for 2016 will be reduced by approximately $2.3 million as a result of this change in method.

The Company expects to contribute approximately $6.4 million to its pension plan trusts during fiscal 2016. Contributions made during the first three months of 2016 totaled $0.3 million.

The Company also sponsors a defined contribution 401(k) plan. Participation in this plan is voluntary and is available to substantially all U.S. salaried employees and to certain groups of U.S. hourly employees. Company contributions to this plan are based on either a percentage of employee contributions or on a specified percentage of employee pay based on the provisions of the applicable collective bargaining agreement. Company contributions are made in cash. Expense for this plan was $0.6 million for the first quarter of 2016 and $0.6 million for the first quarter of 2015.

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Note L – 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 M – Business Segment Information

The Company's two operating segments were determined based on products and services provided.

The Company's two operating segments are Performance Chemicals and Engineered Surfaces. 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, technology, and marketing strategies.

Segment operating profit represents net sales less applicable costs, expenses and provisions for restructuring and severance costs, asset write-offs, and other items. However, management excludes restructuring and severance costs, asset write-offs, and other items when evaluating the results and allocating resources to the segments.

Segment operating profit excludes unallocated corporate headquarters expenses, provisions for corporate headquarters, corporate restructuring and severance, interest expense, and income taxes. Corporate headquarters expense includes the cost of providing and maintaining the corporate headquarters functions (including salaries, rent, travel, and entertainment expenses), depreciation, utility costs, outside services, and Board of Directors costs. The accounting policies for reportable segments are the same as those for the consolidated Company. The Company had one customer whose revenue individually represented 10% or more of the Company's total revenue for the period ending February 29, 2016. Additional information regarding the Company's segments is included in the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended November 30, 2015.

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

	Three Months Ended	
(Dollars in millions)	February 29, 2016	February 28, 2015
Net Sales		
Performance Chemicals		
Performance Materials	$68.0	$84.1
Specialty Chemicals	58.1	69.2
Total Performance Chemicals	$126.1	$153.3
Engineered Surfaces		
Coated Fabrics	$17.7	$22.2
Laminates and Performance Films	31.5	31.4
Total Engineered Surfaces	49.2	53.6
Inter-segment sales	—	—
Total Net Sales	$175.3	$206.9
Segment Operating Profit		
Performance Chemicals	$8.0	$6.6
Engineered Surfaces	2.4	4.1
Total Segment Operating Profit	10.4	10.7
Interest expense	(5.8)	(6.8)

Corporate expense	(5.4)	(8.3)
(Loss) From Continuing Operations Before Income Taxes	$(.8)	$(4.4)

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Note N – Separate Financial Information of Subsidiary Guarantors of Indebtedness
The $150 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. and OMNOVA Wallcovering (U.S.A.) Inc. Presented below are the condensed financial statements of OMNOVA Solutions 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.

Condensed Consolidating Statements of Operations for the Three Months Ended February 29, 2016

(Dollars in millions)	OMNOVA Solutions (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$115.0	$—	$67.4	$(7.1)	$175.3
Cost of products sold	86.9	—	51.1	(7.0)	131.0
Gross profit	28.1	—	16.3	(.1)	44.3
Selling, general and administrative	20.1	—	8.2	—	28.3
Depreciation and amortization	6.8	—	2.8	—	9.6
Asset impairment	—	—	.4	—	.4
Restructuring and severance	.9	—	.7	—	1.6
Interest expense (income)	5.7	(.4)	.5	—	5.8
(Income) loss from subsidiaries	(3.4)	(2.1)	—	5.5	—
Other (income) expense, net	(1.0)	(.2)	.6	—	(.6)
Total costs and other expenses	29.1	(2.7)	13.2	5.5	45.1
(Loss) Income from continuing operations before income taxes	(1.0)	2.7	3.1	(5.6)	(.8)
Income tax expense (benefit)	.1	(.8)	1.0	—	.3
Net (loss) income	$(1.1)	$3.5	$2.1	$(5.6)	$(1.1)

Condensed Consolidating Statements of Operations for the Three Months Ended February 28, 2015

(Dollars in millions)	OMNOVA Solutions (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$134.9	$—	$80.6	$(8.6)	$206.9
Cost of products sold	110.0	—	63.9	(8.7)	165.2
Gross profit	24.9	—	16.7	.1	41.7
Selling, general and administrative	20.8	—	9.0	—	29.8
Depreciation and amortization	3.7	—	3.4	—	7.1
Interest expense (income)	6.6	(.4)	.6	—	6.8
(Income) loss from subsidiaries	(4.0)	(2.8)	—	6.8	—
Other expense (income), net	2.4	.3	(.2)	(.1)	2.4
Total costs and other expenses	29.5	(2.9)	12.8	6.7	46.1
(Loss) Income from continuing operations before income taxes	(4.6)	2.9	3.9	(6.6)	(4.4)
Income tax (benefit) expense	(1.4)	(.9)	1.1	—	(1.2)

Net (loss) income	$ (3.2)	$ 3.8	$ 2.8	$ (6.6)	$ (3.2)

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

Condensed Consolidating Statements of Comprehensive Income (Loss) for the Three Months Ended February 29, 2016

(Dollars in millions)	OMNOVA Solutions (Parent)	Guarantor Subsidiaries	Non - Guarantor Subsidiaries	Eliminations	Total
Net (loss) income	$(1.1)	$ 3.5	$ 2.1	$ (5.6)	$(1.1)
Other comprehensive income (loss), net of tax	6.3	7.7	5.4	(13.1)	6.3
Comprehensive income (loss)	$5.2	$ 11.2	$ 7.5	$ (18.7)	$5.2

Condensed Consolidating Statements of Comprehensive Income (Loss) for the Three Months February 28, 2015

(Dollars in millions)	OMNOVA Solutions (Parent)	Guarantor Subsidiaries	Non - Guarantor Subsidiaries	Eliminations	Total
Net (loss) income	$(3.2)	$ 3.8	$ 2.8	$ (6.6)	$(3.2)
Other comprehensive (loss) income, net of tax	(8.9)	(36.2)	(38.1)	74.3	(8.9)
Comprehensive (loss) income	$(12.1)	$ (32.4)	$ (35.3)	$ 67.7	$(12.1)

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

Certain amounts in the condensed consolidating statement of financial position at November 30, 2015 have been reclassified to revise the presentation of the intercompany and investment in subsidiary balances. The revisions to the condensed consolidating statement of financial position at November 30, 2015 decreased the Non-Guarantor Subsidiaries intercompany payables and net equity, increased the Guarantor Subsidiaries investment in subsidiaries and net equity with offsetting changes in the corresponding line items in the Eliminations sub-total. There was no change to the condensed consolidating statement of operations, condensed consolidating statement of comprehensive income or condensed consolidating statement of cash flows.

Condensed Consolidating Statements of Financial Position February 29, 2016

(Dollars in millions)	OMNOVA Solutions (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS:					
Current Assets					
Cash and cash equivalents	$3.6	$—	$39.9	$—	$43.5
Accounts receivable, net	51.9	—	50.2	—	102.1
Inventories	55.2	—	31.0	(1.1)	85.1
Prepaid expenses and other	2.1	10.7	2.9	.3	16.0
Deferred income taxes - current	—	—	3.8	(3.8)	—
Total Current Assets	112.8	10.7	127.8	(4.6)	246.7
Property, plant and equipment, net	122.9	—	90.0	—	212.9
Goodwill, trademarks and other intangible assets, net	76.9	—	64.9	—	141.8
Deferred income taxes - non-current	65.5	.8	8.7	(6.8)	68.2
Intercompany	312.7	58.1	5.2	(376.0)	—
Investments in subsidiaries	75.4	116.7	—	(192.1)	—
Deferred financing fees	4.2	—	—	—	4.2
Other assets	3.5	—	.3	—	3.8
Total Assets	$773.9	$186.3	$296.9	$(579.5)	$677.6
LIABILITIES AND SHAREHOLDERS' EQUITY:					
Current Liabilities					
Amounts due to banks	$2.4	$—	$—	$—	$2.4
Accounts payable	38.1	.1	27.7	—	65.9
Accrued payroll and personal property taxes	10.5	—	9.8	—	20.3
Employee benefit obligations	2.9	—	.5	—	3.4
Accrued interest	4.0	—	—	—	4.0
Deferred income taxes	—	—	.2	(.2)	—
Other current liabilities	4.3	—	(2.3)	1.4	3.4
Total Current Liabilities	62.2	.1	35.9	1.2	99.4
Long-term debt - other	353.7	—	—	—	353.7
Postretirement benefits other than pensions	6.9	—	—	—	6.9
Pension liabilities	73.5	—	9.9	—	83.4
Deferred income taxes - non-current	—	—	21.6	(11.1)	10.5
Intercompany	157.6	111.3	109.1	(378.0)	—
Other liabilities	5.2	—	3.7	—	8.9

Total Liabilities	659.1	111.4	180.2	(387.9)	562.8
Total Shareholder's Equity	114.8	74.9	116.7	(191.6)	114.8
Total Liabilities and Shareholders' Equity	$773.9	$186.3	$296.9	$(579.5)	$677.6

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Note N – Separate Financial Information of Subsidiary Guarantors of Indebtedness (Continued)
Condensed Consolidating Statements of Financial Position November 30, 2015

(Dollars in millions)	OMNOVA Solutions (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS:					
Current Assets					
Cash and cash equivalents	$5.2	$—	$39.7	$—	$44.9
Accounts receivable, net	52.7	—	52.6	—	105.3
Inventories	52.5	—	30.4	(1.0)	81.9
Deferred income taxes	—	—	4.1	(4.1)	—
Prepaid expenses and other	2.9	6.9	8.7	.3	18.8
Total Current Assets	113.3	6.9	135.5	(4.8)	250.9
Property, plant and equipment, net	125.2	—	89.7	—	214.9
Goodwill, trademarks and other intangible assets, net	77.2	—	64.5	—	141.7
Deferred income taxes	65.8	.9	11.9	(10.8)	67.8
Intercompany	311.4	59.3	7.4	(378.1)	—
Investments in subsidiaries	68.5	106.6	—	(175.1)	—
Deferred financing fees	4.7	—	—	—	4.7
Other assets	3.2	3.7	.3	—	7.2
Total Assets	$769.3	$177.4	$309.3	$(568.8)	$687.2
LIABILITIES AND SHAREHOLDERS’ EQUITY:					
Current Liabilities					
Amounts due to banks	$2.5	$—	$—	$—	$2.5
Accounts payable	38.0	—	34.0	—	72.0
Accrued payroll and personal property taxes	13.6	.1	11.3	—	25.0
Employee benefit obligations	2.7	—	.5	—	3.2
Accrued interest	1.1	—	—	—	1.1
Deferred income taxes	—	—	.1	(.1)	—
Other current liabilities	6.4	—	5.5	(3.2)	8.7
Total Current Liabilities	64.3	.1	51.4	(3.3)	112.5
Long-term debt	354.2	—	—	—	354.2
Postretirement benefits other than pensions	6.9	—	—	—	6.9
Pension liabilities	74.9	—	10.0	—	84.9
Deferred income taxes	—	—	24.3	(14.8)	9.5
Intercompany	153.2	111.0	113.6	(377.8)	—
Other liabilities	6.7	—	3.4	—	10.1
Total Liabilities	660.2	111.1	202.7	(395.9)	578.1
Total Shareholder's Equity	109.1	66.3	106.6	(172.9)	109.1
Total Liabilities and Shareholders’ Equity	$769.3	$177.4	$309.3	$(568.8)	$687.2

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

Condensed Consolidating Statements of Cash Flows for the Three Months Ended February 29, 2016

(Dollars in millions)	OMNOVA Solutions (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Operating Activities					
Net Cash Provided By (Used In) Operating Activities	$3.7	$(3.6)	$5.4	$(7.2)	$(1.7)
Investing Activities					
Capital expenditures	(4.2)	—	(1.9)	—	(6.1)
Proceeds from asset sales	—	—	5.2	—	5.2
Net Cash (Used In) Provided By Investing Activities	(4.2)	—	3.3	—	(.9)
Financing Activities					
Repayment of debt obligations	(.6)	—	—	—	(.6)
Net Cash (Used In) Financing Activities	(.6)	—	—	—	(.6)
Effect of exchange rate changes on cash	(.5)	3.6	(8.5)	7.2	1.8
Net (Decrease) Increase in Cash and Cash Equivalents	(1.6)	—	.2	—	(1.4)
Cash and cash equivalents at beginning of period	5.2	—	39.7	—	44.9
Cash and Cash Equivalents at End of Period	$3.6	$—	$39.9	$—	$43.5

Condensed Consolidating Statements of Cash Flows for the Three Months Ended February 28, 2015

(Dollars in millions)	OMNOVA Solutions (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Operating Activities					
Net Cash (Used In) Provided By Operating Activities	$(3.8)	$.9	$(11.3)	$6.8	$(7.4)
Investing Activities					
Capital expenditures	(2.8)	—	(1.7)	—	(4.5)
Net Cash (Used In) Investing Activities	(2.8)	—	(1.7)	—	(4.5)
Financing Activities					
Repayment of debt obligations	(.6)	—	—	—	(.6)
Short-term debt (payments), net	—	—	(1.1)	.1	(1.0)
Purchase of treasury shares	(4.2)	—	—	—	(4.2)
Net Cash (Used In) Provided By Financing Activities	(4.8)	—	(1.1)	.1	(5.8)
Effect of exchange rate changes on cash	.9	(.9)	8.2	(6.9)	1.3
Net (Decrease) Increase in Cash and Cash Equivalents	(10.5)	—	(5.9)	—	(16.4)
Cash and cash equivalents at beginning of period	43.9	—	55.6	—	99.5
Cash and Cash Equivalents at End of Period	$33.4	$—	$49.7	$—	$83.1

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Note O - Asset Sale

On February 5, 2016, the Company completed the sale of its Performance Chemicals' India operations (through the sale of 100% of the outstanding equity of the Company's OMNOVA Solutions India Private Limited Subsidiary) to Apotex Inc., a private industrial products manufacturer headquartered in India. The sale included all assets and liabilities, contracts and other assets associated with the Company’s production of rubber related products. Under terms of the sale, the Company received $5.2 million in cash. The sale price was equal to the net book value of these assets and liabilities and therefore, there was no gain or loss recognized on this transaction. The Company will continue to sell certain of its products within India in the ordinary course of business.

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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 engineered surfaces for a variety of commercial, industrial, and residential end uses. As discussed in Note A - Basis of Presentation, the Company operates two reportable business segments: Performance Chemicals and Engineered Surfaces. 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, fluorochemicals, and bio-based chemistries. Performance Chemicals’ custom-formulated products include latices, hollow plastic pigment, resins, binders, adhesives, specialty rubbers, antioxidants, and elastomeric modifiers which are used in oil and gas drilling, completion and production, recovery, specialty coatings, carpet, paper and packaging, nonwovens, construction, adhesives, tape, tires, floor care, textiles, graphic arts, polymer stabilization, industrial rubbers and thermoplastics, and various other specialty applications. The Engineered Surfaces segment develops, designs, produces, and markets a broad line of functional and decorative surfacing products, including coated fabrics, laminates, and industrial films. These products are used in numerous applications, including commercial building refurbishment, remodeling and new construction, kitchen and bath cabinets, transportation including automotive, truck, bus and other mass transit, marine and motorcycle, recreational vehicles and manufactured housing, flooring, home furnishings, retail display fixtures, commercial and residential furniture, commercial appliances, banners, tents, and ceiling tiles. Please refer to Item 1. Business, of the Company’s 2015 Annual Report on Form 10-K for further description of and background on the Company’s operating segments.

The Company primarily sells its products directly to manufacturers, and has manufacturing facilities in the United States, France, China, 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 the products and services provided. Accounting policies of the segments are the same as those described in Note A of the Company’s Unaudited Interim Consolidated Financial Statements. For a reconciliation of the Company’s segment operating performance information, please refer to Note N of the Company’s Unaudited Interim Consolidated Financial Statements.

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

OMNOVA’s Performance Chemicals segment had sales price index contracts related to approximately 41% of its sales in the first three months of 2016. Customers with sales price index contracts are primarily in the performance materials product line. The index is generally comprised of several components: a negotiated fixed amount per pound and the market price of key raw materials (i.e. styrene and butadiene). The contract mechanisms, however, generally allow for the pass-through of the changes, either increases or decreases, in the prices of key raw materials within a 30 to 60 day period. Contracts vary in length from 12 to 36 months.

The remainder of 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 and to improve gross margins during periods when raw material prices decrease.

Styrene, a key raw material component, is generally available worldwide, and OMNOVA has supply contracts with several producers. OMNOVA believes there is adequate global capacity to serve demand. OMNOVA's styrene purchases for 2013 through 2015 and estimated purchases for 2016, and an estimated range of market prices are as follows:

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	Pounds Purchased (in Millions)	Market Price Range Per Pound
2016 (estimated)	153	$0.39 - $0.52
2015	177	$0.49 - $0.66
2014	177	$0.69 - $0.84
2013	172	$0.71 - $0.93

Butadiene, a key raw material component, is generally available worldwide. OMNOVA has supply contracts with several producers. At times, when the demand of butadiene exceeds supply, it is sold on an allocated basis. OMNOVA's butadiene purchases for 2013 through 2015 and estimated purchases for 2016, and an estimated range of market prices are as follows:

	Pounds Purchased (in Millions)	Market Price Range Per Pound
2016 (estimated)	111	$0.24 - $0.47
2015	146	$0.29 - $0.55
2014	142	$0.55 - $0.82
2013	139	$0.44 - $1.01

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

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

Key financial measures utilized by management to evaluate the results of its businesses and to understand the key variables impacting the current and future results of the Company include: sales and pricing; gross profit; selling, general, and administrative expenses; adjusted operating profit; adjusted net income; consolidated earnings before interest, taxes, depreciation, and amortization ("EBITDA") as set forth in the Net Leverage Ratio in the Company's $200,000,000 Term Loan Credit Agreement; Adjusted EBITDA; working capital; operating cash flows; capital expenditures; cash interest expense; adjusted earnings per share; and applicable ratios, such as inventory turnover; working capital turnover; return on sales and assets; and leverage ratios. These measures, as well as objectives established by the Board of Directors of the Company, are reviewed at monthly, quarterly, and annual intervals and compared with historical periods.

Results of Operations for the Three Months Ended February, 2016 Compared to the Three Months Ended February, 2015

The Company's net sales in the first quarter of 2016 were $175.3 million compared to $206.9 million in the first quarter of 2015. The Performance Chemicals business segment revenue decreased by $27.2 million, or 17.7%, and the Engineered Surfaces business segment revenue decreased $4.4 million, or 8.2%. The Company's divestiture of its Indian operation in early February 2016 resulted in $2.3 million in reduced sales compared to the first quarter of 2015. Also contributing were lower sales volumes of $13.1 million, primarily related to the unfavorable market conditions in paper, carpet, and oil & gas, partially offset by improved volumes in North American laminates, specialty coatings, construction materials, tire cord and antioxidants. Other contributors to the sales decline included $11.5 million, or 5.6% of reduced pricing, and unfavorable currency translation effects of $4.7 million, primarily from the decline in the Euro and Thai Baht. The pricing decline was primarily driven by contract-based index pricing in certain markets tied to raw material price declines.

Gross profit in the first quarter of 2016 was $44.3 million with a gross profit margin of 25.3% compared to gross profit of $41.7 million and a gross profit margin of 20.2% in the first quarter of 2015. The increase in gross profit margin was primarily due to expanding margins from pricing, cost initiatives and favorable product mix and favorable year-over-year net inventory valuation adjustment of $1.8 million. The increase was partially offset by unfavorable volumes and the effect of foreign exchange.

Selling, general and administrative expense in the first quarter of 2016 was $28.3 million, compared to $29.8 million in the first quarter of 2015, primarily reflecting the overall impact of cost reduction initiatives including the reduction of pension expense, partially offset by increased investments in sales and marketing resources to support the higher margin specialty lines of business.

Interest expense was $5.8 million, or 3.3% of net sales, in the first quarter of 2016, a decrease of $1.0 million compared to the same period prior year. The decrease in the current year is due to lower debt levels resulting from the $50 million partial prepayment of the Company's outstanding Senior Notes in November 2015 and normal scheduled repayments.

Other income was $0.6 million in the first quarter of 2016 compared to Other expense of $2.4 million in the first quarter of 2015. Included in the first quarter of 2016 was a gain of approximately $0.4 million related to the partial settlement of items associated with the Company's former headquarters and the closure of a facility in Europe. Included in other expense for the first quarter of 2015 were expenses of $3.5 million related to operational and key process improvement initiatives and other activities.

The Company recorded an income tax expense of $0.3 million in the first quarter of 2016, a 37.5% effective income tax rate, compared to an income tax benefit of $1.2 million, or a 27.3% effective income tax rate in the first quarter prior year. Tax rate in the first quarter of 2016 was due primarily to losses in jurisdictions in which no tax benefit exists. The rate in the first quarter of 2015 is lower than the Company's U.S. federal statutory rate primarily due to income in foreign jurisdictions where the statutory tax rate is less than the U.S. federal statutory rate and the reversal of a prior tax reserve as the statute period lapsed. Cash tax payments in the U.S. are expected to be minimal over the next few years as the Company has $107.4 million of U.S. federal net operating loss carryforwards, $112.4 million of state and local net operating loss carryforwards, $0.2 million of foreign tax credit carryforwards and $0.4 million of AMT credit carryforwards. The $112.4 million of state and local net operating loss carryforwards have a realizable deferred tax asset value of $4.4 million. The majority of the federal, state and local net operating loss carryforwards will expire between 2021 and 2034.

Net loss for the first quarter of 2016 was $1.1 million, or $0.03 per diluted share, compared to net loss of $3.2 million, or $0.07 per diluted share, during the same quarter in the prior year.

Segment Discussion

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

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	Three Months Ended	
(Dollars in millions)	February 29, 2016	February 28, 2015
Net Sales		
Performance Chemicals		
Performance Materials	$68.0	$84.1
Specialty Chemicals	58.1	69.2
Total Performance Chemicals	$126.1	$153.3
Engineered Surfaces		
Coated Fabrics	$17.7	$22.2
Laminates and Performance Films	31.5	31.4
Total Engineered Surfaces	49.2	53.6
Consolidated Net Sales	$175.3	$206.9
Segment Gross Profit:		
Performance Chemicals	$31.6	$27.3
Engineered Surfaces	12.7	14.4
Consolidated Gross Profit	$44.3	$41.7
Segment Operating Profit:		
Performance Chemicals	$8.0	$6.6
Engineered Surfaces	2.4	4.1
Interest expense	(5.8)	(6.8)
Corporate expense	(5.4)	(8.3)
Consolidated Loss from Continuing Operations Before Income Taxes	$(0.8)	$(4.4)

Performance Chemicals

Performance Chemicals' net sales decreased $27.2 million, or 17.7%, to $126.1 million during the first quarter of 2016, compared to $153.3 million during the first quarter of 2015. The Company's divestiture of its Indian operation in early February 2016 resulted in $2.3 million in reduced sales compared to the first quarter of 2015. The 2016 first quarter sales decrease was also due to reduced customer pricing of $11.2 million, or 7.3%, primarily from contract-based index pricing declines in certain markets related to the continuing decline of raw material costs, volumes that were lower by $10.1 million, or 6.6%, driven primarily by market weakness in paper, carpet and oil & gas, and unfavorable currency translation effects of $3.6 million, or 2.3%. These declines were partially offset by volume increases in the Specialty Chemicals coatings and construction materials businesses and in Performance Materials tire cord and antioxidants businesses. Net sales for the Performance Materials product line decreased $16.1 million to $68.0 million during the first quarter of 2016 compared to $84.1 million during the first quarter of 2015. Net sales for the Specialty Chemicals product line decreased $11.1 million to $58.1 million during the first quarter of 2016, compared to $69.2 million during the first quarter of 2015.

Performance Chemicals' gross profit was $31.6 million with a gross profit margin of 25.1% during the first quarter of 2016 compared to $27.3 million with a gross profit margin of 17.8% in the first quarter of 2015. The increase in gross profit margin was primarily due to favorable mix, cost reduction initiatives, lower raw material costs and favorable inventory adjustments that more than offset the lower selling prices and reduced volumes. Including the effect of an unfavorable net inventory revaluation adjustment of $2.2 million, raw material costs decreased $16.7 million in the first quarter of 2016 compared to the first quarter of 2015.

This segment generated an operating profit of $8.0 million in the first quarter of 2016 compared to $6.6 million in the first quarter of 2015. The increase in 2016 is primarily due to expanded margins and cost reduction initiatives. The segment operating profit also includes items that management excludes when evaluating the results of the Company's segments. Those items for the first quarter of 2016 include $2.8 million of accelerated depreciation, $1.2 million of restructuring and severance and operational improvement cost reductions of $0.3 million. Those items for the first quarter of 2015 included $1.0 million of operational improvement costs. As a result of its previously announced operational improvement initiatives, the Company expects to incur approximately $2.0 million to $4.0 million of additional charges through the remainder of 2016, which includes severance charges and production transition, facility conversion, and other associated costs.

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Engineered Surfaces

Engineered Surfaces' net sales decreased $4.4 million, or 8.2%, to $49.2 million in the first quarter of 2016 from $53.6 million in the first quarter of 2015. Customer pricing and mix were slightly unfavorable by $0.3 million, foreign currency translation was unfavorable by $1.1 million and volume declined by $3.0 million. Coated Fabrics net sales were $17.7 million in the first quarter of 2016 compared to $22.2 million in the first quarter of 2015 reflecting a continuing slow down in the China and Thailand automotive markets as well as unfavorable foreign currency translation effects. Net sales for the Laminates and Performance Films product lines were up slightly at $31.5 million during the first quarter of 2016 compared to $31.4 million during the first quarter of 2015, due to improved sales in kitchen and bath and recreation vehicle interiors, which were partially offset by the timing of sales in store fixtures.

Engineered Surfaces' gross profit was $12.7 million with a gross profit margin of 25.8% during the first quarter of 2016 compared to $14.4 million and a gross profit margin of 26.9% in the first quarter of 2015. The decrease in gross profit is primarily due to the effect of a $2.1 million unfavorable net inventory revaluation adjustment.

Segment operating profit was $2.4 million for the first quarter of 2016 compared to $4.1 million from the first quarter of 2015. The decrease in segment operating profit in the first quarter of 2016 is primarily due to a decrease in volume, and unfavorable inventory adjustments, which were partially offset by margin expansion and favorable product mix. Segment operating profit also includes items that management excludes when evaluating the results of the Company's segments. Those items for the first quarter of 2016 include asset provisions of $0.3 million, restructuring and severance of $0.4 million, and favorable facility closure costs and operational improvement costs of $0.5 million. Items for the first quarter of 2015 included environmental remediation charges of $0.2 million.

Corporate

Corporate expenses were $5.4 million in the first quarter of 2016 compared to $8.3 million in the first quarter of 2015. The decrease is primarily due to non-comparable costs incurred in 2015 for shareholder activist costs and operational improvement initiatives totaling $2.3 million and lower compensation related expenses in the first quarter of 2016.

Financial Resources

	Three Months Ended				
	February 29, 2016		February 28, 2015		Change
Cash used in operating activities	$(1.7	)	$(7.4	)	$5.7
Cash used in investing activities	$(.9	)	$(4.5	)	$3.6
Cash used in financing activities	$(.6	)	$(5.8	)	$5.2
Decrease in cash and cash equivalents	$(1.4	)	$(16.4	)	$15.0

Cash used in operating activities was $1.7 million for the three months ended February 29, 2016, compared to cash used of $7.4 million in the three months ended February 28, 2015. The improvement in 2016 compared to 2015, is primarily due to a lower net loss and improved working capital in the first three months of 2016 compared to the first three months of 2015. Total working capital decreased from 77.3 days to 76.6 days year-over-year primarily driven by a decrease in Days Sales Outstanding as a result of the Company's focused effort on working capital improvement.

Cash used in investing activities was $0.9 million in the three months ended February 29, 2016 and $4.5 million in the three months ended February 28, 2015. Cash used in 2016 is due to capital expenditures of $6.1 million offset in part by $5.2 million in proceeds from the sale of the Company's India subsidiary, while cash used in 2015 was due to capital expenditures. The Company expects to make approximately $25.0 million of capital expenditures during 2016. Capital expenditures were made and are planned principally for asset replacement, new product capability, cost reduction, safety and productivity improvements, footprint activities, and environmental protection. The Company expects to fund remaining capital expenditures with cash flow generated from operations.

Cash used in financing activities was $0.6 million in the three months ended February 29, 2016 and $5.8 million in the three months ended February 28, 2015. Cash used in 2016 is due to payments on debt and cash used in 2015 was due to payments on debt, and $4.2 million used in the buyback of the Company's common shares. Total debt was $356.6 million as of

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February 29, 2016, which includes $150.0 million for Senior Notes, $189.5 million for the Term Loan, and $17.1 million for capital lease obligation, compared to $357.2 million as of November 30, 2015. The Company's cash balance of $43.5 million at February 29, 2016 consists of $3.6 million in the U.S., $23.8 million in Asia and $16.1 million in Europe. The Company is not aware of any restrictions regarding the repatriation of its non-U.S. cash, however, repatriation of cash from certain countries may not be able to be completed in a timely manner.

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

Debt

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

Significant Accounting Policies and Management Judgments

The Company's discussion and analysis of its results of operations, financial condition, and liquidity are based upon the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the amounts of assets and liabilities, revenues, and expenses and disclosure of contingent assets and liabilities as of the date of the financial statements. The Company reviews its estimates and judgments including those related to product returns, accounts receivable, inventories, litigation and environmental reserves, pensions, and income taxes. The Company bases its estimates and judgments on historical experience and on various assumptions that it believes to be reasonable under the circumstances. Actual results may differ materially from these estimates and judgments under different assumptions.

Information with respect to the Company's significant accounting policies and management judgments that the Company believes could have the most significant effect on the Company's reported results and require subjective or complex judgments by management is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended November 30, 2015, 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 results.

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 Statement of Financial Position as of February 29, 2016 reflects reserves for environmental remediation of $4.0 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 February 29, 2016, the Company employed approximately 1,950 employees at offices, plants and other facilities located principally throughout the United States, France, China, and Thailand. Approximately 224, or 11.5%, of the Company's employees are covered by collective bargaining agreements in the United States. There are currently no collective bargaining agreements in the United States that will expire during the remainder of 2016. 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 Interim Consolidated Financial Statements for a discussion of accounting standards not yet adopted and also refer to the Annual Report on Form 10-K for the year ended November 30, 2015 for additional accounting standards not yet adopted.

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Forward-Looking Statements

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

All descriptions of our business, operations and assets, as well as all forward-looking statements, involve risks and uncertainties. Many risks and uncertainties are inherent in business generally and the markets in which the Company operates or proposes to operate. Other risks and uncertainties are more specific to the Company’s businesses including businesses the Company acquires. There also may be risks and uncertainties not currently known to us. The occurrence of any such risks and uncertainties and the impact of such occurrences is often not predictable or within the Company’s control. Such impacts could adversely affect the Company’s business, operations or assets as well as the Company's results and the value of your investment in OMNOVA and, in some cases, such effect could be material. Certain risks and uncertainties facing the Company are described below or elsewhere in this Form 10-Q.

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

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

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

We provide greater detail regarding these risks and uncertainties in our 2015 Form 10-K and subsequent filings, which are available online at www.omnova.com and www.sec.gov.

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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 I to the Unaudited Consolidated Financial Statements, the Company's Term Loan Facility and non-domestic borrowings bear interest at various rates. Borrowings under the Term Loan and the Facility were $189.5 million as of February 29, 2016. As of February 29, 2016 there were no Non-U.S. borrowings with banks. The weighted average effective interest rate of the Company's outstanding debt was 5.80% as of February 29, 2016. 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 $24.5 million as of February 29, 2016, 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 February 29, 2016 and based on this evaluation, has determined that the Company's disclosure controls and procedures are effective as of such date. There were no changes in the Company's internal control over financial reporting during the quarter ended February 29, 2016 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 matter could have a material adverse effect on the financial condition, results of operations, and/or cash flows of the Company. However, subject to the above and taking into account such amounts, if any, as are accrued from time to time on the Company's balance sheet, the Company does not believe, based on the information currently available to it, that the ultimate resolution of these matters will have a material effect on the consolidated financial condition, results of operations, or cash flows of the Company.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in Item 1A of the Company's Annual Report on Form 10-K for the year ended November 30, 2015. Those risk factors, in addition to the other information set forth in this report, could materially affect the Company's consolidated financial condition, results of operations, or cash flows. Additional unrecognized risks and uncertainties may materially adversely affect the Company's consolidated financial condition, results of operations, or cash flows.

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

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

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The following table summarizes the Company’s activity related to its common shares for the three months ended February 29, 2016.

Month	Total Number of shares repurchased [(a)]	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum dollar value of shares that may yet be purchased under the plans or programs
December 1 - 31	—	$—	—	$—
January 1 - 31	54,077	$4.85	—	$—
February 1 - 29	4,250	$8.47	—	$—
Total	58,327		—	

(a) Includes common shares repurchased in the open market and common shares deemed surrendered by employees in connection with the Company’s stock compensation and benefit plans to satisfy tax obligations.

Item 6. Exhibits

a.) Exhibits

12.1	Ratio of Earnings to fixed charges.(x)
31.1	Rule 13a-14(a) Certification of the Company's Chief Executive Officer.(x)
31.2	Rule 13a-14(a) Certification of the Company's Chief Financial Officer.(x)
32.1	Section 1350 Certification of the Company's Chief Executive Officer and Chief Financial Officer.(x)
101	The following financial information from our Quarterly Report on Form 10-Q for the first quarter of 2016, filed with the SEC on April 6, 2016, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations for the three months ended February 29, 2016; (ii) the Consolidated Statements of Comprehensive Income for the three months ended February 29, 2016; (iii) the Consolidated Statements of Financial Position at February 29, 2016 and November 30, 2015; (iv) the Consolidated Statements of Cash Flows for the three months ended February 29, 2016; and (v) the Notes to the Unaudited Interim Consolidated Financial Statements.

(x) Filed herewith.

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: April 6, 2016

By /s/ Paul F. DeSantis
Paul F. DeSantis
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: April 6, 2016

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
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 first quarter of 2016, filed with the SEC on April 6, 2016, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations for the three months ended February 29, 2016; (ii) the Consolidated Statements of Comprehensive Income for the three months ended February 29, 2016; (iii) the Consolidated Statements of Financial Position at February 29, 2016 and November 30, 2015; (iv) the Consolidated Statements of Cash Flows for the three months ended February 29, 2016; and (v) the Notes to the Unaudited Interim Consolidated Financial Statements.