

POLYONE CORP  
Form 10-Q  
August 03, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2011

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from            to            .

Commission file number 1-16091

**POLYONE CORPORATION**

(Exact name of registrant as specified in its charter)

Edgar Filing: POLYONE CORP - Form 10-Q

**Ohio**  
(State or other jurisdiction of  
incorporation or organization)

**34-1730488**  
(I.R.S. Employer  
Identification No.)

**33587 Walker Road, Avon Lake, Ohio**  
(Address of principal executive offices)

**44012**  
(Zip Code)

**Registrant's telephone number, including area code: (440) 930-1000**

**Former name, former address and former fiscal year, if changed since last report: Not Applicable**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

The number of outstanding shares of the registrant's common stock, \$0.01 par value, as of July 22, 2011 was 92,627,222.

**Part I Financial Information****Item 1. Financial Statements****PolyOne Corporation and Subsidiaries****Condensed Consolidated Statements of Operations (Unaudited)**

(In millions, except per share data)

|   | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                  |
|---|--------------------------------|------------------|------------------------------|------------------|
|   | 2011                           | Adjusted<br>2010 | 2011                         | Adjusted<br>2010 |
| Sales   | \$ 768.8                       | \$ 692.9         | \$ 1,487.3                   | \$ 1,323.3       |
| Cost of sales   | 639.6                          | 566.1            | 1,235.4                      | 1,092.8          |
| Gross margin  | 129.2                          | 126.8            | 251.9                        | 230.5            |
| Selling and administrative                                  | 78.7                           | 70.7             | 155.5                        | 142.2            |
| Income related to equity affiliates                         |                                | 7.8              | 133.9                        | 9.3              |
| Operating income  | 50.5                           | 63.9             | 230.3                        | 97.6             |
| Interest expense, net                                       | (8.4)                          | (7.7)            | (16.9)                       | (15.7)           |
| Other income (expense), net                                 | 1.6                            | (1.2)            | 1.4                          | (1.9)            |
| Income before income taxes                                  | 43.7                           | 55.0             | 214.8                        | 80.0             |
| Income tax expense  | (15.2)                         | (6.9)            | (76.1)                       | (10.9)           |
| Net income  | \$ 28.5                        | \$ 48.1          | \$ 138.7                     | \$ 69.1          |
| Earnings per common share:                                  |                                |                  |                              |                  |
| Basic earnings  | \$ 0.31                        | \$ 0.52          | \$ 1.48                      | \$ 0.75          |
| Diluted earnings  | \$ 0.30                        | \$ 0.50          | \$ 1.45                      | \$ 0.72          |
| Cash dividends declared per common share                    | \$ 0.04                        | \$               | \$ 0.08                      | \$               |
| Weighted-average shares used to compute earnings per share: |                                |                  |                              |                  |
| Basic   | 93.1                           | 92.8             | 93.5                         | 92.7             |
| Diluted   | 95.5                           | 96.3             | 95.8                         | 95.6             |

*See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.*

## PolyOne Corporation and Subsidiaries

## Condensed Consolidated Balance Sheets

(In millions)

|   | (Unaudited)<br>June 30,<br>2011 | Adjusted<br>December 31,<br>2010 |
|---|---------------------------------|----------------------------------|
| <b>Assets</b>                                     |                                 |                                  |
| Current assets:                                   |                                 |                                  |
| Cash and cash equivalents                         | \$ 416.8                        | \$ 378.1                         |
| Accounts receivable, net                          | 397.1                           | 294.5                            |
| Inventories                                       | 255.5                           | 211.3                            |
| Other current assets                              | 41.7                            | 55.1                             |
| <b>Total current assets</b>                       | <b>1,111.1</b>                  | <b>939.0</b>                     |
| Property, net                                     | 379.4                           | 374.4                            |
| Investment in equity affiliates                   |                                 | 2.7                              |
| Goodwill  | 171.7                           | 164.1                            |
| Other intangible assets, net                      | 69.0                            | 67.8                             |
| Deferred income tax assets                        | 47.6                            | 59.7                             |
| Other non-current assets                          | 85.9                            | 64.2                             |
| <b>Total assets</b>                               | <b>\$ 1,864.7</b>               | <b>\$ 1,671.9</b>                |
| <b>Liabilities and Shareholders' Equity</b>       |                                 |                                  |
| Current liabilities:                              |                                 |                                  |
| Current portion of long-term debt                 | \$ 22.9                         | \$ 20.0                          |
| Accounts payable                                  | 365.2                           | 269.0                            |
| Accrued expenses                                  | 161.2                           | 145.8                            |
| <b>Total current liabilities</b>                  | <b>549.3</b>                    | <b>434.8</b>                     |
| Long-term debt                                    | 410.0                           | 432.9                            |
| Post-retirement benefits other than pensions      | 19.1                            | 19.4                             |
| Pension benefits                                  | 146.3                           | 154.5                            |
| Other non-current liabilities                     | 110.4                           | 114.3                            |
| Shareholders' equity                              | 629.6                           | 516.0                            |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 1,864.7</b>               | <b>\$ 1,671.9</b>                |

*See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.*

## PolyOne Corporation and Subsidiaries

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)

|  | Six Months Ended<br>June 30,<br>Adjusted |                 |
|--|--|-----------------|
|  | 2011                                     | 2010            |
| <b>Operating Activities</b>  |  |                 |
| Net income   | \$ 138.7                                 | \$ 69.1         |
| Adjustments to reconcile net income to net cash (used) provided by operating activities: |  |                 |
| Depreciation and amortization  | 28.4                                     | 27.8            |
| Deferred income tax provision  | 36.8                                     | 1.9             |
| Provision for doubtful accounts  | 1.2                                      | 2.4             |
| Stock compensation expense   | 2.6                                      | 2.1             |
| Companies carried at equity:   |  |                 |
| Income related to equity affiliates  | (133.9)                                  | (9.3)           |
| Dividends and distributions received   | 6.0                                      | 1.5             |
| Change in assets and liabilities, net of acquisition:                                    |  |                 |
| Increase in accounts receivable  | (91.0)                                   | (100.2)         |
| Increase in inventories  | (33.7)                                   | (49.0)          |
| Increase in accounts payable   | 88.6                                     | 100.3           |
| Decrease in pensions and other post-retirement benefits                                  | (18.5)                                   | (16.1)          |
| (Decrease) increase in accrued expenses and other  | (34.1)                                   | 10.7            |
| Net cash (used) provided by operating activities   | (8.9)                                    | 41.2            |
| <b>Investing Activities</b>  |  |                 |
| Capital expenditures   | (20.5)                                   | (10.9)          |
| Business acquisitions and related deposits, net of cash acquired                         | (21.8)                                   |                 |
| Proceeds from sale of equity affiliates and other assets                                 | 135.8                                    | 7.8             |
| Net cash provided (used) by investing activities   | 93.5                                     | (3.1)           |
| <b>Financing Activities</b>  |  |                 |
| Repayment of long-term debt  | (20.0)                                   | (20.0)          |
| Purchase of common shares for treasury   | (28.0)                                   |                 |
| Exercise of stock awards   | 3.9                                      | 1.6             |
| Cash dividends paid  | (3.8)                                    |                 |
| Net cash used by financing activities  | (47.9)                                   | (18.4)          |
| Effect of exchange rate changes on cash  | 2.0                                      | (1.3)           |
| Increase in cash and cash equivalents  | 38.7                                     | 18.4            |
| Cash and cash equivalents at beginning of period   | 378.1                                    | 222.7           |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 416.8</b>                          | <b>\$ 241.1</b> |

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

**PolyOne Corporation and Subsidiaries**

**NOTES TO CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1 Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Form 10-Q instructions and in the opinion of management contain all adjustments, consisting of normal recurring accruals necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in the Annual Report on Form 10-K for the year ended December 31, 2010 of PolyOne Corporation.

Operating results for the three-month and six-month periods ended June 30, 2011 are not necessarily indicative of the results that may be attained in subsequent periods or for the year ending December 31, 2011.

**Future Adoption of Accounting Standards**

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 generally provides a uniform framework for fair value measurements and related disclosures between U.S. generally accepted accounting principles and International Financial Reporting Standards. Additional disclosure requirements in the update include: (1) for Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs; (2) for an entity's use of a nonfinancial asset that is different from the asset's highest and best use, the reason for the difference; (3) for financial instruments not measured at fair value but for which disclosure of fair value is required, the fair value hierarchy level in which the fair value measurements were determined; and (4) the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. ASU 2011-04 will be effective for interim and annual periods beginning on or after December 15, 2011. We will adopt the provisions of ASU 2011-04 in the first quarter of 2012, and do not believe the adoption of this update will materially impact our financial statements.

In June 2011, FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. Also, items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. ASU No. 2011-05 requires retrospective application, and it is effective for fiscal years beginning after December 15, 2011. We will adopt the provisions of ASU 2011-05 in the first quarter of 2012, and are currently evaluating which presentation option for the components of net income and other comprehensive income we will use.

**Note 2 Change in Accounting Principle**

Effective January 1, 2011, we changed our method of recognizing actuarial gains and losses for pension and other postretirement benefits for all of our defined benefit plans. Historically, we recognized actuarial gains and losses in accumulated other comprehensive income within *Shareholders' Equity* on our consolidated balance sheets on an annual basis and amortized them into our operating results over the average remaining life expectancy of the plan participants for the majority of our U.S. and foreign benefit plans and over the remaining service period of plan participants for certain non-U.S. benefit plans, to the extent such gains and losses were outside of a corridor. We have elected to immediately recognize actuarial gains and losses, after consideration of inventory capitalization, in our operating results in the year in which the gains or losses occur because it is generally preferable to accelerate the recognition of deferred gains and losses into income rather than to delay such recognition. This change will improve the transparency in our operating results by more quickly recognizing the effects of economic and interest rate trends on plan obligations, investments and assumptions. These gains and losses are generally only measured annually as of December 31 and, accordingly, will be recorded during the fourth quarter of each year. In accordance with FASB Accounting Standards Codification Topic 250, *Accounting Changes and Error Corrections*, all prior periods presented in this Quarterly Report on Form 10-Q have been adjusted to apply the new method retrospectively. The majority of our net periodic benefit cost is captured within Corporate and eliminations in our operating segment results. The impact associated with our accounting change is reflected entirely within Corporate and eliminations. The annual recognition of actuarial gains and losses will be reflected within Corporate and eliminations. The effect of the change on retained earnings as of January 1, 2010 was a reduction of \$190.6 million, with a corresponding offset to accumulated other comprehensive income.

We have presented the effects of the change in accounting principle on our consolidated financial statements for 2011 and 2010 below. We have condensed the comparative financial statements for financial statement line items that were not affected by the change in accounting principle.

**Condensed Consolidated Statements of Operations**

| (In millions, except per share data) | Three months ended June 30, 2011 |                             |             | Six months ended June 30, 2011 |                             |             |
|--------------------------------------|----------------------------------|-----------------------------|-------------|--------------------------------|-----------------------------|-------------|
|                                      | Prior Accounting Method          | Effect of Accounting Change | As Reported | Prior Accounting Method        | Effect of Accounting Change | As Reported |
| Sales                                | \$ 768.8                         | \$                          | \$ 768.8    | \$ 1,487.3                     | \$                          | \$ 1,487.3  |
| Cost of sales                        | 639.8                            | (0.2)                       | 639.6       | 1,235.8                        | (0.4)                       | 1,235.4     |
| Gross margin                         | 129.0                            | 0.2                         | 129.2       | 251.5                          | 0.4                         | 251.9       |
| Selling and administrative           | 81.0                             | (2.3)                       | 78.7        | 160.1                          | (4.6)                       | 155.5       |
| Income from equity affiliates        |                                  |                             |             | 133.9                          |                             | 133.9       |
| Operating income                     | 48.0                             | 2.5                         | 50.5        | 225.3                          | 5.0                         | 230.3       |
| Interest and other expense, net      | (6.8)                            |                             | (6.8)       | (15.5)                         |                             | (15.5)      |
| Income before income taxes           | 41.2                             | 2.5                         | 43.7        | 209.8                          | 5.0                         | 214.8       |
| Income tax expense                   | (14.3)                           | (0.9)                       | (15.2)      | (74.3)                         | (1.8)                       | (76.1)      |
| Net income                           | \$ 26.9                          | \$ 1.6                      | \$ 28.5     | \$ 135.5                       | \$ 3.2                      | \$ 138.7    |
| Earnings per common share:           |                                  |                             |             |                                |                             |             |
| Basic earnings per common share      | \$ 0.29                          | \$ 0.02                     | \$ 0.31     | \$ 1.45                        | \$ 0.03                     | \$ 1.48     |
| Diluted earnings per common share    | \$ 0.28                          | \$ 0.02                     | \$ 0.30     | \$ 1.42                        | \$ 0.03                     | \$ 1.45     |

| (In millions, except per share data) | Three months ended June 30, 2010 |                             |             | Six months ended June 30, 2010 |                             |             |
|--------------------------------------|----------------------------------|-----------------------------|-------------|--------------------------------|-----------------------------|-------------|
|                                      | Originally Reported              | Effect of Accounting Change | As Adjusted | Originally Reported            | Effect of Accounting Change | As Adjusted |
| Sales                                | \$ 692.9                         | \$                          | \$ 692.9    | \$ 1,323.3                     | \$                          | \$ 1,323.3  |
| Cost of sales                        | 566.2                            | (0.1)                       | 566.1       | 1,093.1                        | (0.3)                       | 1,092.8     |
| Gross margin                         | 126.7                            | 0.1                         | 126.8       | 230.2                          | 0.3                         | 230.5       |
| Selling and administrative           | 73.0                             | (2.3)                       | 70.7        | 146.9                          | (4.7)                       | 142.2       |
| Income from equity affiliates        | 7.8                              |                             | 7.8         | 9.3                            |                             | 9.3         |
| Operating income                     | 61.5                             | 2.4                         | 63.9        | 92.6                           | 5.0                         | 97.6        |
| Interest and other expense, net      | (8.9)                            |                             | (8.9)       | (17.6)                         |                             | (17.6)      |
| Income before income taxes           | 52.6                             | 2.4                         | 55.0        | 75.0                           | 5.0                         | 80.0        |
| Income tax expense                   | (6.9)                            |                             | (6.9)       | (10.9)                         |                             | (10.9)      |
| Net income                           | \$ 45.7                          | \$ 2.4                      | \$ 48.1     | \$ 64.1                        | \$ 5.0                      | \$ 69.1     |
| Earnings per common share:           |                                  |                             |             |                                |                             |             |
| Basic earnings per common share      | \$ 0.49                          | \$ 0.03                     | \$ 0.52     | \$ 0.69                        | \$ 0.06                     | \$ 0.75     |
| Diluted earnings per common share    | \$ 0.47                          | \$ 0.03                     | \$ 0.50     | \$ 0.67                        | \$ 0.05                     | \$ 0.72     |



**Condensed Consolidated Balance Sheets**

| (In millions)                                 | <b>Prior<br/>Accounting<br/>Method</b> | <b>June 30, 2011<br/>Effect of<br/>Accounting<br/>Change</b> | <b>As Reported</b> |
|---|--|--|--------------------|
| <b>Assets</b>                                 |  |  |                    |
| Total assets                                  | \$ 1,864.7                             | \$   | \$ 1,864.7         |
| <b>Liabilities and Shareholders' Equity</b>   |  |  |                    |
| Total liabilities                             | \$ 1,235.1                             | \$   | \$ 1,235.1         |
| Additional paid-in-capital                    | 1,054.9                                | (7.5)  | 1,047.4            |
| Retained earnings (accumulated deficit)       | 75.1                                   | (193.8)  | (118.7)            |
| Accumulated other comprehensive (loss) income | (175.9)                                | 201.3  | 25.4               |
| Other equity accounts                         | (324.5)                                |  | (324.5)            |
| Total shareholders' equity                    | 629.6                                  |  | 629.6              |
| Total liabilities and shareholders' equity    | \$ 1,864.7                             | \$   | \$ 1,864.7         |

| (In millions)                                 | <b>Originally<br/>Reported</b> | <b>December 31, 2010<br/>Effect of<br/>Accounting<br/>Change</b> | <b>As Adjusted</b> |
|---|--------------------------------|--|--------------------|
| <b>Assets</b>                                 |                                |  |                    |
| Total assets                                  | \$ 1,671.9                     | \$   | \$ 1,671.9         |
| <b>Liabilities and Shareholders' Equity</b>   |                                |  |                    |
| Total liabilities                             | \$ 1,155.9                     | \$   | \$ 1,155.9         |
| Accumulated deficit                           | (66.9)                         | (190.6)  | (257.5)            |
| Accumulated other comprehensive (loss) income | (172.1)                        | 190.6  | 18.5               |
| Other equity accounts                         | 755.0                          |  | 755.0              |
| Total shareholders' equity                    | 516.0                          |  | 516.0              |
| Total liabilities and shareholders' equity    | \$ 1,671.9                     | \$   | \$ 1,671.9         |

**Condensed Consolidated Statement of Cash Flows**

| (In millions)   | Six months ended June 30, 2011 |                             |                 |
|---|--------------------------------|-----------------------------|-----------------|
|   | Prior Accounting Method        | Effect of Accounting Change | As Reported     |
| <b>Operating Activities</b>   |                                |                             |                 |
| Net income  | \$ 135.5                       | \$ 3.2                      | \$ 138.7        |
| Adjustments to reconcile net income to net cash used by operating activities: |                                |                             |                 |
| Other adjustments, net  | (58.9)                         |                             | (58.9)          |
| Change in assets and liabilities, net of acquisition:                         |                                |                             |                 |
| Increase in receivables, inventory and payables, net                          | (36.1)                         |                             | (36.1)          |
| Decrease in accrued expenses and other  | (49.4)                         | (3.2)                       | (52.6)          |
| Net cash used by operating activities   | (8.9)                          |                             | (8.9)           |
| Net cash provided by investing activities                                     | 93.5                           |                             | 93.5            |
| Net cash used by financing activities   | (47.9)                         |                             | (47.9)          |
| Effect of exchange rate changes on cash                                       | 2.0                            |                             | 2.0             |
| Increase in cash and cash equivalents   | 38.7                           |                             | 38.7            |
| Cash and cash equivalents at beginning of period                              | 378.1                          |                             | 378.1           |
| <b>Cash and cash equivalents at end of period</b>                             | <b>\$ 416.8</b>                | <b>\$</b>                   | <b>\$ 416.8</b> |

| (In millions)   | Six months ended June 30, 2010 |                             |                 |
|---|--------------------------------|-----------------------------|-----------------|
|   | Originally Reported            | Effect of Accounting Change | As Adjusted     |
| <b>Operating Activities</b>   |                                |                             |                 |
| Net income  | \$ 64.1                        | \$ 5.0                      | \$ 69.1         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |                             |                 |
| Other adjustments, net  | 26.4                           |                             | 26.4            |
| Change in assets and liabilities, net of acquisition:                             |                                |                             |                 |
| Increase in receivables, inventory and payables, net                              | (48.9)                         |                             | (48.9)          |
| Decrease in accrued expenses and other  | (0.4)                          | (5.0)                       | (5.4)           |
| Net cash provided by operating activities   | 41.2                           |                             | 41.2            |
| Net cash used by investing activities   | (3.1)                          |                             | (3.1)           |
| Net cash used by financing activities   | (18.4)                         |                             | (18.4)          |
| Effect of exchange rate changes on cash   | (1.3)                          |                             | (1.3)           |
| Increase in cash and cash equivalents   | 18.4                           |                             | 18.4            |
| Cash and cash equivalents at beginning of period                                  | 222.7                          |                             | 222.7           |
| <b>Cash and cash equivalents at end of period</b>                                 | <b>\$ 241.1</b>                | <b>\$</b>                   | <b>\$ 241.1</b> |

**Note 3 Goodwill**

The total purchase price associated with acquisitions is allocated to the fair value of assets acquired and liabilities assumed based on the fair values at the acquisition date, with excess amounts recorded as goodwill. On January 3, 2011, we acquired Uniplen Industria de Polimeros Ltda., a leading Brazilian producer of specialty engineered materials and distributor of thermoplastics. We recorded \$7.2 million of goodwill during the first half of 2011 related to this acquisition. The purchase price allocation is preliminary and may require subsequent adjustment as more information about the fair value of assets becomes available.

Goodwill as of June 30, 2011 and December 31, 2010 and changes in the carrying amount of goodwill by operating segment are as follows:

| (In millions)                      | Global Specialty Engineered Materials | Global Color, Additives and Inks | Performance Products and Solutions | PolyOne Distribution | Total    |
|------------------------------------|---------------------------------------|----------------------------------|------------------------------------|----------------------|----------|
| Balance, December 31, 2010         | \$ 82.6                               | \$ 72.5                          | \$ 7.4                             | \$ 1.6               | \$ 164.1 |
| Acquisition of businesses          | 7.2                                   |                                  |                                    |                      | 7.2      |
| Translations and other adjustments | 0.4                                   |                                  |                                    |                      | 0.4      |
| Balance, June 30, 2011             | \$ 90.2                               | \$ 72.5                          | \$ 7.4                             | \$ 1.6               | \$ 171.7 |

At June 30, 2011 and December 31, 2010, PolyOne had \$33.2 million of indefinite-lived other intangible assets that are not subject to amortization, consisting of the GLS Corporation trade name.

The following summarizes the gross carrying value and accumulated amortization for each major category of intangible assets:

| (In millions)                          | As of June 30, 2011 |                          |                      |         |
|--|---------------------|--------------------------|----------------------|---------|
|  | Acquisition Cost    | Accumulated Amortization | Currency Translation | Net     |
| Non-contractual customer relationships | \$ 44.6             | \$ (16.1)                | \$                   | \$ 28.5 |
| Sales contracts                        | 11.4                | (10.7)                   |                      | 0.7     |
| Patents, technology and other          | 9.9                 | (4.6)                    | 1.3                  | 6.6     |
| Total                                  | \$ 65.9             | \$ (31.4)                | \$ 1.3               | \$ 35.8 |

| (In millions)                          | As of December 31, 2010 |                          |                      |         |
|--|-------------------------|--------------------------|----------------------|---------|
|  | Acquisition Cost        | Accumulated Amortization | Currency Translation | Net     |
| Non-contractual customer relationships | \$ 42.2                 | \$ (14.6)                | \$                   | \$ 27.6 |
| Sales contracts                        | 11.4                    | (10.6)                   |                      | 0.8     |
| Patents, technology and other          | 9.4                     | (4.3)                    | 1.1                  | 6.2     |
| Total                                  | \$ 63.0                 | \$ (29.5)                | \$ 1.1               | \$ 34.6 |

**Note 4 Inventories**

Components of *Inventories* at FIFO cost are as follows:

| (In millions)     | June 30, 2011 | December 31, 2010 |
|-------------------|---------------|-------------------|
| Finished products | \$ 155.3      | \$ 129.2          |

Edgar Filing: POLYONE CORP - Form 10-Q

|                            |          |          |
|----------------------------|----------|----------|
| Work in process            | 3.5      | 2.4      |
| Raw materials and supplies | 96.7     | 79.7     |
|                            | \$ 255.5 | \$ 211.3 |

**Note 5 Property**

| (In millions)                                  | June 30,<br>2011 | December 31,<br>2010 |
|--|------------------|----------------------|
| Land and land improvements                     | \$ 44.3          | \$ 43.5              |
| Buildings                                      | 296.8            | 290.0                |
| Machinery and equipment                        | 932.7            | 909.7                |
|  | 1,273.8          | 1,243.2              |
| Less accumulated depreciation and amortization | (894.4)          | (868.8)              |
|  | \$ 379.4         | \$ 374.4             |

**Note 6 Income Taxes**

Income tax expense was \$15.2 million in the second quarter of 2011 compared to \$6.9 million in the second quarter of 2010. We recognized income tax expense of \$76.1 million in the first half of 2011 compared to \$10.9 million in the first half of 2010. We record our interim provision for income taxes based on our estimated annual effective tax rate as well as certain items discrete to the current period. Our interim provision as well as our estimated annual effective tax rate is impacted by a number of factors, including our U.S. federal and state and foreign income tax loss carryforwards and our ability to use them as well as changes to our unrealized tax benefits. Through the third quarter of 2010, we had a full valuation allowance against our U.S. deferred tax assets that we reversed in the fourth quarter of 2010, as we determined that it was more likely than not that we would realize the benefit from our remaining U.S. deferred tax assets.

We decreased existing valuation allowances against our deferred tax assets by \$1.4 million and \$12.9 million in the second quarter of 2011 and 2010, respectively. We decreased these valuation allowances by \$4.0 million and \$16.5 million during the first half of 2011 and 2010, respectively. These reductions are the result of generating pre-tax income.

We recognized \$1.4 million and \$0.3 million of tax expense during the second quarter of 2011 and 2010, respectively, related to uncertain tax positions. We recognized \$1.7 million and \$0.5 million of tax expense during the first half of 2011 and 2010, respectively, related to uncertain tax positions. These amounts are inclusive of interest and penalties.

**Note 7 Investment in Equity Affiliates**

The results of operations of SunBelt Chlor-Alkali Partnership (SunBelt), a manufacturer and marketer of PVC resins, were included in the SunBelt Joint Venture operating segment through the date of disposition of our equity interest in SunBelt. On February 28, 2011, we sold our 50% equity interest in SunBelt to Olin Corporation (Olin) for \$132.3 million in cash, the assumption by Olin of our guarantee of \$42.7 million aggregate principal amount of senior secured notes issued by SunBelt, and potential annual earn-out payments for the three fiscal years ending December 31, 2011, 2012 and 2013, if SunBelt meets certain performance targets. We recorded a pre-tax gain of \$128.2 million net of associated transaction costs within *Income related to equity affiliates* for the sale of our equity interest in SunBelt.

The following tables present SunBelt's summarized financial results for the periods indicated:

| (Dollars in millions)                         | Two Months<br>Ended<br>February 28, 2011 | Three Months<br>Ended<br>June 30,<br>2010 | Six Months Ended<br>June 30, 2010 |
|---|--|---|-----------------------------------|
| Net sales                                     | \$ 30.5                                  | \$ 41.4                                   | \$ 69.0                           |
| Operating income                              | \$ 12.7                                  | \$ 16.3                                   | \$ 19.7                           |
| Partnership income as reported by SunBelt     | \$ 11.5                                  | \$ 14.2                                   | \$ 15.8                           |
| Equity affiliate earnings recorded by PolyOne | \$ 5.7                                   | \$ 7.1                                    | \$ 7.9                            |



**Note 8 Weighted-Average Shares Used in Computing Earnings Per Share**

| (In millions)                                    | Three Months<br>Ended<br>June 30, |      | Six Months<br>Ended<br>June 30, |      |
|--|-----------------------------------|------|---------------------------------|------|
|  | 2011                              | 2010 | 2011                            | 2010 |
| Weighted-average shares outstanding basic        | 93.1                              | 92.8 | 93.5                            | 92.7 |
| Weighted-average shares diluted:                 |                                   |      |                                 |      |
| Weighted-average shares outstanding basic        | 93.1                              | 92.8 | 93.5                            | 92.7 |
| Plus dilutive impact of stock options and awards | 2.4                               | 3.5  | 2.3                             | 2.9  |
| Weighted-average shares diluted                  | 95.5                              | 96.3 | 95.8                            | 95.6 |

For the three months and six months ended June 30, 2011, 0.5 million and 0.6 million, respectively, and for each of the three months and six months ended June 30, 2010, 1.0 million of equity-based awards were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

**Note 9 Employee Benefit Plans**

Components of defined benefit pension plan costs, adjusted for our change in accounting as described in Note 2, *Change in Accounting Principle*, are as follows:

| (In millions)   | Three Months<br>Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                  |
|---|-----------------------------------|------------------|------------------------------|------------------|
|   | 2011                              | Adjusted<br>2010 | 2011                         | Adjusted<br>2010 |
| Service cost  | \$ 0.4                            | \$ 0.4           | \$ 0.8                       | \$ 0.8           |
| Interest cost   | 7.1                               | 7.4              | 14.2                         | 14.8             |
| Expected return on plan assets                                | (7.4)                             | (6.5)            | (14.7)                       | (13.0)           |
| Amortization of transition obligation and prior service costs | 0.1                               | 0.2              | 0.1                          | 0.4              |
|   | \$ 0.2                            | \$ 1.5           | \$ 0.4                       | \$ 3.0           |

Components of postretirement health care plan benefit costs, adjusted for our change in accounting as described in Note 2, *Change in Accounting Principle*, are as follows:

| (In millions)   | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                  |
|---|--------------------------------|------------------|------------------------------|------------------|
|   | 2011                           | Adjusted<br>2010 | 2011                         | Adjusted<br>2010 |
| Interest cost   | \$ 0.3                         | \$ 0.3           | \$ 0.6                       | \$ 0.7           |
| Amortization of transition obligation and prior service costs | (4.4)                          | (4.4)            | (8.8)                        | (8.7)            |
|   | \$ (4.1)                       | \$ (4.1)         | \$ (8.2)                     | \$ (8.0)         |

**Note 10 Financing Arrangements**

Long-term debt consists of the following:

Edgar Filing: POLYONE CORP - Form 10-Q

| (Dollars in millions)                               | June 30, 2011   | December 31, 2010 |
|---|-----------------|-------------------|
| 8.875% senior notes due May 2012                    | \$ 22.9         | \$ 22.9           |
| 7.500% debentures due December 2015                 | 50.0            | 50.0              |
| 7.375% senior notes due September 2020              | 360.0           | 360.0             |
| 6.58% medium-term notes due February 2011           |                 | 20.0              |
| <b>Total long-term debt</b>                         | <b>432.9</b>    | <b>452.9</b>      |
| Less current portion                                | 22.9            | 20.0              |
| <b>Total long-term debt, net of current portion</b> | <b>\$ 410.0</b> | <b>\$ 432.9</b>   |

In February 2011, we repaid \$20 million aggregate principal amount of our 6.58% medium-term notes at maturity.



**Note 11 Sale of Accounts Receivable**

Accounts receivable consists of the following:

| (In millions)  | June 30,<br>2011 | December 31,<br>2010 |
|--|------------------|----------------------|
| Trade accounts receivable                            | \$ 177.6         | \$ 135.4             |
| Retained interest in securitized accounts receivable | 224.0            | 163.2                |
| Allowance for doubtful accounts                      | (4.5)            | (4.1)                |
|  | \$ 397.1         | \$ 294.5             |

Under the terms of our accounts receivable sale facility, we sell accounts receivable to PolyOne Funding Corporation (PFC) and PolyOne Funding Canada Corporation (PFCC), both wholly owned, bankruptcy-remote subsidiaries. PFC and PFCC, in turn, may sell an undivided interest up to \$175 million and \$25 million of these accounts receivable, respectively, to certain investors. The accounts receivable sale facility matures in June 2012. As of June 30, 2011 and December 31, 2010, accounts receivable totaling \$224.0 million and \$163.2 million, respectively, were sold by us to PFC and PFCC. The maximum amount of proceeds that PFC and PFCC may receive under the facility is limited to the lesser of \$200 million or 85% of the eligible domestic and Canadian accounts receivable sold. As of June 30, 2011 and December 31, 2010, neither PFC nor PFCC had sold any of their undivided interests in accounts receivable.

The accounts receivable sale facility also makes up to \$40 million available for the issuance of standby letters of credit as a sub-limit within the \$200 million limit under the facility, of which \$12.9 million was used at June 30, 2011. The level of availability under the accounts receivable sale facility is based on the prior month's total accounts receivable sold to PFC and PFCC, as reduced by outstanding letters of credit. Additionally, the amount of availability is dependent upon compliance with a fixed charge coverage ratio covenant related primarily to operating performance that is set forth in the related agreements. As of June 30, 2011, we were in compliance with these covenants. As of June 30, 2011, \$162.6 million of securitized accounts receivable were available for sale.

**Note 12 Segment Information**

Segment information for the three-month and six-month periods ended June 30, 2011 and 2010, adjusted for our change in accounting as described in Note 2, *Change in Accounting Principle*, follows:

| (In millions)                         | Three Months Ended June 30, 2011  |                 |                                | Adjusted<br>Three Months Ended June 30, 2010 |                 |                                |
|---------------------------------------|-----------------------------------|-----------------|--------------------------------|--|-----------------|--------------------------------|
|                                       | Sales to<br>External<br>Customers | Total<br>Sales  | Segment<br>Operating<br>Income | Sales to<br>External<br>Customers            | Total Sales     | Segment<br>Operating<br>Income |
| Global Specialty Engineered Materials | \$ 138.9                          | \$ 147.5        | \$ 12.7                        | \$ 119.0                                     | \$ 127.5        | \$ 12.1                        |
| Global Color, Additives and Inks      | 145.7                             | 146.2           | 12.6                           | 136.6  | 137.1           | 11.6                           |
| Performance Products and Solutions    | 219.8                             | 241.4           | 21.3                           | 196.8  | 218.5           | 17.6                           |
| PolyOne Distribution                  | 264.4                             | 265.5           | 15.3                           | 240.5  | 241.4           | 11.6                           |
| SunBelt Joint Venture                 |                                   |                 |                                |  |                 | 6.1                            |
| Corporate and eliminations            |                                   | (31.8)          | (11.4)                         |  | (31.6)          | 4.9                            |
| <b>Total</b>                          | <b>\$ 768.8</b>                   | <b>\$ 768.8</b> | <b>\$ 50.5</b>                 | <b>\$ 692.9</b>                              | <b>\$ 692.9</b> | <b>\$ 63.9</b>                 |

| (In millions)                         | Six Months Ended June 30, 2011    |                   |                                | Adjusted<br>Six Months Ended June 30, 2010 |                   |                                |
|---------------------------------------|-----------------------------------|-------------------|--------------------------------|--|-------------------|--------------------------------|
|                                       | Sales to<br>External<br>Customers | Total<br>Sales    | Segment<br>Operating<br>Income | Sales to<br>External<br>Customers          | Total<br>Sales    | Segment<br>Operating<br>Income |
| Global Specialty Engineered Materials | \$ 281.8                          | \$ 299.4          | \$ 26.7                        | \$ 238.0                                   | \$ 253.8          | \$ 24.2                        |
| Global Color, Additives and Inks      | 285.5                             | 286.6             | 23.8                           | 266.6                                      | 268.0             | 20.5                           |
| Performance Products and Solutions    | 409.6                             | 450.1             | 35.6                           | 363.2                                      | 402.2             | 29.7                           |
| PolyOne Distribution                  | 510.4                             | 512.5             | 30.0                           | 455.5                                      | 457.3             | 20.2                           |
| SunBelt Joint Venture                 |                                   |                   | 5.0                            |  |                   | 5.8                            |
| Corporate and eliminations            |                                   | (61.3)            | 109.2                          |  | (58.0)            | (2.8)                          |
| <b>Total</b>                          | <b>\$ 1,487.3</b>                 | <b>\$ 1,487.3</b> | <b>\$ 230.3</b>                | <b>\$ 1,323.3</b>                          | <b>\$ 1,323.3</b> | <b>\$ 97.6</b>                 |

|                                       | Total Assets      |                      |
|---------------------------------------|-------------------|----------------------|
|                                       | June 30,<br>2011  | December 31,<br>2010 |
| Global Specialty Engineered Materials | \$ 382.5          | \$ 346.3             |
| Global Color, Additives and Inks      | 383.0             | 338.1                |
| Performance Products and Solutions    | 315.7             | 287.5                |
| Distribution                          | 216.8             | 159.8                |
| SunBelt Joint Venture                 |                   | 3.2                  |
| Corporate and eliminations            | 566.7             | 537.0                |
| <b>Total</b>                          | <b>\$ 1,864.7</b> | <b>\$ 1,671.9</b>    |

### Note 13 Commitments and Contingencies

We have been notified by federal and state environmental agencies and by private parties that we may be a potentially responsible party (PRP) in connection with the investigation and remediation of certain environmental waste disposal sites. While government agencies frequently assert that PRPs are jointly and severally liable at these sites, in our experience, the interim and final allocations of liability costs are generally made based on the relative contribution of waste. We believe that our potential continuing liability with respect to these sites will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. In addition, we initiate corrective and preventive environmental projects of our own to ensure safe and lawful activities at our operations. We believe that compliance with current governmental regulations at all levels will not have a material adverse effect on our financial condition.

During the six-month periods ended June 30, 2011 and 2010, we recognized \$3.1 million and \$6.3 million, respectively, of expense related to environmental activities at all of our active and inactive sites. During the six-month periods ended June 30, 2011 and 2010, we received \$1.9 million and \$14.4 million, respectively, of proceeds from insurance recoveries. The gains associated with these recoveries are included within *Cost of sales* in our Consolidated Statement of Operations.

Based on estimates that were prepared by our environmental engineers and consultants, we had accrued \$82.7 million at June 30, 2011 and \$87.4 million at December 31, 2010 for probable future environmental expenditures related to previously contaminated sites. The accruals represent our best estimate of the remaining probable remediation costs, based upon information and technology that is currently available and our view of the most likely remedy. Depending upon the results of future testing, the ultimate remediation alternatives undertaken, changes in regulations, new information, newly discovered conditions and other factors it is reasonably possible that we could incur additional costs in excess of the amount accrued at June 30, 2011. However, such additional costs, if any, cannot be currently estimated. Our estimate of the liability may be revised as new regulations or technologies are developed or additional information is obtained. Additional information related to environmental liabilities is in Note 12, *Commitments and Related-Party Information*, to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010.

**Note 14 Fair Value**

The estimated fair values of financial instruments were principally based on market prices where such prices were available and, where unavailable, fair values were estimated based on market prices of similar instruments. Short-term foreign exchange contracts are the only asset or liability recorded at fair value on a recurring basis. These contracts are measured based on exchange rates at June 30, 2011 and classified as a Level 2 fair value measurement within the fair value hierarchy. These instruments have not been designated as hedges for accounting purposes.

The following table summarizes the contractual amounts of our foreign exchange contracts as of June 30, 2011. Foreign currency amounts are translated at exchange rates as of June 30, 2011. The Buy amounts represent the U.S. dollar equivalent of commitments to purchase currencies, and the Sell amounts represent the U.S. dollar equivalent of commitments to sell currencies.

| Currency (In millions) | June 30, 2011 |         |
|------------------------|---------------|---------|
|                        | Buy           | Sell    |
| U.S. Dollar            | \$ 60.5       |         |
| Euro                   |               | \$ 56.1 |
| British pound          |               | \$ 4.4  |

The carrying amounts and fair values of our financial instruments as of June 30, 2011 and December 31, 2010 are as follows:

| (In millions)              | June 30, 2011   |            | December 31, 2010 |            |
|----------------------------|-----------------|------------|-------------------|------------|
|                            | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| Cash and cash equivalents  | \$ 416.8        | \$ 416.8   | \$ 378.1          | \$ 378.1   |
| Long-term debt:            |                 |            |                   |            |
| 7.500% debentures          | 50.0            | 53.0       | 50.0              | 52.8       |
| 8.875% senior notes        | 22.9            | 23.6       | 22.9              | 24.2       |
| 7.375% senior notes        | 360.0           | 378.0      | 360.0             | 374.4      |
| Medium-term notes          |                 |            | 20.0              | 20.1       |
| Foreign exchange contracts |                 |            | (0.4)             | (0.4)      |

We are exposed to market risk from changes in foreign currency exchange rates. Information about our risks and exposure management is included in Item 7A Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2010. There have been no material changes in the market risk from December 31, 2010 to June 30, 2011.

**Note 15 Comprehensive Income**

The following table sets forth the reconciliation of net income to comprehensive income, adjusted for our change in accounting as described in Note 2, *Change in Accounting Principle*:

| (In millions)   | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                  |
|---|--------------------------------|------------------|------------------------------|------------------|
|   | 2011                           | Adjusted<br>2010 | 2011                         | Adjusted<br>2010 |
| Net income  | \$ 28.5                        | \$ 48.1          | \$ 138.7                     | \$ 69.1          |
| Amortization of transition obligation and prior service costs | (2.1)                          | (3.4)            | (5.4)                        | (7.5)            |
| Translation adjustment  | 4.2                            | (9.8)            | 12.3                         | (14.7)           |
| Other   |                                | (0.1)            |                              | (0.1)            |
| Total comprehensive income                                    | \$ 30.6                        | \$ 34.8          | \$ 145.6                     | \$ 46.8          |

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

We are a premier provider of specialized polymer materials, services and solutions with operations in thermoplastic compounds, specialty polymer formulations, color and additive systems, thermoplastic resin distribution and specialty vinyl resins. Headquartered in Avon Lake, Ohio, we have employees at manufacturing sites and distribution facilities in North America, South America, Europe and Asia. We provide value to our customers through our ability to link our knowledge of polymers and formulation technology with our manufacturing and supply chain to provide an essential link between large chemical producers (our raw material suppliers) and designers, assemblers and processors of plastics (our customers). When used in this Quarterly Report on Form 10-Q, the terms we, us, our and the Company mean PolyOne Corporation and its subsidiaries.

**Recent Developments***Change in Accounting Principle*

Effective January 1, 2011, we changed our method of recognizing actuarial gains and losses for pension and other postretirement benefits for all of our defined benefit plans. Historically, we recognized actuarial gains and losses in accumulated other comprehensive income within *Shareholders' Equity* on our consolidated balance sheets on an annual basis and amortized them into our operating results over the average remaining life expectancy of the plan participants for the majority of our U.S. and foreign benefit plans and over the remaining service period of plan participants for certain non-U.S. benefit plans, to the extent such gains and losses were outside of a corridor. We have elected to immediately recognize actuarial gains and losses, after consideration of inventory capitalization, in our operating results in the year in which the gains or losses occur because it is generally preferable to accelerate the recognition of deferred gains and losses into income rather than to delay such recognition. These gains and losses are generally only measured annually as of December 31 and accordingly will be recorded during the fourth quarter of each year. The majority of our net periodic benefit cost is captured within Corporate and eliminations in our operating segment results. The impact associated with our accounting change is reflected entirely within Corporate and eliminations. The annual recognition of actuarial gains and losses will be reflected within Corporate and eliminations. This change will improve the transparency in our operating results by more quickly recognizing the effects of economic and interest rate trends on plan obligations, investments and assumptions. All prior periods presented in this Quarterly Report on Form 10-Q have been adjusted to apply the new method retrospectively.

**Highlights and Executive Summary***Selected Financial Data*

| (In millions)    | Three Months Ended June 30, |                  | Six Months Ended June 30, |                  |
|------------------|-----------------------------|------------------|---------------------------|------------------|
|                  | 2011                        | Adjusted<br>2010 | 2011                      | Adjusted<br>2010 |
| Sales            | \$ 768.8                    | \$ 692.9         | \$ 1,487.3                | \$ 1,323.3       |
| Operating income | 50.5                        | 63.9             | 230.3                     | 97.6             |
| Net income       | 28.5                        | 48.1             | 138.7                     | 69.1             |

Sales increased 11.0% in the second quarter of 2011 compared to the second quarter of 2010, driven by a 9.0% increase from improved sales mix and increased market pricing associated with raw material inflation, 2.6% from foreign exchange gains, and 1.5% from acquisitions, which was offset by volume declines of 2.1%. Sales increased 12.4% in the first half of 2011 compared to the first half of 2010 driven by an 8.1% increase from improved sales mix and increased market pricing associated with raw material inflation, 1.5% from acquisitions, organic volume growth of 1.3% and a 1.5% from foreign exchange gains.

Operating income for the second quarter of 2011 decreased by \$13.4 million as compared to the second quarter of 2010, as improved operating performance gains were offset by a number of discrete items. Operating income for the second quarter of 2010 included \$7.8 million of income related to equity affiliates, whereas no such income was earned in the second quarter of 2011 due to the sale of our equity investments in SunBelt and BayOne. Additionally, the second quarter of 2010 included gains of \$18.4 million associated with proceeds from an insurance recovery and legal

settlements, whereas no such proceeds were received in the second quarter of 2011. Operating income increased by \$132.7 million in the first half of 2011 compared to the first half of 2010 primarily driven by a \$128.2 million net gain from the sale of our equity investment in SunBelt during the first quarter of 2011. Our earnings from equity affiliates in the first half of 2011 were \$3.6 million less than the first half of 2010 principally as a result of our sale of SunBelt, which was effective February 28, 2011. Additionally, operating income for the first half of 2011 included gains of \$1.9 million associated with insurance settlements, whereas \$21.6 million of insurance and legal settlements are included in operating income for the first half of 2010.

Net income decreased in the second quarter of 2011 and increased in the first half of 2011 as compared to the corresponding periods in 2010 primarily for the reasons cited above.

**Results of Operations** *Three-Month and Six-Month Periods Ended June 30, 2011 compared to the Three Month and Six-Month Periods Ended June 30, 2010*

| (Dollars in millions, except per share data) | Three Months Ended<br>June 30, |                  | Variances<br>Favorable<br>(Unfavorable) |          | Six Months Ended<br>June 30, |                  | Variances<br>Favorable<br>(Unfavorable) |          |
|--|--------------------------------|------------------|---|----------|------------------------------|------------------|---|----------|
|  | 2011                           | Adjusted<br>2010 | Change                                  | % Change | 2011                         | Adjusted<br>2010 | Change                                  | % Change |
| Sales  | \$ 768.8                       | \$ 692.9         | \$ 75.9                                 | 11.0%    | \$ 1,487.3                   | \$ 1,323.3       | \$ 164.0                                | 12.4%    |
| Cost of sales                                | 639.6                          | 566.1            | (73.5)                                  | (13.0)%  | 1,235.4                      | 1,092.8          | (142.6)                                 | (13.0)%  |
| Gross margin                                 | 129.2                          | 126.8            | 2.4                                     | 1.9%     | 251.9                        | 230.5            | 21.4                                    | 9.3%     |
| Selling and administrative                   | 78.7                           | 70.7             | (8.0)                                   | (11.3)%  | 155.5                        | 142.2            | (13.3)                                  | (9.4)%   |
| Income related to equity affiliates          |                                | 7.8              | (7.8)                                   | NM       | 133.9                        | 9.3              | 124.6                                   | NM       |
| Operating income                             | 50.5                           | 63.9             | (13.4)                                  | (21.0)%  | 230.3                        | 97.6             | 132.7                                   | 136.0%   |
| Interest expense, net                        | (8.4)                          | (7.7)            | (0.7)                                   | (9.1)%   | (16.9)                       | (15.7)           | (1.2)                                   | (7.6)%   |
| Other income (expense), net                  | 1.6                            | (1.2)            | 2.8                                     | NM       | 1.4                          | (1.9)            | 3.3                                     | NM       |
| Income before income taxes                   | 43.7                           | 55.0             | (11.3)                                  | (20.5)%  | 214.8                        | 80.0             | 134.8                                   | 168.5%   |
| Income tax expense                           | (15.2)                         | (6.9)            | (8.3)                                   | 120.3%   | (76.1)                       | (10.9)           | (65.2)                                  | NM       |
| Net income                                   | \$ 28.5                        | \$ 48.1          | \$ (19.6)                               | (40.7)%  | \$ 138.7                     | \$ 69.1          | \$ 69.6                                 | 100.7%   |
| Basic earnings per common share              | \$ 0.31                        | \$ 0.52          |   |          | \$ 1.48                      | \$ 0.75          |   |          |
| Diluted earnings per common share            | \$ 0.30                        | \$ 0.50          |   |          | \$ 1.45                      | \$ 0.72          |   |          |
| NM   | Not meaningful                 |                  |   |          |                              |                  |   |          |

*Sales*

Sales increased 11.0% in the second quarter of 2011 compared to the second quarter of 2010, driven by a 9.0% increase from improved sales mix and increased market pricing associated with raw material inflation, 2.6% from foreign exchange gains, and 1.5% from acquisitions, which was offset by volume declines of 2.1%. Sales increased 12.4% in the first half of 2011 compared to the first half of 2010 driven by an 8.1% increase from improved sales mix and increased market pricing associated with raw material inflation, 1.5% from acquisitions, organic volume growth of 1.3% and 1.5% from foreign exchange gains.

*Cost of Sales*

These costs include raw materials, plant conversion, distribution, environmental remediation and plant-related restructuring charges. Cost of sales as a percentage of sales increased from 81.7% in the second quarter of 2010 to 83.2% in the second quarter of 2011. Cost of sales for the second quarter of 2010 included gains of \$15.9 million associated with proceeds from insurance settlements, whereas no such proceeds were received in the second quarter of 2011. Cost of sales as a percentage of sales increased from 82.6% in the first half of 2010 to 83.1% in the first half of 2011. Cost of sales for the first half of 2011 was favorably impacted by gains of \$1.9 million associated with insurance settlements, whereas \$19.1 million of such benefits are included in cost of sales in the first half of 2010.



*Selling and Administrative*

These costs include selling, technology, administrative functions, corporate and general expenses and amortization of intangible assets. Selling and administrative costs increased in the second quarter and first half of 2011 as compared to the corresponding periods in 2010 principally due to increased investment in commercial resources and higher salaries and benefits.

*Income Related to Equity Affiliates*

*Income related to equity affiliates* is summarized as follows:

| (In millions)     | Adjusted<br>Three Months Ended June 30,<br>2011 | Adjusted<br>Three Months Ended June 30,<br>Adjusted<br>2010 | Adjusted<br>Six Months Ended June 30,<br>2011 | Adjusted<br>Six Months Ended June 30,<br>Adjusted<br>2010 |
|-------------------|---|---|---|---|
| SunBelt           | \$  | \$ 7.1  | \$ 133.9                                      | \$ 7.9  |
| BayOne            |   | 0.7   |   | 1.4   |
| <b>Net income</b> | <b>\$</b>                                       | <b>\$ 7.8</b>   | <b>\$ 133.9</b>                               | <b>\$ 9.3</b>   |

Effective February 28, 2011, we sold our 50% equity investment in Sunbelt and recorded a pre-tax gain of \$128.2 million in the first half of 2011. The net gain associated with our sale of our equity investment in SunBelt is reflected within Corporate and eliminations in our segments. The decrease in *Income related to equity affiliates* in the second quarter of 2011 compared to the second quarter of 2010 is a result our divestitures of our equity affiliates.

*Interest Expense, net*

*Interest expense, net* increased in the second quarter and first half of 2011 as compared to the corresponding periods in 2010 due to lower interest income, as the Excel Polymers note receivable of \$25.6 million was repaid in the fourth quarter of 2010. Included in *Interest expense, net* for second quarter of 2011 and 2010 is interest income of \$0.1 million and \$0.8 million, respectively. Included in *Interest expense, net* for the first half of 2011 and 2010 is interest income of \$0.3 million and \$1.6 million, respectively.

*Other Income (Expense), net*

*Other income (expense), net* includes financing costs associated with our accounts receivable sale facility, foreign currency gains and losses and other miscellaneous items. Included in *Other income (expense), net* for each of the second quarter and first half of 2011 is income of \$1.3 million associated with a royalty payment from a previously owned business. Included in *Other income (expense), net* for the first half of 2011 and 2010 is a gain of \$0.5 million and \$0.4 million, respectively, associated with our sale of O Sullivan Films.

*Income Tax (Expense) Benefit*

Income tax expense was \$15.2 million in the second quarter of 2011 compared to \$6.9 million in the second quarter of 2010. We decreased existing valuation allowances against our deferred tax assets by \$1.4 million in the second quarter of 2011 as a result of generating positive pre-tax income. We decreased these valuation allowances by \$12.9 million during the second quarter of 2010. We recognized \$1.4 million and \$0.3 million, respectively, of tax expense during the second quarter of 2011 and 2010, inclusive of related interest, associated with our uncertain tax positions.

Income tax expense was \$76.1 million in the first half of 2011 compared to \$10.9 million in the first half of 2010. We decreased existing valuation allowances against our deferred tax assets by \$4.0 million in first half of 2011 as a result of generating positive pre-tax income. We decreased these valuation allowances by \$16.5 million during the first half of 2010. We also recognized \$1.7 and \$0.5 million, respectively, of tax expense during the first half of 2011 and 2010, inclusive of related interest, associated with our uncertain tax positions.

**SEGMENT INFORMATION**

Operating income is the primary financial measure that is reported to the chief operating decision maker for purposes of allocating resources to segments and assessing segment performance. Operating income at the segment level does not include: corporate general and administrative costs that are not allocated to segments; intersegment sales and profit eliminations; charges related to specific strategic initiatives, such as the consolidation of operations; restructuring activities, including employee separation costs resulting from personnel reduction programs, plant closure and phaseout costs; executive separation agreements; share-based compensation costs; asset and goodwill impairments; environmental remediation costs for facilities no longer owned or closed in prior years; gains and losses on the divestiture of joint ventures and equity investments; and certain other items that are not included in the measure of segment profit or loss that is reported to and reviewed by the chief operating decision maker. These costs are included in *Corporate and eliminations*.

**Sales and Operating Income Three Month and Six-Month Periods Ended June 30, 2011 compared to the Three Month and Six-Month Periods Ended June 30, 2010:**

| (Dollars in millions)                 | Three Months Ended<br>June 30, |                  |           |          | Six Months Ended<br>June 30, |                  |          |          |
|---------------------------------------|--------------------------------|------------------|-----------|----------|------------------------------|------------------|----------|----------|
|                                       | 2011                           | Adjusted<br>2010 | Change    | % Change | 2011                         | Adjusted<br>2010 | Change   | % Change |
| <b>Sales:</b>                         |                                |                  |           |          |                              |                  |          |          |
| Global Specialty Engineered Materials | \$ 147.5                       | \$ 127.5         | \$ 20.0   | 15.7%    | \$ 299.4                     | \$ 253.8         | \$ 45.6  | 18.0%    |
| Global Color, Additives and Inks      | 146.2                          | 137.1            | 9.1       | 6.6%     | 286.6                        | 268.0            | 18.6     | 6.9%     |
| Performance Products and Solutions    | 241.4                          | 218.5            | 22.9      | 10.5%    | 450.1                        | 402.2            | 47.9     | 11.9%    |
| PolyOne Distribution                  | 265.5                          | 241.4            | 24.1      | 10.0%    | 512.5                        | 457.3            | 55.2     | 12.1%    |
| Corporate and eliminations            | (31.8)                         | (31.6)           | (0.2)     | NM       | (61.3)                       | (58.0)           | (3.3)    | NM       |
|                                       | \$ 768.8                       | \$ 692.9         | \$ 75.9   | 11.0%    | \$ 1,487.3                   | \$ 1,323.3       | \$ 164.0 | 12.4%    |
| <b>Operating income (loss):</b>       |                                |                  |           |          |                              |                  |          |          |
| Global Specialty Engineered Materials | \$ 12.7                        | \$ 12.1          | \$ 0.6    | 5.0%     | \$ 26.7                      | \$ 24.2          | \$ 2.5   | 10.3%    |
| Global Color, Additives and Inks      | 12.6                           | 11.6             | 1.0       | 8.6%     | 23.8                         | 20.5             | 3.3      | 16.1%    |
| Performance Products and Solutions    | 21.3                           | 17.6             | 3.7       | 21.0%    | 35.6                         | 29.7             | 5.9      | 19.9%    |
| PolyOne Distribution                  | 15.3                           | 11.6             | 3.7       | 31.9%    | 30.0                         | 20.2             | 9.8      | 48.5%    |
| SunBelt Joint Venture                 |                                | 6.1              | (6.1)     | NM       | 5.0                          | 5.8              | (0.8)    | (13.8)%  |
| Corporate and eliminations            | (11.4)                         | 4.9              | (16.3)    | NM       | 109.2                        | (2.8)            | 112.0    | NM       |
|                                       | \$ 50.5                        | \$ 63.9          | \$ (13.4) | (21.0)%  | \$ 230.3                     | \$ 97.6          | \$ 132.7 | 136.0%   |

**Operating income as a percentage of sales:**

|                                       |      |      |               |       |      |               |
|---------------------------------------|------|------|---------------|-------|------|---------------|
| Global Specialty Engineered Materials | 8.6% | 9.5% | (0.9)% points | 8.9%  | 9.5% | (0.6)% points |
| Global Color, Additives and Inks      | 8.6% | 8.5% | 0.1% points   | 8.3%  | 7.6% | 0.7% points   |
| Performance Products and Solutions    | 8.8% | 8.1% | 0.7% points   | 7.9%  | 7.4% | 0.5% points   |
| PolyOne Distribution                  | 5.8% | 4.8% | 1.0% points   | 5.9%  | 4.4% | 1.5% points   |
| Total                                 | 6.6% | 9.2% | (2.6)% points | 15.5% | 7.4% | 8.1% points   |

**Global Specialty Engineered Materials**

Sales increased \$20.0 million, or 15.7%, in the second quarter of 2011 compared to the second quarter of 2010. Higher market pricing associated with raw material inflation favorably impacted sales by 11.2%. Favorable foreign exchange rates impacted sales 5.3%, while gains from our acquisition of Uniplen largely offset organic customer pruning initiatives. Operating income increased \$0.6 million in the second quarter of 2011 as compared to the second quarter of 2010 as the benefit of increased sales more than offset a \$2.4 million increase in selling and administrative costs associated with our investment in commercial and technical resources.



Sales increased \$45.6 million, or 18.0%, in the first half of 2011 compared to the first half of 2010. Increases in market pricing associated with raw material inflation favorably impacted sales by 10.2%. Additionally, volume increases favorably impacted sales by 4.9% and changes in foreign exchange rates favorably impacted sales by 2.9%, while gains from our acquisition of Uniplen largely offset organic customer pruning initiatives. Operating income increased \$2.5 million in the first half of 2011 as compared to the first half of 2010, as the benefit of increased sales more than offset a \$5.0 million increase in selling and administrative costs associated with our investment in commercial and technical resources.

#### Global Color, Additives and Inks

Sales increased \$9.1 million, or 6.6%, in the second quarter of 2011 compared to the second quarter of 2010. Sales mix and increases in market pricing associated with raw material inflation favorably impacted sales by 13.3%. Changes in foreign exchange rates favorably impacted sales by 7.4% and were offset by a 14.1% decline in volume associated with an acceleration of customer pruning actions. Operating income increased \$1.0 million in the second quarter of 2011 as compared to the second quarter of 2010 as the benefit of increased sales and improved sales mix more than offset a \$3.4 million increase in selling and administrative costs associated with our investment in commercial and technical resources.

Sales increased \$18.6 million, or 6.9%, in the first half of 2011 compared to the first half of 2010. Sales mix and increases in market pricing associated with raw material inflation favorably impacted sales by 12.7%, and were partially offset by a 9.9% decline in volume associated with an acceleration of customer pruning actions. Currency exchange rates favorably impacted sales by 4.1%. Operating income increased \$3.3 million in the first half of 2011 as compared to the first half of 2010 driven by increased sales and improved sales mix as the benefit of increased sales more than offset a \$4.9 million increase in selling and administrative costs associated with our investment in commercial and technical resources.

#### Performance Products and Solutions

Sales increased \$22.9 million, or 10.5%, in the second quarter of 2011 compared to the second quarter of 2010. Higher selling prices associated with raw material inflation and improved product mix favorably impacted sales by 6.0% and volume added 4.1%, driven primarily by improvements in building and construction, industrial and wire and cable end markets. Operating income increased \$3.7 million in the second quarter of 2011 compared to the second quarter of 2010 primarily due to the increase in sales, improved product mix and resulting margin expansion.

Sales increased \$47.9 million, or 11.9%, in the first half of 2011 compared to the first half of 2010. Higher selling prices associated with raw material inflation and improved product mix favorably impacted sales by 3.9%. Volume added 7.7%, driven primarily by improvements in the building and construction, industrial and wire and cable end markets. Operating income increased \$5.9 million in the first half of 2011 compared to the first half of 2010 primarily due to the increase in sales, improved product mix and resulting margin expansion.

#### PolyOne Distribution

Sales increased \$24.1 million, or 10.0%, in the second quarter of 2011 compared to the second quarter of 2010. Sales were favorably impacted by 14.5% from improved product mix and increased market pricing primarily associated with raw material inflation. Volume declined 4.5% principally as gains in healthcare were more than offset by declines in other end markets including automotive. Operating income increased \$3.7 million in the second quarter of 2011 compared to the second quarter of 2010 due to increased sales, improved mix and resulting margin expansion.

Sales increased \$55.2 million, or 12.1%, in the first half of 2011 compared to the first half of 2010. Sales were favorably impacted by 14.6% from improved product mix and increased market pricing associated with raw material inflation, while volume declines impacted sales by 2.5%. The sales increase was driven by gains in the healthcare, industrial, consumer and transportation end markets. Operating income increased \$9.8 million in the first half of 2011 compared to the first half of 2010 due to increased sales, improved mix and resulting margin expansion.

SunBelt Joint Venture

Income from the SunBelt Joint Venture decreased for the second quarter and first half of 2011 compared to the corresponding periods in 2010 as a result of the sale of our equity investment in Sunbelt effective February 28, 2011.

Corporate and Eliminations

The following table breaks down Corporate and eliminations into its various components for the second quarter and first half of 2011 and 2010:

| (In millions)  | Three Months Ended June 30, |               | Six Months Ended June 30, |                 |
|--|-----------------------------|---------------|---------------------------|-----------------|
|  | 2011                        | Adjusted 2010 | 2011                      | Adjusted 2010   |
| Environmental remediation costs                        | \$ (1.6)                    | \$ (3.2)      | \$ (3.1)                  | \$ (6.3)        |
| Employee separation and plant phase-out                | (0.4)                       | (0.6)         | (0.7)                     | (0.5)           |
| Share-based compensation                               | (1.4)                       | (1.2)         | (2.6)                     | (2.1)           |
| Incentive compensation                                 | (6.3)                       | (7.5)         | (12.0)                    | (15.9)          |
| Unallocated pension and postretirement medical expense | 4.9                         | 3.4           | 9.8                       | 7.0             |
| Insurance settlements                                  |                             | 18.4          | 1.9                       | 21.6            |
| Gain on sale of equity interest in SunBelt             |                             |               | 128.2                     |                 |
| All other and eliminations (a)                         | (6.6)                       | (4.4)         | (12.3)                    | (6.6)           |
| <b>Total Corporate and eliminations</b>                | <b>\$ (11.4)</b>            | <b>\$ 4.9</b> | <b>\$ 109.2</b>           | <b>\$ (2.8)</b> |

(a) All other and eliminations is comprised of intersegment eliminations and corporate general and administrative costs that are not allocated to segments.

**Liquidity and Capital Resources**

| (In millions)                                  | December 31, 2010<br>June 30, 2011 | December 31, 2010<br>December 31, 2010 |
|--|------------------------------------|--|
| Cash and cash equivalents                      | \$ 416.8                           | \$ 378.1                               |
| Accounts receivable sale facility availability | 162.6                              | 128.2                                  |
| <b>Liquidity</b>                               | <b>\$ 579.4</b>                    | <b>\$ 506.3</b>                        |

Liquidity is defined as an enterprise's ability to generate adequate amounts of cash to meet both current and future needs. These needs include paying obligations as they mature, maintaining production capacity and providing for planned growth. Capital resources are sources of funds other than those generated by operations.

In the first half of 2011, liquidity increased by \$73.1 million, driven by the increase in our cash balance and the increase in accounts receivable, providing additional borrowing capacity against our accounts receivable sale facility. The increase in cash of \$38.7 million includes cash proceeds of \$132.3 million from the sale of our equity investment in SunBelt, offset by debt principal payments of \$20.0 million, cash of \$28.0 million paid to acquire our common shares, a net cash payment of \$21.8 million for our acquisition of Uniplen, capital expenditures of \$20.5 million and increased investment in our working capital of \$36.1 million to support our growth.

**Cash Flows**

The following describes the material components of cash flows from operating, investing and financing activities for the first half of 2011 and 2010.

**Operating Activities** In first half of 2011, net cash used by operating activities was \$8.9 million as compared to net cash provided by operating activities of \$41.2 million in the first half of 2010. In the first half of 2011, working capital, which we define as accounts receivable

## Edgar Filing: POLYONE CORP - Form 10-Q

plus inventory less accounts payable, increased reflecting our investment of \$36.1 million in support of our sales growth. Working capital as a percentage of sales for the first half of 2011 was 9.3% compared to 10.7% for the first half of 2010. Days sales outstanding over the period from December 31, 2010 to June 30, 2011 improved from 49.5 to 46.4.

**Investing Activities** Cash provided by investing activities during the first half of 2011 was \$93.5 million. This reflects cash proceeds of \$132.3 million from the sale of our 50% equity investment in SunBelt, net of cash paid for our acquisition of Uniplen, net of cash acquired, for \$21.8 million, and capital expenditures of \$20.5 million. Cash used in investing activities in the first half of 2010 was primarily comprised of capital expenditures of \$10.9 million, partially offset by cash proceeds of \$7.8 million associated with the sale of our investment in O Sullivan Films.

**Financing Activities** Net cash used by financing activities in the first half of 2011 was \$47.9 million, which includes repayment of \$20.0 million of aggregate principal amount of our 6.58% medium-term notes at maturity and cash paid to repurchase \$28.0 million of our outstanding common shares. Cash used by financing activities during the first half of 2010 reflects our repayment of \$20.0 million of aggregate principal amount of our 6.52% medium-term notes at maturity.

### Capital Resources

The following table summarizes our available and outstanding facilities as of June 30, 2011:

| (In millions)                                | Outstanding | Available |
|--|-------------|-----------|
| Long-term debt, including current maturities | \$ 432.9    | \$        |
| Accounts receivable sale facility            |             | 162.6     |
|  | \$ 432.9    | \$ 162.6  |

Our principal sources of liquidity and capital resources are our cash flows from operating activities and available funding under our accounts receivable sale facility. We expect that our ability to generate cash from our operations and other sources of liquidity and capital resources should be sufficient to support strategic acquisitions as well as our operating needs, debt service requirements, quarterly dividends and any repurchases of our common shares on a short-term and long-term basis.

### Long-Term Debt

As of June 30, 2011, long-term debt totaled \$432.9 million, with maturities ranging from 2012 to 2020. Current maturities of long-term debt were \$22.9 million at June 30, 2011.

Aggregate maturities of long-term debt for the next five years and thereafter are: 2012 \$22.9 million; 2013 \$0.0 million; 2014 \$0.0 million; 2015 \$50.0 million; 2016 \$0.0; and thereafter \$360.0 million.

Each of our 7.375% senior notes due 2020, 7.500% debentures due 2015 and 8.875% senior notes due 2012 are direct, unsecured obligations and are not guaranteed by any of our subsidiaries. The indentures governing our 2012, 2015 and 2020 debentures and senior notes contain limitations on our ability to incur further debt.

### Guarantee and Agreement

We entered into a definitive Guarantee and Agreement with Citicorp USA, Inc., KeyBank National Association and National City Bank (now PNC Bank) on June 6, 2006. Under this Guarantee and Agreement, we guarantee some treasury management and banking services provided to us and our subsidiaries, such as foreign currency forwards and bank overdrafts. This guarantee is secured by our inventories located in the United States.

### Accounts Receivable Sale Facility

As of June 30, 2011, we had receivables sale facilities outstanding in the United States and Canada totaling \$200 million. These facilities expire in June 2012. The maximum proceeds that we may receive are limited to the lesser of \$200 million or 85% of the eligible domestic and Canadian accounts receivable sold. This facility also makes up to \$40 million available for issuing standby letters of credit as a sub-limit within the \$200 million facility, of which \$12.9 million was used at June 30, 2011.

The facility requires us to maintain a minimum fixed charge coverage ratio (defined as Adjusted EBITDA less capital expenditures, divided by the sum of interest expense and scheduled debt repayments for the next four quarters) of at least 1 to 1 when average excess availability under the facility is \$40 million or less. As of June 30, 2011, the average excess availability under the facility was greater than \$40 million. Additionally, the fixed charge coverage ratio exceeded 1 to 1.

**Contractual Obligations**

We have future obligations under various contracts relating to debt and interest payments, operating leases, standby letters of credit, pension and postretirement benefit plans and purchase obligations. During the six months ended June 30, 2011, there were no significant changes to these obligations as reported in our Annual Report on Form 10-K for the year ended December 31, 2010, except as it relates to the scheduled repayment of debt as previously discussed.

**CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS**

In this quarterly report on Form 10-Q, statements that are not reported financial results or other historical information are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give current expectations or forecasts of future events and are not guarantees of future performance. They are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. They use words such as will, anticipate, estimate, expect, project, intend, plan, believe and other words with similar meaning in connection with any discussion of future operating or financial performance and/or sales. In particular, these include statements relating to future actions; prospective changes in raw material costs, product pricing or product demand; future performance; results of current and anticipated market conditions and market strategies; sales efforts; expenses; the outcome of contingencies such as legal proceedings; and financial results. Factors that could cause actual results to differ materially from those implied by these forward-looking statements include, but are not limited to:

the effect on foreign operations of currency fluctuations, tariffs and other political, economic and regulatory risks;

changes in polymer consumption growth rates where PolyOne conducts business;

changes in global industry capacity or in the rate at which anticipated changes in industry capacity come online in the polyvinyl chloride (PVC), vinyl chloride monomer (VCM) or other industries in which PolyOne participates;

fluctuations in raw material prices, quality and supply and in energy prices and supply;

production outages or material costs associated with scheduled or unscheduled maintenance programs;

unanticipated developments that could occur with respect to contingencies such as litigation and environmental matters, including any developments that would require any increase in our costs and/or reserves for such contingencies;

an inability to achieve or delays in achieving or achievement of less than the anticipated financial benefit from initiatives related to working capital reductions, cost reductions and employee productivity goals and our new global organization structure;

an inability to raise or sustain prices for products or services;

an inability to maintain appropriate relations with unions and employees;

the speed and extent of an economic recovery, including the recovery of the housing market;

the financial condition of our customers, including the ability of customers (especially those that may be highly leveraged and those with inadequate liquidity) to maintain their credit availability;

disruptions, uncertainty or volatility in the credit markets that may limit our access to capital;

## Edgar Filing: POLYONE CORP - Form 10-Q

the amount and timing of repurchases of PolyOne common shares;

our ability to pay regular quarterly cash dividends and the amounts and timing of any future dividends;

other factors affecting our business beyond our control, including, without limitation, changes in the general economy, changes in interest rates and changes in the rate of inflation; and

other factors described in our Annual Report on Form 10-K for the year ended December 31, 2010 under Item 1A, Risk Factors. We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law. You are advised, however, to consult any further disclosures we make on related subjects in our reports on Forms 10-Q, 8-K and 10-K furnished to the SEC. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to certain market risks as part of our ongoing business operations, including risks from foreign currency exchange rates that could impact our financial condition, results of operations and cash flows. We manage our exposure to these and other market risks through regular operating and financing activities, including the use of derivative financial instruments. We intend to use these derivative financial instruments as risk management tools and not for speculative investment purposes.

*Foreign currency exposure* We enter into intercompany lending transactions that are denominated in various foreign currencies and are subject to financial exposure from foreign exchange rate movement from the date a loan is recorded to the date it is settled or revalued. To mitigate this risk, we enter into foreign exchange contracts, which had a fair value of less than \$0.1 million at June 30, 2011. Gains and losses on these contracts generally offset gains and losses on the assets and liabilities being hedged.

We face translation risks related to the changes in foreign currency exchange rates. Amounts invested in our foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as a component of *Accumulated other comprehensive income (loss)* in the Shareholders' equity section of the accompanying consolidated balance sheets. Net sales and expenses in our foreign operations' foreign currencies are translated into varying amounts of U.S. dollars depending upon whether the U.S. dollar weakens or strengthens against other currencies. Therefore, changes in exchange rates may either positively or negatively affect our net sales and expenses from foreign operations as expressed in U.S. dollars.

### **Item 4. Controls and Procedures**

#### **Disclosure controls and procedures**

PolyOne's management, under the supervision of and with the participation of its Chief Executive Officer and its Chief Financial Officer, has evaluated the effectiveness of the design and operation of PolyOne's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this quarterly report. Based upon this evaluation, PolyOne's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, its disclosure controls and procedures were effective.

#### **Changes in internal control over financial reporting**

There were no changes in PolyOne's internal control over financial reporting during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.



**Part II Other Information****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The table below sets forth information regarding repurchases of our common shares during the period indicated:

| Period              | Total Number of Shares Purchased | Weighted Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares that May Yet be Purchased Under the Program (1) |
|---------------------|----------------------------------|---------------------------------------|--|--|
| April 1 to April 30 | 3,763(2)                         | 13.78                                 |  | 7,750,000  |
| May 1 to May 31     | 479,683                          | 14.27                                 | 479,683  | 7,270,317  |
| June 1 to June 30   | 520,317                          | 14.36                                 | 520,317  | 6,750,000  |
| Total               | 1,003,763                        | \$ 14.31                              | 1,000,000  |  |

- (1) On August 18, 2008, our Board of Directors approved a stock repurchase program authorizing us, depending upon market conditions and other factors, to repurchase up to 10.0 million shares of our common stock, in the open market or in privately negotiated transactions.
- (2) Represents shares surrendered to our company to satisfy the exercise price in connection with the exercise of options.

**Item 6. Exhibits**

| Exhibit No. | Description of Exhibit   |
|-------------|--|
| 31.1        | Certification of Stephen D. Newlin, Chairman, President and Chief Executive Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002        |
| 31.2        | Certification of Robert M. Patterson, Executive Vice President and Chief Financial Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1        | Certification of Stephen D. Newlin, Chairman, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                   |
| 32.2        | Certification of Robert M. Patterson, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002            |
| * 101.INS   | XBRL Instance Document   |
| * 101.SCH   | XBRL Taxonomy Extension Schema Document  |
| * 101.CAL   | XBRL Taxonomy Extension Calculation Linkbase Document  |
| * 101.DEF   | XBRL Taxonomy Extension Definition Linkbase Document   |
| * 101.LAB   | XBRL Taxonomy Extension Label Linkbase Document  |
| * 101.PRE   | XBRL Taxonomy Extension Presentation Linkbase Document   |

- \* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 3, 2011

POLYONE CORPORATION

/s/ Robert M. Patterson  
Robert M. Patterson  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>  |
|--------------------|--|
| 31.1               | Certification of Stephen D. Newlin, Chairman, President and Chief Executive Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002        |
| 31.2               | Certification of Robert M. Patterson, Executive Vice President and Chief Financial Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1               | Certification of Stephen D. Newlin, Chairman, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                   |
| 32.2               | Certification of Robert M. Patterson, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002            |
| *101.INS           | XBRL Instance Document   |
| *101.SCH           | XBRL Taxonomy Extension Schema Document  |
| *101.CAL           | XBRL Taxonomy Extension Calculation Linkbase Document  |
| *101.DEF           | XBRL Taxonomy Extension Definition Linkbase Document   |
| *101.LAB           | XBRL Taxonomy Extension Label Linkbase Document  |
| *101.PRE           | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.