

POLYONE CORP
Form 10-Q
July 31, 2013

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, 2013

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)

Ohio 34-1730488
(State or other jurisdiction (I.R.S. Employer Identification No.)
of incorporation or organization)

33587 Walker Road, Avon Lake, Ohio 44012
(Address of principal executive offices) (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 12, 2013 was 96,952,983.

Part I — Financial Information

Item 1. Financial Statements

PolyOne Corporation

Condensed Consolidated Statements of Income (Unaudited)

(In millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	Adjusted 2012	2013	Adjusted 2012
Sales	\$1,037.6	\$756.6	\$1,838.7	\$1,502.1
Cost of sales	833.9	612.6	1,472.7	1,225.8
Gross margin	203.7	144.0	366.0	276.3
Selling and administrative expense	123.0	100.7	244.9	196.0
Income related to previously owned equity affiliates	—	—	0.1	0.4
Operating income	80.7	43.3	121.2	80.7
Interest expense, net	(16.6)	(12.4)	(32.2)	(24.7)
Premium on early extinguishment of debt	—	—	(10.6)	—
Other (expense) income, net	(1.2)	(0.9)	0.2	(2.2)
Income from continuing operations before income taxes	62.9	30.0	78.6	53.8
Income tax expense	(24.6)	(11.6)	(29.3)	(20.1)
Net income from continuing operations	38.3	18.4	49.3	33.7
Income from discontinued operations, net of income taxes	142.3	6.2	146.4	11.1
Net income	\$180.6	\$24.6	\$195.7	\$44.8
Net loss attributable to noncontrolling interests	0.3	—	0.5	—
Net income attributable to PolyOne common shareholders	\$180.9	\$24.6	\$196.2	\$44.8
Earnings per common share attributable to PolyOne common shareholders - Basic:				
Continuing operations	\$0.39	\$0.21	\$0.52	\$0.38
Discontinued operations	1.46	0.07	1.55	0.12
Total	\$1.85	\$0.28	\$2.07	\$0.50
Earnings per common share attributable to PolyOne common shareholders - Diluted:				
Continuing operations	\$0.39	\$0.20	\$0.52	\$0.37
Discontinued operations	1.44	0.07	1.53	0.12
Total	\$1.83	\$0.27	\$2.05	\$0.49
Weighted-average shares used to compute earnings per share:				
Basic	97.7	89.1	94.7	89.1
Diluted	99.1	90.7	95.8	90.7
Cash dividends declared per share of common stock	\$0.06	\$0.05	\$0.12	\$0.10

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation
 Consolidated Statements of Comprehensive Income (Unaudited)
 (In millions)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$180.6	\$24.6	\$195.7	\$44.8
Other comprehensive income				
Translation adjustment	(4.7)	(12.9)	(10.7)	(5.4)
Amortization of prior service credits, net of tax	—	(2.7)	—	(5.5)
Total comprehensive income	175.9	9.0	185.0	33.9
Comprehensive loss attributable to noncontrolling interests	0.3	—	0.5	—
Comprehensive income attributable to PolyOne common shareholders	\$176.2	\$9.0	\$185.5	\$33.9

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation
Condensed Consolidated Balance Sheets (Unaudited)
(In millions)

	June 30, 2013	Adjusted December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$392.4	\$210.0
Accounts receivable, net	521.5	313.9
Inventories, net	367.9	244.4
Assets held-for-sale	—	39.3
Other current assets	73.6	81.1
Total current assets	1,355.4	888.7
Property, net	654.7	385.8
Goodwill	549.5	405.5
Intangible assets, net	376.1	340.0
Other non-current assets	137.7	108.0
Total assets	\$3,073.4	\$2,128.0
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	\$8.7	\$3.8
Accounts payable	415.4	296.1
Liabilities held-for-sale	—	18.0
Accrued expenses	257.5	141.9
Total current liabilities	681.6	459.8
Non-current liabilities:		
Long-term debt	1,022.5	703.1
Post-retirement benefits other than pensions	15.9	16.9
Pension benefits	118.2	182.8
Deferred income taxes	137.3	31.8
Other non-current liabilities	102.2	102.2
Total non-current liabilities	1,396.1	1,036.8
Commitments and contingencies (Note 13)		
Shareholders' equity		
PolyOne shareholders' equity	993.9	629.1
Noncontrolling interests	1.8	2.3
Total equity	995.7	631.4
Total liabilities and shareholders' equity	\$3,073.4	\$2,128.0

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In millions)

	Six Months Ended June 30,	
	2013	Adjusted 2012
Operating Activities		
Net income	\$195.7	\$44.8
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation and amortization	45.8	35.6
Debt extinguishment costs	10.6	—
Provision for doubtful accounts	—	0.7
Stock based compensation expense	10.1	5.0
Gain on sale of business	(223.6)) —
Change in assets and liabilities, net of the effect of acquisitions and disposal:		
Increase in accounts receivable	(70.6)	) (85.1)
Increase in inventories	(3.9)	) (16.5)
Increase in accounts payable	15.5	59.5
Decrease in pensions and other post-retirement benefits	(65.7)	) (18.3)
Increase in accrued expenses and other	60.9	6.6
Net cash (used) provided by operating activities	(25.2)	) 32.3
Investing Activities		
Capital expenditures	(26.7)	) (16.7)
Business acquisitions, net of cash acquired	(259.4)) —
Proceeds from sale of businesses and other assets	274.1	18.9
Net cash (used) provided by investing activities	(12.0)	) 2.2
Financing Activities		
Repayment of long-term debt	(297.0)	) (1.5)
Proceeds from long-term debt	600.0	—
Debt financing costs	(13.0)) —
Borrowings under credit facilities	125.0	—
Repayments under credit facilities	(117.5)) —
Purchase of common shares for treasury	(71.2)	) (15.9)
Exercise of stock awards	3.3	6.4
Cash dividends paid	(9.9)	) (8.0)
Proceeds from noncontrolling interests	—	2.4
Net cash provided (used) by financing activities	219.7	) (16.6)
Effect of exchange rate changes on cash	(0.1)	) (0.5)
Increase in cash and cash equivalents	182.4	17.4
Cash and cash equivalents at beginning of period	210.0	191.9
Cash and cash equivalents at end of period	\$392.4	\$209.3
See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.		

PolyOne Corporation

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, 2012 of PolyOne Corporation.

Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be attained in subsequent periods or for the year ending December 31, 2013.

On March 13, 2013, pursuant to the terms and conditions of the Agreement and Plan of Merger dated October 23, 2012 (Spartech Merger Agreement), PolyOne acquired Spartech Corporation (Spartech), a supplier of sustainable plastic sheet, color and engineered materials, and packaging solutions, based in Clayton, Missouri. Spartech expands PolyOne's specialty portfolio with adjacent technologies in attractive end markets where we already participate, as well as new end markets such as aerospace and security. By combining Spartech's leading market positions in sheet, rigid barrier packaging and specialty cast acrylics with PolyOne's capabilities, we believe we can better serve our customers and accelerate growth.

On May 30, 2013, PolyOne sold its vinyl dispersion, blending and suspension resin assets (Resin Business) to Mexichem Specialty Resins Inc. (Mexichem), a wholly-owned subsidiary of Mexichem, S.A.B. de C.V., for \$250.0 million cash consideration, subject to a working capital adjustment that is expected to be finalized in the third quarter of 2013. This sale resulted in the recognition of a pre-tax gain of \$223.6 million (\$138.2 million net of tax) in the second quarter of 2013, which is reflected within the Income from discontinued operations, net of income taxes line of the Condensed Consolidated Statements of Income.

Reorganization of Segment Information

As a result of the acquisition of Spartech, we created a new segment. Spartech's former Custom Sheet and Rollstock and Packaging Technology businesses are reported within this new segment referred to as "Designed Structures and Solutions", and the remaining Spartech businesses are being split among PolyOne's existing Global Specialty Engineered Materials, Global Color, Additives and Inks and Performance Products and Solutions segments.

As a result of the sale of our Resin Business, this business has been removed from the Performance Products and Solutions segment and presented as a discontinued operation. Additionally, our Specialty Coatings business, which was previously included in the Performance Products and Solutions segment, is now included within the Global Color, Additives and Inks segment. Historical segment information has been retrospectively adjusted to reflect these changes. See Note 12, Segment Information for further information.

Note 2 — BUSINESS COMBINATIONS

Spartech Corporation

On March 13, 2013, pursuant to the terms and conditions of the Spartech Merger Agreement, PolyOne acquired Spartech, a supplier of sustainable plastic sheet, color and engineered materials, and packaging solutions, based in Clayton, Missouri, with 2012 sales of \$1,149.4 million and net income from continuing operations of \$2.7 million. At the effective time of the merger, each issued and outstanding share of Spartech common stock was canceled and converted into the right to receive consideration equal to \$2.67 in cash and 0.3167 shares of PolyOne common stock. PolyOne paid \$83.4 million in cash and issued approximately 10.0 million shares of its common stock to Spartech's stockholders. PolyOne funded the cash portion of the consideration, and the repayment of certain portions of Spartech's debt, with a portion of the net proceeds of its issuance of 5.25% senior notes due 2023, discussed in Note 11, Financing Arrangements.

PolyOne's management believes that the acquisition of Spartech will provide substantial synergies through enhanced operational cost efficiencies and will expand PolyOne's specialty portfolio. By combining Spartech's leading market positions in sheet, rigid barrier packaging and specialty cast acrylics with PolyOne's capabilities, we believe that we can better serve our customers and accelerate growth.

Spartech's results have been reflected within our Condensed Consolidated Statements of Income and within our newly created segment Designed Structures and Solutions, as well as our existing Global Specialty Engineered Materials, Global Color, Additives and Inks and Performance Products and Solutions segments since the date of acquisition. Sales of former Spartech businesses included in our three and six months ended June 30, 2013 results were \$277.5 million and \$332.2 million, respectively.

Based on the closing price of PolyOne's common stock on March 13, 2013, the purchase price was comprised of the following:

(In millions, except stock price and share data)

Spartech shares outstanding	31.2	
Spartech restricted stock units	0.2	
Spartech shares converted	31.4	
Exchange ratio	0.3167	
PolyOne shares issued	10.0	
PolyOne closing stock price on March 13, 2013	\$25.05	
Total value of PolyOne shares issued	\$249.9	
Cash consideration transferred to Spartech shareholders	83.4	
Fair value of Spartech equity awards, net of deferred tax benefits ⁽¹⁾	2.4	
Total consideration transferred to Spartech equity holders	335.7	
Spartech revolving credit facilities repaid at close ⁽²⁾	77.2	
Spartech senior notes repaid at close ⁽²⁾	102.3	
Total consideration transferred to debt and equity holders	515.2	
Cash acquired	(4.1)
Total consideration transferred to debt and equity holders, net of cash acquired	\$511.1	

(1) In accordance with ASC 718, Compensation — Stock Compensation, the fair value of replacement awards attributable to pre-combination service is recognized as part of purchase consideration. The \$2.4 million represents the fair value of Spartech replacement equity awards of \$3.9 million net of deferred tax benefits of \$1.5 million. The fair value of awards attributable to post-combination service amounted to \$2.7 million and is being recognized as stock compensation over their requisite service periods within PolyOne's Condensed Consolidated Statements of Income.

(2) In accordance with the provisions of Spartech's senior notes due 2016 and revolving credit facilities, at the time of closing, PolyOne repaid all borrowings under Spartech's revolving credit facilities, which amounted to \$77.2 million. Additionally, PolyOne repaid \$102.3 million related to Spartech's 7.08% senior notes due 2016, including \$88.9 million of aggregated principal, \$10.3 million make-whole provisions, and \$3.1 million of interest payable.

The acquisition of Spartech has been accounted for using the acquisition method of accounting, which requires, among other things, the assets acquired and liabilities assumed be recognized at their respective fair values as of the acquisition date. As of June 30, 2013, the purchase price allocation remains preliminary as we complete our assessment of property, certain reserves including, environmental, legal and tax matters, obligations and deferred taxes, as well as complete our review of Spartech's existing accounting policies.

The following table summarizes PolyOne's preliminary fair value estimates as of June 30, 2013.

(In millions)	Preliminary Allocation
Accounts receivable, net	\$139.6
Inventories, net	120.9
Other current assets	18.3
Property, net	285.8
Other non-current assets	20.2
Intangible assets, net	45.3
Goodwill	142.7
Total assets acquired	772.8
Short-term and current portion of long-term debt	0.5
Accounts payable	105.2
Accrued expenses	42.2
Long-term debt	11.0
Other non-current liabilities	102.8
Total liabilities assumed	261.7
Net assets acquired	\$511.1

Goodwill is calculated as the excess of the consideration transferred over the assets acquired and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill has been allocated, on a preliminary basis, to the Designed Structures and Solutions, Global Color, Additives and Inks, Global Specialty Engineered Materials and Performance Products and Solutions segments. Goodwill recognized as a result of this acquisition is not deductible for tax purposes. See Note 4, Goodwill and Intangible Assets for information about goodwill and intangible assets.

The following unaudited pro forma information presents a summary of PolyOne's Condensed Consolidated Statements of Income for the three and six months ended June 30, 2013 and 2012, which includes Spartech's Combined Statement of Operations for the respective periods, as if the acquisition and related financing occurred on January 1, 2012. Spartech's fiscal year ends on the Saturday closest to October 31, and as a result, the first half of 2012 includes an additional week in comparison to the first half of 2013. The following pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction occurred on the assumed date, nor is it necessarily an indication of trends in future results for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma information, cost savings from operating efficiencies, potential synergies, and the impact of incremental costs incurred in integrating the businesses:

(In millions)	Three Months Ended		Six Months Ended	
	June 30, Actual 2013	Pro Forma 2012	June 30, Pro Forma 2013	Pro Forma 2012
Sales	\$1,037.6	\$1,053.9	\$2,056.7	\$2,080.1
Net income from continuing operations	\$38.3	\$21.4	\$50.8	\$34.2

The unaudited pro forma financial information presented in the table above has been adjusted to give effect to adjustments that are: (1) directly related to the business combination; (2) factually supportable; and (3) expected to have a continuing impact. These adjustments include, but are not limited to, depreciation and amortization related to fair value adjustments to property, plant and equipment and intangible assets, and interest expense on acquisition-related debt.

Other Acquisitions

On December 19, 2012, PolyOne acquired all of the outstanding equity of Glasforms Inc. (Glasforms), a leading manufacturer of glass and carbon fiber reinforced polymers and advanced composite products, with 2012 annual sales of \$51.1 million. The purchase marks PolyOne's entry into advanced composites, an adjacent technology consistent with the Company's strategy of providing specialty solutions that deliver high value to customers.

Consideration transferred was \$34.3 million, net of cash acquired of \$1.2 million. Glasforms results are reflected within our our Global Specialty Engineered Materials segment. On a preliminary basis, the acquisition resulted in goodwill of \$12.1 million and \$10.7 million of identifiable intangible assets. The purchase price allocation will be finalized during 2013 as we complete our assessment of certain reserves, obligations and deferred taxes.

During the first half of 2013, we incurred \$6.0 million of acquisition related costs, which are included within the Selling and administrative expense line in our Condensed Consolidated Statements of Income.

Note 3 — DISCONTINUED OPERATIONS

On May 30, 2013, PolyOne sold its Resin Business to Mexichem for \$250.0 million cash consideration, subject to a working capital adjustment that is expected to be finalized in the third quarter of 2013. This sale resulted in the recognition of a pre-tax gain of \$223.6 million (\$138.2 million net of tax) in the second quarter of 2013, which is reflected within the Income from discontinued operations, net of income taxes line of the Condensed Consolidated Statements of Income.

PolyOne has classified the Resin Business assets and liabilities as held-for-sale for periods prior to disposition in the accompanying Condensed Consolidated Balance Sheets and has classified the Resin Business operating results and the gain on sale, net of tax, as discontinued operations in the accompanying Condensed Consolidated Statement of Income for all periods presented. Previously, the Resin Business was included in the Performance Products and Solutions segment. The Resin Business' sales, income before income taxes and net income were as follows:

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2013 *	2012	June 30, 2013 *	2012
Sales	\$22.9	\$35.5	\$55.3	\$70.9
Gain on sale	\$223.6	\$—	\$223.6	\$—
Income from operations	5.7	9.6	12.2	17.2
Income before taxes	229.3	9.6	235.8	17.2
Income tax expense	(87.0)	(3.4)	(89.4)	(6.1)
Net income	\$142.3	\$6.2	\$146.4	\$11.1

* Includes the Resin Business' operating results through May 29, 2013.

The following table summarizes the assets and liabilities of the Resin Business as of December 31, 2012:

(In millions)	December 31, 2012
Assets:	
Accounts receivable, net	\$8.8
Inventories, net	8.2
Property, net	21.7
Other assets	0.6
Assets held-for-sale	\$39.3
Liabilities:	
Accounts payable	\$15.8
Accrued expenses	2.2
Liabilities held-for-sale	\$18.0

Note 4 — GOODWILL AND INTANGIBLE ASSETS

Goodwill as of and for the periods ended June 30, 2013 and December 31, 2012, and changes in the carrying amount of goodwill by operating segments were as follows:

(In millions)	Global Specialty Engineered Materials	Global Color, Additives and Inks	Designed Structures and Solutions	Performance Products and Solutions	PolyOne Distribution	Total
Balance December 31, 2011	\$89.2	\$297.3	\$—	\$7.4	\$1.6	\$395.5
Acquisitions of businesses	10.0	0.6	—	—	—	10.6
Currency translation	(0.6)	) —	—	—	—	(0.6)
Balance December 31, 2012	98.6	297.9	—	7.4	1.6	405.5
Acquisitions of businesses	3.5	12.3	126.9	1.5	—	144.2
Currency translation	(0.2)	) —	—	—	—	(0.2)
Balance June 30, 2013	\$101.9	\$310.2	\$126.9	\$8.9	\$1.6	\$549.5

Indefinite and finite-lived intangible assets consisted of the following:

(In millions)	As of June 30, 2013			
	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Customer relationships	\$191.1	\$(29.9)	) \$0.3	\$161.5
Sales contracts	11.4	(10.8)	) —	0.6
Patents, technology and other	116.0	(14.3)	) 0.1	101.8
Indefinite-lived trade names	96.3	—	—	96.3
In-process research and development	15.9	—	—	15.9
Total	\$430.7	\$(55.0)	) \$0.4	\$376.1

(In millions)	As of December 31, 2012			
	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Customer relationships	\$173.1	\$(25.7)	) \$0.5	\$147.9
Sales contracts	11.4	(10.8)	) —	0.6
Patents, technology and other	89.3	(10.1)	) 0.1	79.3
Indefinite-lived trade names	96.3	—	—	96.3
In-process research and development	15.9	—	—	15.9
Total	\$386.0	\$(46.6)	) \$0.6	\$340.0

The estimated fair values of intangible assets acquired in the Spartech acquisition included in the table below were determined using an income valuation approach. The estimated fair value of these identifiable intangible assets, useful lives and valuation methodology are as follows:

(In millions)	Fair Value	Useful Life	Valuation Method
Technology	\$27.3	7 years	Relief-from royalty
Customer Relationships	18.0	20 years	Multi-period excess earnings
	\$45.3		

Note 5 — EMPLOYEE SEPARATION AND PLANT PHASE-OUT COSTS

In the second quarter of 2013, PolyOne recognized \$2.9 million of employee separation and plant phase-out costs related primarily to Spartech severance and Spartech ongoing plant exit costs related to locations that were closed prior to PolyOne's acquisition of Spartech. During the first half of 2013, PolyOne recognized \$12.8 million of employee separation and plant phase-out costs related primarily to Spartech severance and Spartech ongoing plant exit costs related to locations that were closed prior to PolyOne's acquisition of Spartech. These costs are recognized within Selling and administrative expense in our Condensed Consolidated Statements of Income and within Corporate and eliminations in segment disclosures.

During the second quarter of 2012, the Company undertook actions to realign production capacities and improve return on invested capital. These actions were primarily in response to weak European demand and resulted in \$8.7 million of expense related to plant closure and reductions in force occurring in the second quarter of 2012. These costs are recognized within Selling and administrative expense in our Condensed Consolidated Statement of Income and within Corporate and eliminations in segment disclosures.

Information regarding the North American manufacturing restructuring can be found in Note 17, Subsequent Events.

Note 6 — INVENTORIES, NET

Components of Inventories, net are as follows:

(In millions)	June 30, 2013	Adjusted December 31, 2012
At FIFO cost:		
Finished products	\$219.7	\$165.0
Work in process	4.0	2.4
Raw materials and supplies	144.2	77.0
Inventories, net	\$367.9	\$244.4

Note 7 — PROPERTY, NET

Components of Property, net are as follows:

(In millions)	June 30, 2013	Adjusted December 31, 2012
Land and land improvements	\$50.3	\$34.7
Buildings	317.6	241.4
Machinery and equipment	1,050.4	844.5
Property, gross	1,418.3	1,120.6
Less accumulated depreciation and amortization	(763.6)	(734.8)
Property, net	\$654.7	\$385.8

Note 8 — INCOME TAXES

Income tax expense from continuing operations was \$24.6 million for the second quarter of 2013 compared to \$11.6 million in the second quarter of 2012. Income tax expense from continuing operations was \$29.3 million for the first half of 2013 compared to \$20.1 million in the first half of 2012. These income tax increases were driven by increased earnings in 2013.

Note 9 — WEIGHTED-AVERAGE SHARES USED IN COMPUTING EARNINGS PER SHARE

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Weighted-average shares outstanding – basic	97.7	89.1	94.7	89.1
Plus dilutive impact of stock options and awards	1.4	1.6	1.1	1.6
Weighted-average shares – diluted	99.1	90.7	95.8	90.7

For the three months ended June 30, 2013 and 2012, 0.3 million and 0.5 million of equity-based awards, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. For the six months ended June 30, 2013 and 2012, 0.4 million and 0.9 million of equity-based awards, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. During the first quarter of 2013, 0.5 million stock appreciation rights were granted under the PolyOne Corporation 2010 Equity and Performance Incentive Plan. These awards vest in one-third increments annually over a three-year service period and upon the achievement of certain stock price targets. Because the market conditions have not been met, the awards are excluded from the calculation of earnings per share.

Note 10 — EMPLOYEE BENEFIT PLANS

Components of defined benefit pension plan (gains) costs are as follows:

(In millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Service cost	\$0.4	\$0.4	\$0.8	\$0.8
Interest cost	5.9	6.7	11.8	13.4
Expected return on plan assets	(9.3)	(6.9)	(18.6)	(13.8)
Net periodic benefit (gains) costs	\$(3.0)	\$0.2	\$(6.0)	\$0.4

Components of post-retirement health care plan benefit (gains) costs are as follows:

(In millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Interest cost	\$0.2	\$0.2	\$0.4	\$0.5
Amortization of prior service costs	—	(4.3)	—	(8.7)
Net periodic benefit costs (gains)	\$0.2	\$(4.1)	\$0.4	\$(8.2)

Note 11 — FINANCING ARRANGEMENTS

Debt consists of the following instruments:

(Dollars in millions)	June 30, 2013	December 31, 2012 ⁽¹⁾
7.500% debentures due 2015	\$50.0	\$50.0
Senior secured term loan due 2017	—	294.5
7.375% senior notes due 2020	360.0	360.0
5.250% senior notes due 2023	600.0	—
Other debt	21.2	2.4
Total long-term debt	1,031.2	706.9
Less current portion	8.7	3.8
Total long-term debt, net of current portion	\$1,022.5	\$703.1

(1) Book values include unamortized discounts, as applicable.

On February 28, 2013, PolyOne issued \$600.0 million aggregate principal amount of senior notes, which mature March 15, 2023. The senior notes bear an interest rate of 5.25% per year, payable semi-annually, in arrears, on March 15 and September 15 of each year, commencing on September 15, 2013. We used a portion of the net proceeds of this offering to pay the cash portion of the Spartech acquisition, and to repay certain Spartech debt, including the \$88.9 million aggregate principal amount of its senior notes due 2016 and related interest and make-whole payments totaling \$13.4 million and all outstanding amounts under its revolving credit facility. We also used a portion of these net proceeds to make a voluntary \$50.0 million contribution to our U.S. qualified defined benefit plan and to repay the outstanding principal amount of \$297.0 million under our senior secured term loan.

Debt extinguishment costs of \$10.6 million related to the early retirement of our senior secured term loan included \$8.2 million of deferred financing cost write-offs and \$2.4 million of discount write-offs. These costs are presented within the Premium on early extinguishment of debt line in our Condensed Consolidated Statements of Income. As a result of the issuance of our 2023 senior notes, the bridge financing commitment that provided for borrowings of \$250.0 million obtained at the time of the announced acquisition of Spartech expired. We recognized \$1.9 million of deferred financing costs within Interest expense, net within the Condensed Consolidated Statements of Income in the first quarter of 2013, related to this committed financing arrangement.

On March 1, 2013, the \$300.0 million five-year senior secured revolving credit facility was amended and restated. The amendment and restatement resulted in an increase in commitments of \$100.0 million for a maximum borrowing facility size of \$400.0 million, subject to a borrowing base with advances against certain U.S and Canadian accounts receivable and inventory. We have the option to increase the availability under the facility to \$450.0 million, subject to meeting certain requirements and obtaining commitments for such increase. In connection with the amendment and restatement, we also extended the maturity date to March 1, 2018. As of June 30, 2013, we were in compliance with all covenants, had no outstanding borrowings and had additional availability of \$309.9 million under this facility.

On October 2, 2012, the Company entered into a credit line with Saudi Hollandi Bank for \$10.7 million, with an interest rate equal to the Saudi Arabia Interbank Offered Rate (SAIBOR) plus a fixed rate of 0.85%. The credit line is being used to fund capital expenditures related to the manufacturing facility in Jeddah, Saudi Arabia and is subject to an annual renewal. As of June 30, 2013, borrowings under the credit line were \$8.3 million with an interest rate of 1.85%.

Note 12 — SEGMENT INFORMATION

As a result of the acquisition of Spartech, we created a new segment. Spartech's former Custom Sheet and Rollstock and Packaging Technology businesses are reported within this new segment referred to as "Designed Structures and Solutions", and the remaining Spartech businesses are being split among PolyOne's existing Global Specialty Engineered Materials, Global Color, Additives and Inks and Performance Products and Solutions segments.

As a result of the announced sale of our Resin Business, this business has been removed from the Performance Products and Solutions segment and presented as a discontinued operation. Additionally, our Specialty Coatings business, which was previously included in the Performance Products and Solutions segment, is now included within the Global Color, Additives and Inks segment. Historical segment information has been retrospectively adjusted to reflect these changes.

Segment information for the three and six months ended June 30, 2013 and 2012 is as follows:

(In millions)	Three Months Ended June 30, 2013			Adjusted Three Months Ended June 30, 2012		
	Sales to External Customers	Total Sales	Operating Income	Sales to External Customers	Total Sales	Operating Income
Global Specialty Engineered Materials	\$181.2	\$192.2	\$16.1	\$125.9	\$138.9	\$12.8
Global Color, Additives and Inks	227.9	229.4	30.5	211.1	211.5	24.4
Designed Structures and Solutions	198.1	198.9	9.0	—	—	—
Performance Products and Solutions	157.4	177.0	14.5	150.3	167.5	10.8
PolyOne Distribution	273.0	275.1	16.9	269.3	270.6	16.7
Corporate and eliminations	—	(35.0)	(6.3)	—	(31.9)	(21.4)
Total	\$1,037.6	\$1,037.6	\$80.7	\$756.6	\$756.6	\$43.3

(In millions)	Six Months Ended June 30, 2013			Adjusted Six Months Ended June 30, 2012		
	Sales to External Customers	Total Sales	Operating Income	Sales to External Customers	Total Sales	Operating Income
Global Specialty Engineered Materials	\$329.7	\$352.0	\$32.5	\$258.1	\$280.9	\$24.6
Global Color, Additives and Inks	432.5	434.7	54.7	412.9	413.9	44.0
Designed Structures and Solutions	239.7	240.4	10.5	—	—	—
Performance Products and Solutions	297.6	336.7	27.5	300.3	336.0	19.3
PolyOne Distribution	539.2	543.1	33.1	530.8	533.6	33.4
Corporate and eliminations	—	(68.2)	(37.1)	—	(62.3)	(40.6)
Total	\$1,838.7	\$1,838.7	\$121.2	\$1,502.1	\$1,502.1	\$80.7

(In millions)	Total Assets	
	June 30, 2013	Adjusted December 31, 2012
Global Specialty Engineered Materials	\$479.2	\$396.6
Global Color, Additives and Inks	970.0	901.7
Designed Structures and Solutions	573.0	—
Performance Products and Solutions	245.8	205.4
PolyOne Distribution	238.4	212.9
Corporate and eliminations	567.0	411.4
Total assets	\$3,073.4	\$2,128.0

Note 13 — COMMITMENTS AND CONTINGENCIES

Environmental — We or our subsidiaries 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, statements of income 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.

In September 2007, we were informed of rulings by the United States District Court for the Western District of Kentucky on several pending motions in the case of Westlake Vinyls, Inc. v. Goodrich Corporation, et al., which had been pending since 2003. The Court held that PolyOne must pay the remediation costs at the former Goodrich Corporation (now Westlake Vinyls, Inc.), Calvert City facility, together with certain defense costs of Goodrich Corporation. The rulings also provided that PolyOne can seek indemnification for contamination attributable to Westlake Vinyls.

The environmental obligation at the site arose as a result of an agreement between The B.F. Goodrich Company nka (Goodrich Corporation) and our predecessor, The Geon Company, at the time of the initial public offering in 1993, by which the Geon Company became a public company, to indemnify Goodrich Corporation for environmental costs at the site. At the time, neither PolyOne nor The Geon Company ever owned or operated the facility. Following the Court rulings, the parties to the litigation entered into settlement negotiations and agreed to settle all claims regarding past environmental costs incurred at the site. These same Court rulings and the settlement agreement provide a mechanism to allocate future remediation costs at the Calvert City facility to Westlake Vinyls, Inc. We will adjust our environmental reserve in the future, consistent with any such future allocation of costs.

A remedial investigation and feasibility study is currently underway at Calvert City. We expect to complete this study by the end of 2013. As of June 30, 2013, we cannot reasonably estimate an adjustment or determine if an adjustment is required to our current reserves because the remediation alternatives and concurrence of regulatory authorities have not yet advanced to a stage where a reasonable estimate can be made.

On March 13, 2013, PolyOne acquired Spartech. One of Spartech's subsidiaries, Franklin-Burlington Plastics, Inc. (Franklin-Burlington), operated a plastic resin manufacturing facility in Kearny, New Jersey, located adjacent to the Lower Passaic River. Spartech acquired the owner of this facility, Franklin Plastics Corp., in a 1986 stock transaction, and Franklin Plastics Corp. subsequently became Franklin-Burlington. The United States Environmental Protection Agency (USEPA) has requested that companies located in the area of the Lower Passaic River, including Franklin-Burlington, cooperate in an investigation of contamination of the Lower Passaic River. In response, Franklin-Burlington and approximately 70 other companies (collectively, the Cooperating Parties) agreed, pursuant to an Administrative Order of Consent with the USEPA, to assume responsibility for completing a remedial investigation/feasibility study (RIFS) of the Lower Passaic River. The RIFS costs are exclusive of any costs that may ultimately be required to remediate the Lower Passaic River area being studied or costs associated with natural resource damages that may be assessed. By agreeing to bear a portion of the cost of the RIFS, Franklin-Burlington did not admit to or agree to bear any such remediation or natural resource damage costs. The USEPA continues to evaluate the remedial options, and the scope and cost of any remedial activity has not yet been determined. Given the uncertainties related to the Lower Passaic River, including the fact that the final remedial actions and scope, and the ultimate allocation to Franklin-Burlington has not yet been determined, we are not able to assess or estimate our liability, if any, related to this matter. Additionally, as discussed in Note 2, Business Combinations, we are currently evaluating the fair values of acquired assets and liabilities, including environmental reserves associated with Spartech's acquisition.

During the six months ended June 30, 2013 and 2012, PolyOne recognized \$3.3 million and \$4.5 million, respectively, of expense related to environmental activities at all of our active and inactive sites. During the six months ended June 30, 2013, we received \$20.1 million of proceeds from insurance recoveries compared to less than \$0.1 million during the six months ended June 30, 2012. These expenses and the gains associated with these reimbursements are included within Cost of sales within our Condensed Consolidated Statements of Income.

Based on estimates that were prepared by our environmental engineers and consultants, our reserve balance was \$74.1 million at June 30, 2013 and \$75.4 million at December 31, 2012 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, 2013. However, such additional costs, if any, cannot presently be estimated.

Litigation Related to the Merger with Spartech — As previously disclosed, five derivative and purported class action lawsuits were filed by alleged Spartech stockholders against various defendants including Spartech, its directors, PolyOne, Merger Sub, and Merger LLC concerning the acquisition of Spartech by PolyOne through its wholly-owned subsidiaries Merger Sub and Merger LLC. The lawsuits alleged, among other things, that the directors of Spartech breached their fiduciary duties owed to stockholders by approving the then-proposed acquisition of Spartech by PolyOne and by failing to disclose certain information to stockholders. Three of the lawsuits (including two filed in the Delaware Chancery Court, and one filed in the United States District Court of the Eastern District of Missouri) have been dismissed. The remaining two lawsuits, filed in the Circuit Court of St. Louis County, Missouri, were consolidated for all purposes as *In re Spartech Corporation Shareholder Litigation*.

On March 5, 2013, counsel for the parties in the lawsuits entered into a memorandum of understanding, in which they agreed on the terms of a settlement of the *In re Spartech Corporation Shareholder Litigation*, including dismissal with prejudice and a release of all claims made therein against all defendants. Defendants agreed to the terms of the proposed settlement in order to avoid the substantial burden, expense, risk, inconvenience, and distraction of continued litigation, including the risk of delaying or adversely affecting the merger. The proposed settlement remains conditioned upon, among other things, the execution of a stipulation of settlement and final approval of the proposed settlement by the Circuit Court of St. Louis County, Missouri. There can be no assurance that the court will approve the settlement even if the parties enter into such a stipulation, or that the settlement conditions will be met. PolyOne is

insured with respect to these lawsuits.

Guarantee — On February 28, 2011, we sold our 50% equity interest in SunBelt to Olin Corporation (Olin) for \$132.3 million in cash and the assumption by Olin of the obligations under our guarantee of senior secured notes issued by SunBelt of \$42.7 million at the time of sale, \$30.5 million as of June 30, 2013. Unless the guarantee is

formally assigned to Olin, we remain obligated under the guarantee, although Olin has agreed to indemnify us for amounts that we may be obligated to pay under the guarantee.

Note 14 — FAIR VALUE

Fair value is measured based on an exit price, representing the amount that would be received to sell an asset or paid to satisfy a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a fair value hierarchy is established, which categorizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Financial instruments accounted for at fair value on a recurring basis as of June 30, 2013 and December 31, 2012 are as follows:

		June 30, 2013		
(In millions)	Total	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Cash and cash equivalents	\$392.4	\$392.4	\$—	\$—
Foreign currency forwards	0.1	—	0.1	—
Foreign currency options	0.2	—	0.2	—
		December 31, 2012		
(In millions)	Total	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Cash and cash equivalents	\$210.0	\$210.0	\$—	\$—
Foreign currency options	0.6	—	0.6	—

The fair value of derivative instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and spot and forward foreign currency rates as well as option volatility and non-performance risk.

Other Fair Value Measurements

The estimated fair value of PolyOne's debt instruments at June 30, 2013 and December 31, 2012 was \$1,051.9 million and \$741.0 million, respectively, compared to carrying values of \$1,031.2 million and \$706.9 million as of June 30, 2013 and December 31, 2012, respectively. The fair value of PolyOne's debt instruments primarily represent Level 1 measurements within the fair value hierarchy.

Note 15 — DERIVATIVE INSTRUMENTS

When translating results from foreign operations into U.S. dollars, we are subject to foreign exchange related risks in our operating results. We are also exposed to foreign exchange risk arising from intercompany lending transactions denominated in various foreign currencies that are subject to foreign exchange rate movement over the term of the loans. To mitigate these risks, we enter into foreign exchange option and forward contracts. The counterparties to these instruments are financial institutions with strong credit ratings. PolyOne maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit ratings of these institutions. Derivative financial instruments are accounted for at fair value and recognized as assets or liabilities in the Condensed Consolidated Balance Sheets. These instruments are not designated as a hedge, and therefore, any gain or loss is immediately recognized in income.

The fair value of derivative financial instruments recorded in the Condensed Consolidated Balance Sheets are as follows:

	June 30, 2013	
(In millions)	Notional	Other current assets
Foreign currency options	\$14.1	\$0.2
Foreign currency forwards	13.5	0.1
Total		\$0.3
	December 31, 2012	
(In millions)	Notional	Other current assets
Foreign currency options	\$31.2	\$0.6
Foreign currency forwards	13.8	—
Total		\$0.6

The effects of derivative instruments on our Condensed Consolidated Statements of Income are as follows:

	Three Months Ended June 30,		
(In millions)	2013	2012	Location
Foreign currency options - gains / (losses)	\$(0.3	) \$0.7	Selling and administrative expense
Foreign currency forwards - gains / (losses)	(0.2	) 0.7	Other (expense) income, net

	Six Months Ended June 30,		
(In millions)	2013	2012	Location
Foreign currency options - gains / (losses)	\$(0.2	) \$0.1	Selling and administrative expense
Foreign currency forwards - gains	0.2	0.2	Other (expense) income, net

Note 16 — EQUITY

Changes in equity for the six months ended June 30, 2013 and June 30, 2012 are as follows:

(In millions)	PolyOne Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance December 31, 2012	\$629.1	\$2.3	\$631.4
Net income (loss)	196.2	(0.5	) 195.7
Other comprehensive income			
Translation adjustment	(10.7	) —	(10.7
Total comprehensive income	185.5	(0.5	) 185.0
Cash dividend declared	(11.2	) —	(11.2
Issuance of common shares in connection to the Spartech acquisition	253.8	—	253.8
Repurchase of common shares	(71.2	) —	(71.2
Stock incentive plan activity	7.9	—	7.9
Balance June 30, 2013	\$993.9	\$1.8	\$995.7
Balance December 31, 2011	\$588.3	\$—	\$588.3
Net income	44.8	—	44.8
Other comprehensive income			
Translation adjustment	(5.4	) —	(5.4
Amortization of prior service credits, net of \$3.2 tax	(5.5	) —	(5.5
Total comprehensive income	33.9	—	33.9
Cash dividend declared	(8.9	) —	(8.9
Repurchase of common shares	(15.9	) —	(15.9
Stock incentive plan activity	6.9	—	6.9
Proceeds received from non-controlling interests	—	2.4	2.4
Balance June 30, 2012	\$604.3	\$2.4	\$606.7

On October 23, 2012, PolyOne's Board of Directors further increased the common stock repurchase authorization amount by 13.2 million shares of common stock to 20.0 million. During 2013, we repurchased approximately 3.0 million shares of common stock at an aggregate price of \$71.2 million. As of June 30, 2013, there were approximately 17.0 million shares available for repurchase.

Effective January 1, 2013, the Company adopted recently issued accounting guidance that requires the Company to separately disclose, on a prospective basis, the change in each component of other comprehensive income (loss) relating to reclassification adjustments to current period other comprehensive income (loss). As the new guidance relates to presentation only, the adoption did not have a material impact on the Company's results of operations, financial position or cash flows. Further, for the six-month period ended June 30, 2013, there were no reclassifications from accumulated other comprehensive loss to other comprehensive income.

Changes in accumulated other comprehensive loss year-to-date as of June 30, 2013 and 2012 were as follows:

(In millions)	Cumulative Translation Adjustment	Pension and Other Post-Retirement Benefits	Unrealized Gain in Available-for-Sale Securities	Total
Balance at January 1, 2013	\$(16.5)	\$ 5.2	\$ 0.2	\$(11.1)
Translation adjustments	(10.7)	—	—	(10.7)
Balance at June 30, 2013	\$(27.2)	\$ 5.2	\$ 0.2	\$(21.8)
Balance at January 1, 2012	\$(17.6)	\$ 16.1	\$ 0.2	\$(1.3)
Translation adjustment	(5.4)	—	—	(5.4)
Prior service credits recognized during the year, net of tax of \$3.2	—	(5.5)	—	(5.5)
Balance at June 30, 2012	\$(23.0)	\$ 10.6	\$ 0.2	\$(12.2)

Note 17 — SUBSEQUENT EVENTS

On July 10, 2013, PolyOne determined that it will close six Spartech North American manufacturing facilities acquired in the March 2013 acquisition and relocate production to other PolyOne facilities over the next 12 to 18 months. These actions are expected to be completed by the end of 2014 and generate annualized pre-tax savings of approximately \$25.0 million by 2015. Restructuring charges are expected to approximate \$35.0 million over the next 12 to 18 months. This includes approximately \$20.0 million in cash charges, primarily associated with severance, plant exit and asset relocation costs, and approximately \$15.0 million in non-cash charges, primarily associated with accelerated depreciation of exited facilities and equipment. These estimates are based on a number of assumptions and may change over the next 12 to 18 months. The manufacturing asset realignment is expected to reduce redundant capacity, improve customer service, quality and on-time delivery.

The Company also expects to invest approximately \$25.0 million in additional capital expenditures over the next 12 to 18 months at its remaining locations to support these changes.

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 specialty polymer formulations, color and additive systems, plastic sheet and packaging solutions and polymer distribution. We are also a highly specialized developer and manufacturer of performance enhancing additives, liquid colorants, and fluoropolymer and silicone colorants. 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 capabilities to provide value added solutions to 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 consolidated subsidiaries.

Highlights and Executive Summary

A summary of PolyOne's sales, operating income, income from continuing operations and net income attributable to PolyOne common shareholders follows:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	Adjusted 2012	2013	Adjusted 2012
Sales	\$1,037.6	\$756.6	\$1,838.7	\$1,502.1
Operating income	80.7	43.3	121.2	80.7
Net income from continuing operations	38.3	18.4	49.3	33.7
Net income attributable to PolyOne common shareholders	\$180.9	\$24.6	\$196.2	\$44.8

On July 10, 2013, PolyOne determined that it will close six Spartech North American manufacturing facilities acquired in the March 2013 acquisition and relocate production to other PolyOne facilities over the next 12 to 18 months. These actions are expected to be completed by the end of 2014 and generate annualized pre-tax savings of approximately \$25.0 million by 2015. Restructuring charges are expected to approximate \$35.0 million over the next 12 to 18 months. This includes approximately \$20.0 million in restructuring charges, primarily associated with severance and asset relocation costs, and approximately \$15.0 million in non-cash charges, primarily associated with accelerated depreciation of exited facilities and equipment. The Company also expects to invest approximately \$25.0 million in additional capital expenditures over the next 12 to 18 months at its remaining locations to support these changes.

On May 30, 2013, PolyOne sold its vinyl dispersion, blending and suspension resin assets (Resin Business) to Mexichem Specialty Resins Inc. (Mexichem), a wholly-owned subsidiary of Mexichem, S.A.B. de C.V., for \$250.0 million cash consideration, subject to a working capital adjustment that is expected to be finalized in the third quarter of 2013. This sale resulted in the recognition of a pre-tax gain of \$223.6 million (\$138.2 million net of tax) in the second quarter of 2013, which is reflected within the Income from discontinued operations, net of income taxes line of the Condensed Consolidated Statements of Income.

As a result of the sale of our Resin Business, this business has been removed from the Performance Products and Solutions segment and presented as a discontinued operation. Additionally, our Specialty Coatings business, which was previously included in the Performance Products and Solutions segment, is now included within the Global Color, Additives and Inks segment. Historical segment information has been retrospectively adjusted to reflect these changes. On March 13, 2013, pursuant to the terms and conditions of the Agreement and Plan of Merger dated October 23, 2012 (Spartech Merger Agreement), PolyOne acquired Spartech, a supplier of sustainable plastic sheet, color and engineered materials, and packaging solutions, based in Clayton, Missouri. Spartech expands PolyOne's specialty portfolio with adjacent technologies in attractive end markets where we already participate, as well as new end markets such as aerospace and security. By combining Spartech's leading market positions in sheet, rigid barrier

packaging and specialty cast acrylics with PolyOne's capabilities, we believe we can better serve our customers and accelerate growth.

21

Edgar Filing: POLYONE CORP - Form 10-Q

At the effective time of the merger, each issued and outstanding share of Sparteck common stock was canceled and converted into the right to receive consideration equal to \$2.67 in cash and 0.3167 shares of PolyOne common stock. PolyOne paid \$83.4 million in cash and issued approximately 10.0 million shares of its common stock to Sparteck's stockholders. PolyOne funded the cash portion of the consideration, and the repayment of certain of Sparteck's debt, with a portion of the net proceeds of its issuance of 5.25% senior notes due 2023, discussed in Note 11, Financing Arrangements.

Sparteck's results have been reflected within our Condensed Consolidated Statements of Income and within our newly created segment Designed Structures and Solutions, as well as our existing Global Specialty Engineered Materials, Global Color, Additives and Inks and Performance Products and Solutions segments, since the date of acquisition. Results of Operations — Three and six months ended June 30, 2013 compared to three and six months ended June 30, 2012:

(In millions, except per share data)	Three Months Ended June 30,		Variances — Favorable (Unfavorable)			Six Months Ended June 30,		Variances — Favorable (Unfavorable)		
	2013	Adjusted 2012	Change	% Change	%	2013	Adjusted 2012	Change	% Change	%
Sales	\$1,037.6	\$756.6	\$281.0	37.1	%	\$1,838.7	\$1,502.1	\$336.6	22.4	%
Cost of sales	833.9	612.6	(221.3)	(36.1)	%	1,472.7	1,225.8	(246.9)	(20.1)	%
Gross margin	203.7	144.0	59.7	41.5	%	366.0	276.3	89.7	32.5	%
Selling and administrative expense	123.0	100.7	(22.3)	(22.1)	%	244.9	196.0	(48.9)	(24.9)	%
Income related to previously owned equity affiliates	—	—	—	—		0.1	0.4	(0.3)	(75.0)	%
Operating income	80.7	43.3	37.4	86.4	%	121.2	80.7	40.5	50.2	%
Interest expense, net	(16.6)	(12.4)	(4.2)	(33.9)	%	(32.2)	(24.7)	(7.5)	(30.4)	%
Premium on early extinguishment of debt	—	—	—	—		(10.6)	—	(10.6)	nm*	
Other income (expense), net	(1.2)	(0.9)	(0.3)	(33.3)	%	0.2	(2.2)	2.4	109.1	%
Income from continuing operations before income taxes	62.9	30.0	32.9	109.7	%	78.6	53.8	24.8	46.1	%
Income tax expense	(24.6)	(11.6)	(13.0)	(112.1)	%	(29.3)	(20.1)	(9.2)	(45.8)	%
Net income from continuing operations	38.3	18.4	19.9	108.2	%	49.3	33.7	15.6	46.3	%
Income from discontinued operations, net of income taxes	142.3	6.2	136.1	nm*		146.4	11.1	135.3	nm*	
Net income	\$180.6	\$24.6	\$156.0	634.1	%	\$195.7	\$44.8	\$150.9	336.8	%
Net loss attributable to noncontrolling interests	0.3	—	0.3	nm*		0.5	—	0.5	nm*	
Net income attributable to PolyOne common shareholders	\$180.9	\$24.6	\$156.3	635.4	%	\$196.2	\$44.8	\$151.4	337.9	%

Earnings per common share attributable to PolyOne common shareholders - Basic:

Continuing operations	\$0.39	\$0.21		\$0.52	\$0.38
Discontinued operations	1.46	0.07		1.55	0.12
Total	\$1.85	\$0.28		\$2.07	\$0.50

Earnings per common share attributable to PolyOne common shareholders - Diluted:

Edgar Filing: POLYONE CORP - Form 10-Q

Continuing operations	\$0.39	\$0.20	\$0.52	\$0.37
Discontinued operations	1.44	0.07	1.53	0.12
Total	\$1.83	\$0.27	\$2.05	\$0.49

*Not meaningful.

Sales

Sales increased 37.1% in the second quarter of 2013 compared to the second quarter of 2012 driven by a 37.9% increase due to the acquisitions of Spartech and Glasforms Inc. (Glasforms). Increased pricing, primarily associated with higher raw material costs combined with improved mix increased sales 1.3% while favorable currency exchange rates impacted sales by 0.1%. These increases were partially offset by volume declines of 2.2%, primarily related to lower demand in Europe.

Sales increased 22.4% in the first half of 2013 compared to the first half of 2012 driven by a 23.4% increase due to the acquisitions of Spartech and Glasforms, and a 2.4% increase due to higher pricing primarily associated with raw material inflation and improved mix. These increases were partially offset by a 3.4% decrease in volumes, primarily related to lower demand in Europe.

Cost of sales

As a percent of sales, cost of sales declined from 81.0% in the second quarter of 2012 to 80.4% in the second quarter of 2013 and from 81.6% in the first half of 2012 to 80.1% in the first half of 2013. The improvement in margins was driven primarily by improved organic mix in our specialty segments and insurance recoveries of \$14.9 million and \$20.1 million during the second quarter and first half of 2013, respectively. These improvements were partially offset by the mix effect of Spartech sales which currently have lower margins than organic PolyOne.

Selling and administrative expense

Selling and administrative expense increased \$22.3 million during the three months ended June 30, 2013 compared to the three months ended June 30, 2012, primarily related to acquisitions and acquisition-related costs totaling \$21.7 million.

Selling and administrative expense increased \$48.9 million during the first half of 2013 compared to the first half of 2012, primarily related to increased acquisitions and acquisition-related costs totaling \$32.1 million, increased restructuring costs of \$4.0 million and increased stock based compensation expense of \$5.1 million. The remaining increase primarily relates to additional commercial resources and inflation.

Interest expense, net

Interest expense, net increased in the second quarter and first half of 2013 as compared to the second quarter and first half of 2012 due to a higher average debt balance during 2013 as a result of \$600.0 million aggregate principal of senior notes due 2023 issued on February 28, 2013, which more than offset the \$297.0 million repayment of our senior secured term loan. Additionally, we recognized \$1.9 million of interest expense related to the commitment for bridge financing entered into in connection with the Spartech acquisition in the first quarter of 2013.

Debt extinguishment

Premiums on early extinguishment of debt of \$10.6 million were recognized during the first quarter of 2013 due to the repayment of the outstanding principal amount of \$297.0 million under our senior secured term loan.

Income tax (expense) benefit

Income tax expense from continuing operations was \$24.6 million for the second quarter of 2013 compared to \$11.6 million in the second quarter of 2012. Income tax expense was \$29.3 million for the first half of 2013 compared to \$20.1 million in the first half of 2012. These income tax increases were driven by increased earnings in 2013.

Discontinued Operations

On May 30, 2013, PolyOne sold its Resin Business to Mexichem for \$250.0 million cash consideration which resulted in the recognition of a pre-tax gain of \$223.6 million (\$138.2 million net of tax) in the second quarter of 2013. Sales from the Resin Business were \$22.9 million and \$55.3 million for the three and six months ended June 30, 2013, respectively. This gain, net of tax, along with the operating results through the date of sale, are reflected within the Income from discontinued operations, net of income taxes line of the Condensed Consolidated Statements of Income.

SEGMENT INFORMATION

Operating income is the primary financial measure that is reported to the chief operating decision makers 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 makers. These costs are included in Corporate and eliminations.

Edgar Filing: POLYONE CORP - Form 10-Q

Sales and Operating Income — Three and six months ended June 30, 2013 compared to the three and six months ended June 30, 2012

(Dollars in millions)	Three Months Ended		Variances — Favorable			Six Months Ended June		Variances — Favorable		
	June 30, 2013	Adjusted 2012	(Unfavorable) Change	% Change	30, 2013	Adjusted 2012	(Unfavorable) Change	% Change		
Sales:										
Global Specialty Engineered Materials	\$ 192.2	\$ 138.9	\$ 53.3	38.4	%	\$ 352.0	\$ 280.9	\$ 71.1	25.3	%
Global Color, Additives and Inks	229.4	211.5	17.9	8.5	%	434.7	413.9	20.8	5.0	%
Designed Structures and Solutions	198.9	—	198.9	nm*		240.4	—	240.4	nm*	
Performance Products and Solutions	177.0	167.5	9.5	5.7	%	336.7	336.0	0.7	0.2	%
PolyOne Distribution	275.1	270.6	4.5	1.7	%	543.1	533.6	9.5	1.8	%
Corporate and eliminations	(35.0)	(31.9)	(3.1)	(9.7)	%	(68.2)	(62.3)	(5.9)	(9.5)	%
Total Sales	\$ 1,037.6	\$ 756.6	\$ 281.0	37.1	%	\$ 1,838.7	\$ 1,502.1	\$ 336.6	22.4	%
Operating income:										
Global Specialty Engineered Materials	\$ 16.1	\$ 12.8	\$ 3.3	25.8	%	\$ 32.5	\$ 24.6	\$ 7.9	32.1	%
Global Color, Additives and Inks	30.5	24.4	6.1	25.0	%	54.7	44.0	10.7	24.3	%
Designed Structures and Solutions	9.0	—	9.0	nm*		10.5	—	10.5	nm*	
Performance Products and Solutions	14.5	10.8	3.7	34.3	%	27.5	19.3	8.2	42.5	%
PolyOne Distribution	16.9	16.7	0.2	1.2	%	33.1	33.4	(0.3)	(0.9)	%
Corporate and eliminations	(6.3)	(21.4)	15.1	70.6	%	(37.1)	(40.6)	3.5	8.6	%
Total Operating Income	\$ 80.7	\$ 43.3	\$ 37.4	86.4	%	\$ 121.2	\$ 80.7	\$ 40.5	50.2	%
Operating income as a percentage of sales:										
Global Specialty Engineered Materials	8.4	% 9.2	% (0.8)	% points		9.2	% 8.8	% 0.4	% points	
Global Color, Additives and Inks	13.3	% 11.5	% 1.8	% points		12.6	% 10.6	% 2.0	% points	
Designed Structures and Solutions	4.5	% —	% nm*	nm*		4.4	% —	% nm*	nm*	
Performance Products and Solutions	8.2	% 6.4	% 1.8	% points						