
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 March 31, 2014

☐ **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

*(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 March 31, 2014 was 94,124,874.

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 March 31,	
	2014	2013
Sales	\$ 1,002.3	\$ 801.1
Cost of sales	814.1	638.8
Gross margin	188.2	162.3
Selling and administrative expense	131.8	121.9
Income related to previously owned equity affiliates	—	0.1
Operating income	56.4	40.5
Interest expense, net	(15.5)	(15.6)
Debt extinguishment costs	—	(10.6)
Other (expense) income, net	(1.0)	1.4
Income from continuing operations before income taxes	39.9	15.7
Income tax expense	(10.7)	(4.7)
Net income from continuing operations	29.2	11.0
Income from discontinued operations, net of income taxes	—	4.1
Net income	29.2	15.1
Net loss attributable to noncontrolling interests	0.2	0.2
Net income attributable to PolyOne common shareholders	\$ 29.4	\$ 15.3
Earnings per common share attributable to PolyOne common shareholders - Basic:		
Continuing operations	\$ 0.31	\$ 0.12
Discontinued operations	—	0.05
Total	\$ 0.31	\$ 0.17
Earnings per common share attributable to PolyOne common shareholders - Diluted:		
Continuing operations	\$ 0.31	\$ 0.12
Discontinued operations	—	0.04
Total	\$ 0.31	\$ 0.16
Weighted-average shares used to compute earnings per share:		
Basic	94.5	91.7
Diluted	95.7	92.8
Cash dividends declared per share of common stock	\$ 0.08	\$ 0.06

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2014	2013
Net income	\$ 29.2	\$ 15.1
Other comprehensive income		
Translation adjustments	(0.7)	(6.0)
Total comprehensive income	28.5	9.1
Comprehensive loss attributable to noncontrolling interests	0.2	0.2
Comprehensive income attributable to PolyOne common shareholders	<u>\$ 28.7</u>	<u>\$ 9.3</u>

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation
Condensed Consolidated Balance Sheets
(In millions)

	(Unaudited) March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 238.3	\$ 365.2
Accounts receivable, net	507.5	428.0
Inventories, net	333.0	342.5
Other current assets	91.3	117.9
Total current assets	1,170.1	1,253.6
Property, net	631.2	646.2
Goodwill	568.7	559.0
Intangible assets, net	361.0	365.8
Other non-current assets	127.2	119.5
Total assets	\$ 2,858.2	\$ 2,944.1
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 12.8	\$ 12.7
Accounts payable	430.1	386.9
Accrued expenses and other liabilities	131.1	209.3
Total current liabilities	574.0	608.9
Non-current liabilities:		
Long-term debt	968.1	976.2
Pension and other post-retirement benefits	63.8	77.3
Deferred income taxes	122.1	133.8
Other non-current liabilities	181.1	169.4
Total non-current liabilities	1,335.1	1,356.7
Shareholders' equity:		
PolyOne shareholders' equity	947.6	976.8
Noncontrolling interests	1.5	1.7
Total equity	949.1	978.5
Total liabilities and shareholders' equity	\$ 2,858.2	\$ 2,944.1

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2014	2013
Operating Activities		
Net income	\$ 29.2	\$ 15.1
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	32.8	19.9
Debt extinguishment costs	—	10.6
Provision for doubtful accounts	0.2	—
Stock based compensation expense	3.8	7.0
Change in assets and liabilities, net of effect of acquisitions:		
Increase in accounts receivable	(81.7)	(76.2)
Decrease in inventories	5.9	11.4
Increase in accounts payable	43.2	49.2
Decrease in pension and other post-retirement benefits	(18.4)	(54.7)
Decrease in accrued expenses and other assets and liabilities	(89.9)	(73.8)
Net cash used by operating activities	(74.9)	(91.5)
Investing Activities		
Capital expenditures	(17.5)	(12.9)
Business acquisitions, net of cash acquired	—	(259.9)
Proceeds from sale of equity affiliate and other assets	26.8	24.1
Net cash provided (used) by investing activities	9.3	(248.7)
Financing Activities		
Repayment of long-term debt	(8.0)	(297.0)
Proceeds from long-term debt	—	600.0
Debt financing costs	—	(13.0)
Borrowings under credit facilities	20.9	41.7
Repayments under credit facilities	(20.9)	(10.0)
Purchase of common shares	(51.0)	(20.8)
Exercise of stock awards	5.4	2.9
Cash dividends paid	(7.6)	(4.5)
Net cash (used) provided by financing activities	(61.2)	299.3
Effect of exchange rate changes on cash	(0.1)	(0.2)
Decrease in cash and cash equivalents	(126.9)	(41.1)
Cash and cash equivalents at beginning of period	365.2	210.0
Cash and cash equivalents at end of period	\$ 238.3	\$ 168.9

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, 2013 of PolyOne Corporation.

Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be attained in subsequent periods, or for the year ending December 31, 2014.

Adoption of Accounting Standards

Effective January 1, 2014, the Company adopted Accounting Standards Update No. 2013-11, "Income Taxes (Topic 740): *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*" (ASU 2013-11). ASU 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, if such settlement is required or expected in the event the uncertain tax position is disallowed. The adoption of ASU 2013-11 did not have a material impact to the Company's financial statements.

Note 2 — BUSINESS COMBINATIONS

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.

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 expand PolyOne's specialty portfolio and provide substantial synergies through enhanced operational efficiencies. 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.

The Spartech 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 the 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 are 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 7.08% 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 aggregate principal, \$10.3 million make-whole provisions, and \$3.1 million of interest payable.

The following table summarizes the final Spartech purchase price allocation:

(In millions)	
Accounts receivable, net	\$ 139.7
Inventories, net	114.4
Other current assets	18.6
Property, net	280.3
Other non-current assets	19.6
Intangible assets, net	44.6
Goodwill	162.6
Total assets acquired	779.8
Short-term and current portion of long-term debt	0.5
Accounts payable	105.0
Accrued expenses and other liabilities	43.1
Long-term debt	11.0
Other non-current liabilities	109.1
Total liabilities assumed	268.7
Net assets acquired	\$ 511.1

During the first quarter of 2014, we adjusted Goodwill by \$9.4 million primarily related to our finalization of the assessment of income taxes. The 2013 Condensed Consolidated Financial Statements have not been retroactively adjusted as these measurement period adjustments did not have a material impact on such statements. 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, to the Designed Structures and Solutions, Global Color, Additives and Inks, 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 Combined Statements of Income for the three months ended March 31, 2013, which includes Spartech's Combined Statement of Operations for the quarter. 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 March 31, 2013	
Sales	\$	1,019.1
Net income attributable to PolyOne common shareholders	\$	14.0

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.

During the three months ended March 31, 2013, we incurred \$4.6 million of acquisition-related costs primarily associated with the Spartech acquisition, 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 vinyl dispersion, blending and suspension resin assets (the "Resin Business") to Mexichem Specialty Resins Inc. (Mexichem) for \$250.0 million cash consideration. This sale resulted in the recognition of a pre-tax gain of \$223.7 million (\$138.5 million, net of tax) that was primarily recognized during the second quarter of 2013.

The table below summarizes results for the Resin Business for the three months ended March 31, 2013 which are reflected in our Condensed Consolidated Statements of Income as a discontinued operation.

(In millions)	Three Months Ended March 31, 2013	
Sales	\$	32.4
Income before income taxes		6.5
Income tax expense		(2.4)
Income from discontinued operations, net of income taxes	\$	4.1

Note 4 — GOODWILL AND INTANGIBLE ASSETS

Goodwill as of March 31, 2014 and December 31, 2013, and changes in the carrying amount of goodwill by segment 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, 2012	\$ 98.6	\$ 297.9	\$ —	\$ 7.4	\$ 1.6	\$ 405.5
Acquisitions of businesses	1.8	12.4	136.3	3.6	—	154.1
Currency translation	(0.5)	(0.1)	—	—	—	(0.6)
Balance December 31, 2013	99.9	310.2	136.3	11.0	1.6	559.0
Acquisitions of businesses	—	0.9	8.3	0.2	—	9.4
Currency translation	0.3	—	—	—	—	0.3
Balance March 31, 2014	\$ 100.2	\$ 311.1	\$ 144.6	\$ 11.2	\$ 1.6	\$ 568.7

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

(In millions)	As of March 31, 2014			
	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Customer relationships	\$ 190.4	\$ (36.3)	\$ 0.1	\$ 154.2
Patents, technology and other	139.9	(32.9)	0.1	107.1
Indefinite-lived trade names	96.3	—	—	96.3
In-process research and development	3.4	—	—	3.4
Total	\$ 430.0	\$ (69.2)	\$ 0.2	\$ 361.0

(In millions)	As of December 31, 2013			
	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Customer relationships	\$ 190.4	\$ (34.1)	\$ 0.1	\$ 156.4
Patents, technology and other	139.9	(30.3)	0.1	109.7
Indefinite-lived trade names	96.3	—	—	96.3
In-process research and development	3.4	—	—	3.4
Total	\$ 430.0	\$ (64.4)	\$ 0.2	\$ 365.8

Note 5 — EMPLOYEE SEPARATION AND PLANT PHASE-OUT COSTS

In 2013, PolyOne determined it would close six former Spartech North American manufacturing facilities and one administrative office in Washington, Pennsylvania, and relocate production to other PolyOne facilities. Further, in 2013 PolyOne determined it would also close the former Spartech Donchery, France manufacturing facility. These actions are expected to be completed by the end of 2014. The manufacturing facilities' closings are part of the Company's ongoing integration of Spartech, which are designed to enable the Company to better serve customers, improve efficiency, and deliver a portion of the anticipated synergy-related cost savings in connection with the Spartech acquisition. In addition to these actions, PolyOne incurred severance costs related to former Spartech executives and other employees, as well as asset related charges and other ongoing costs associated with restructuring actions that were underway prior to PolyOne's acquisition of Spartech.

The Company anticipates that it will incur approximately \$70.0 million of charges in connection with the announced Spartech actions noted above. These costs include \$27.0 million of severance, \$24.0 million of asset related charges, including accelerated depreciation, and \$19.0 million of other ongoing costs.

The table below summarizes restructuring activity related to Spartech for the period ended March 31, 2014.

(In millions)	Long-Lived Asset Charges	Employee Separation	Other Costs	Total
Accrual balance at January 1, 2013	\$ —	\$ —	\$ —	\$ —
Charge to expense	13.6	21.1	9.4	44.1
Cash payments	—	(6.0)	(9.4)	(15.4)
Non-cash utilization	(13.6)	—	—	(13.6)
Accrual balance at December 31, 2013	\$ —	\$ 15.1	\$ —	\$ 15.1
Charge to expense	7.7	2.6	5.5	15.8
Cash payments	—	(3.4)	(5.5)	(8.9)
Non-cash utilization	(7.7)	—	—	(7.7)
Accrual balance at March 31, 2014	\$ —	\$ 14.3	\$ —	\$ 14.3

We expect to recognize additional restructuring charges of approximately \$10.1 million in 2014 related to these Spartech actions.

During the three months ended March 31, 2014, we recognized total restructuring charges of \$17.9 million which included \$11.0 million recognized within *Cost of goods sold* and \$6.9 million recognized in *Selling and administrative expenses* within the Condensed Consolidated Statements of Income and *Corporate and eliminations* within segment disclosures for the three months ended March 31, 2014.

During the three months ended March 31, 2013, PolyOne recognized \$9.9 million of employee separation and plant phase-out costs, which included \$8.0 million related to Spartech's executive severance agreements and \$1.9 million related primarily to previously announced actions in Europe. Additionally, we recognized \$1.2 million of stock compensation expense related to the acceleration of Spartech executive equity awards, as a result of change in control provisions within the related equity agreements. These charges are recognized in *Selling and administrative expenses* within the Condensed Consolidated Statements of Income and *Corporate and eliminations* within segment disclosures for the three months ended March 31, 2013.

Note 6 — INVENTORIES, NET

Components of *Inventories, net* are as follows:

(In millions)	March 31, 2014	December 31, 2013
At FIFO cost:		
Finished products	\$ 189.6	\$ 203.6
Work in process	4.5	3.9
Raw materials and supplies	138.9	135.0
Inventories, net	\$ 333.0	\$ 342.5

Note 7 — PROPERTY, NET

Components of *Property, net* are as follows:

(In millions)	March 31, 2014	December 31, 2013
Land and land improvements	\$ 53.2	\$ 52.5
Buildings	321.4	315.4
Machinery and equipment	1,085.9	1,079.2
Property, gross	1,460.5	1,447.1
Less accumulated depreciation and amortization	(829.3)	(800.9)
Property, net	\$ 631.2	\$ 646.2

Note 8 — INCOME TAXES

Income tax expense from continuing operations was \$10.7 million for the first quarter of 2014 compared to \$4.7 million in the first quarter of 2013. This increase was primarily driven by higher earnings within the U.S. for the three months ended March 31, 2014. Favorably impacting tax expense for the three months ended March 31, 2014 was a \$4.0 million adjustment related to favorable settlements of outstanding tax issues with U.S. and foreign tax authorities. Favorably impacting tax expense for the three months ended March 31, 2013 was the recognition of 2012 U.S. research and development credits totaling \$0.9 million. These credits were retroactively reinstated into law on January 2, 2013.

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

(In millions)	Three Months Ended March 31,	
	2014	2013
Weighted-average shares outstanding – basic	94.5	91.7
Plus dilutive impact of stock options and awards	1.2	1.1
Weighted-average shares – diluted	95.7	92.8

For the three months ended March 31, 2014 and 2013, 0.2 million and 0.4 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 2014, 0.3 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 stock price targets have not been achieved as of March 31, 2014, these awards were excluded from the calculation of earnings per share.

Note 10 — EMPLOYEE BENEFIT PLANS

Components of defined benefit pension plan gains are as follows:

(In millions)	Three Months Ended March 31,	
	2014	2013
Service cost	\$ 0.4	\$ 0.4
Interest cost	6.3	5.9
Expected return on plan assets	(8.1)	(9.3)
Net periodic benefit gains	\$ (1.4)	\$ (3.0)

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

(In millions)	Three Months Ended March 31,	
	2014	2013
Interest cost	\$ 0.2	\$ 0.2
Net periodic benefit costs	\$ 0.2	\$ 0.2

Note 11 — FINANCING ARRANGEMENTS

Debt consists of the following instruments:

(Dollars in millions)	March 31, 2014	December 31, 2013
7.500% debentures due 2015	\$ 48.7	\$ 48.7
7.375% senior notes due 2020	316.6	316.6
5.250% senior notes due 2023	600.0	600.0
Other debt	15.6	23.6
Total long-term debt	980.9	988.9
Less current portion	12.8	12.7
Total long-term debt, net of current portion	\$ 968.1	\$ 976.2

During the first quarter of 2014, we repaid an \$8.0 million industrial revenue bond that was acquired as a result of the Spartech acquisition.

On February 28, 2013, PolyOne issued \$600.0 million aggregate principal amount of senior notes, which mature on 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, which commenced on September 15, 2013. We used a portion of the net proceeds of the offering to pay the cash portion of the Spartech acquisition, and to repay certain Spartech debt. During the first quarter of 2013, 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.

In the first quarter of 2013 we incurred debt extinguishment costs of \$10.6 million related to the early retirement of our senior secured term loan, which included \$8.2 million of deferred financing cost write-offs and \$2.4 million of discount write-offs. These costs are presented within the *Debt extinguishment costs* line in our Condensed Consolidated Statements of Income. As a result of the issuance of our 2023 senior notes in February 2013, 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 agreement, dated December 21, 2011, governing our \$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 March 31, 2014, we were in compliance with all covenants, had no outstanding borrowings and had availability of \$323.9 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. In 2013, the Company renewed the credit line with Saudi Hollandi Bank and increased the facility size to \$16.0 million. As of March 31, 2014, borrowings under the credit line were \$12.3 million with an interest rate of 1.85%.

The estimated fair value of PolyOne's debt instruments at March 31, 2014 and December 31, 2013 was \$1,017.3 million and \$1,010.3 million, respectively, compared to carrying values of \$980.9 million and \$988.9 million as of March 31, 2014 and December 31, 2013, respectively. The fair value of PolyOne's debt instruments was estimated using prevailing market interest rates on debt with similar creditworthiness, terms and maturities and represent Level 2 measurements within the fair value hierarchy.

Note 12 — SEGMENT INFORMATION

Segment information for the three months ended March 31, 2014 and 2013 is as follows:

(In millions)	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Sales to External Customers	Total Sales	Operating Income	Sales to External Customers	Total Sales	Operating Income
Global Color, Additives and Inks	\$ 215.5	\$ 219.6	\$ 30.4	\$ 204.6	\$ 205.3	\$ 24.2
Global Specialty Engineered Materials	147.0	157.4	18.3	148.5	152.9	15.8
Designed Structures and Solutions	173.5	173.6	11.2	41.5	41.5	1.5
Performance Products and Solutions	185.3	207.6	16.0	140.5	166.6	13.6
PolyOne Distribution	281.0	284.1	17.2	266.0	268.0	16.2
Corporate and eliminations	—	(40.0)	(36.7)	—	(33.2)	(30.8)
Total	\$ 1,002.3	\$ 1,002.3	\$ 56.4	\$ 801.1	\$ 801.1	\$ 40.5

(In millions)	Total Assets	
	March 31, 2014	December 31, 2013
Global Color, Additives and Inks	\$ 961.0	\$ 962.0
Global Specialty Engineered Materials	393.2	379.6
Designed Structures and Solutions	572.0	549.4
Performance Products and Solutions	285.4	278.7
PolyOne Distribution	227.8	216.7
Corporate and eliminations	418.8	557.7
Total assets	\$ 2,858.2	\$ 2,944.1

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 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 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 (n/k/a 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. The settlement agreement provides a mechanism to pursue allocations of future remediation costs at the Calvert City facility to Westlake Vinyls, Inc. While we do not currently assume any allocation of costs in our current reserve, we will adjust our reserve, in the future, consistent with any such future allocation of costs.

A remedial investigation and feasibility study (RIFS) is underway at Calvert City. During the third quarter of 2013, we submitted a remedial investigation report to the United States Environmental Protection Agency (USEPA). The USEPA has required certain changes to the remedial investigation report, and development of a final report by the USEPA is ongoing. We have since undertaken steps to develop a feasibility study, including engaging a third party.

to perform ground water modeling at this site. Based upon preliminary results of this study, obtained in the fourth quarter of 2013, we adjusted our reserve for this location. We expect to finalize the RIFS in 2014 and we continue to pursue available insurance coverage.

On March 13, 2013, PolyOne acquired Spartech. One of Spartech's subsidiaries, Franklin-Burlington Plastics, Inc. (Franklin-Burlington), operated a plastic resin compounding 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 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 development of a 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. In April of 2014, the USEPA released a Focused Feasibility Study for public comment for a portion of the Lower Passaic River.

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, have not yet been determined, we are not able to assess or estimate our remedial liability, if any, related to this matter.

During the three months ended March 31, 2014 and 2013, PolyOne recognized \$0.9 million and \$2.0 million, respectively, of expense related to environmental activities at all of our active and inactive sites. During the three months ended March 31, 2013, we received \$5.2 million of insurance recoveries related to previously incurred environmental costs. These expenses and 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 \$122.1 million at March 31, 2014 and \$125.9 million at December 31, 2013, 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 March 31, 2014. However, such additional costs, if any, cannot presently be estimated. Our estimate of this liability may be revised as new regulations or technologies are developed or additional information is obtained.

Litigation Related to the Merger with Spartech — As previously disclosed, the parties entered into a stipulation of settlement dated October 22, 2013. The Circuit Court of St. Louis County, Missouri (the "Court") preliminarily approved the settlement on December 12, 2013. On February 19, 2014, the Court entered an order and final judgment that, among other things, approved the terms of the settlement and dismissed the litigation with prejudice. The deadline for a timely appeal has passed.

Guarantee — On February 28, 2011, we sold our 50% equity interest in SunBelt Chlor Alkali Partnership (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. The remaining guarantee is \$24.4 million as of March 31, 2014. 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 — 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 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:

(In millions)	March 31, 2014	
	Notional	Other current assets
Foreign currency forwards	\$ 12.8	\$ —

(In millions)	December 31, 2013	
	Notional	Other current assets
Foreign currency forwards	\$ 12.8	\$ —

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

(In millions)	Three Months Ended March 31,		Location
	2014	2013	
Foreign currency options - gains	\$ —	\$ 0.1	Selling and administrative expense
Foreign currency forwards - gains	—	0.4	Other (expense) income, net

Note 15 — EQUITY

Changes in equity for the three months ended March 31, 2014 and March 31, 2013 are as follows:

(In millions)	PolyOne Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2013	\$ 976.8	\$ 1.7	\$ 978.5
Net income	29.4	(0.2)	29.2
Other comprehensive income			
Translation adjustment	(0.7)	—	(0.7)
Total comprehensive income	28.7	(0.2)	28.5
Cash dividend declared	(7.6)	—	(7.6)
Repurchase of common shares	(51.0)	—	(51.0)
Stock incentive plan activity	0.7	—	0.7
Balance at March 31, 2014	<u>\$ 947.6</u>	<u>\$ 1.5</u>	<u>\$ 949.1</u>

Balance at December 31, 2012	\$ 629.1	\$ 2.3	\$ 631.4
Net income	15.3	(0.2)	15.1
Other comprehensive income			
Translation adjustment	(6.0)	—	(6.0)
Total comprehensive income	9.3	(0.2)	9.1
Cash dividend declared	(5.4)	—	(5.4)
Issuance of common shares in connection to the Spartech acquisition	253.3	—	253.3
Repurchase of common shares	(20.8)	—	(20.8)
Stock incentive plan activity	6.3	—	6.3
Balance at March 31, 2013	<u>\$ 871.8</u>	<u>\$ 2.1</u>	<u>\$ 873.9</u>

Changes in accumulated other comprehensive loss year-to-date as of March 31, 2014 and 2013 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, 2014	\$ (20.2)	\$ 5.2	\$ 0.2	\$ (14.8)
Translation adjustments	(0.7)	—	—	(0.7)
Balance at March 31, 2014	<u>\$ (20.9)</u>	<u>\$ 5.2</u>	<u>\$ 0.2</u>	<u>\$ (15.5)</u>
Balance at January 1, 2013	\$ (16.5)	\$ 5.2	\$ 0.2	\$ (11.1)
Translation adjustments	(6.0)	—	—	(6.0)
Balance at March 31, 2013	<u>\$ (22.5)</u>	<u>\$ 5.2</u>	<u>\$ 0.2</u>	<u>\$ (17.1)</u>

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 March 31,	
	2014	2013
Sales	\$ 1,002.3	\$ 801.1
Operating income	56.4	40.5
Net income from continuing operations	29.2	11.0
Net income attributable to PolyOne common shareholders	\$ 29.4	\$ 15.3

On March 13, 2013, PolyOne acquired Spartech Corporation (Spartech), a supplier of sustainable plastic sheet, color and engineered materials, and packaging solutions, based in Clayton, Missouri. 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*.

The Spartech acquisition 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. Spartech's former Custom Sheet and Rollstock and Packaging Technology businesses are reported within Designed Structures and Solutions, and the remaining Spartech businesses are split among PolyOne's Global Color, Additives and Inks, Global Specialty Engineered Materials and Performance Products and Solutions segments.

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. This sale resulted in the recognition of a pre-tax gain of \$223.7 million (\$138.5 million, net of tax) that was primarily recognized during the second quarter of 2013. The results of operations of this business are reflected as discontinued operations in our Condensed Consolidated Statements of Income for all periods prior to disposition.

Results of Operations — *The three months ended March 31, 2014 compared to three months ended March 31, 2013:*

(Dollars in millions, except per share data)	Three Months Ended March 31,		Variances — Favorable (Unfavorable)	
	2014	2013	Change	% Change
Sales	\$ 1,002.3	\$ 801.1	\$ 201.2	25.1 %
Cost of sales	814.1	638.8	(175.3)	(27.4)%
Gross margin	188.2	162.3	25.9	16.0 %
Selling and administrative expense	131.8	121.9	(9.9)	(8.1)%
Income related to previously owned equity affiliates	—	0.1	(0.1)	(100.0)%
Operating income	56.4	40.5	15.9	39.3 %
Interest expense, net	(15.5)	(15.6)	0.1	0.6 %
Debt extinguishment costs	—	(10.6)	10.6	100.0 %
Other (expense) income, net	(1.0)	1.4	(2.4)	(171.4)%
Income from continuing operations before income taxes	39.9	15.7	24.2	154.1 %
Income tax expense	(10.7)	(4.7)	(6.0)	(127.7)%
Net income from continuing operations	29.2	11.0	18.2	165.5 %
Income from discontinued operations, net of income taxes	—	4.1	(4.1)	(100.0)%
Net income	\$ 29.2	\$ 15.1	\$ 14.1	93.4 %
Net loss attributable to noncontrolling interests	0.2	0.2	—	— %
Net income attributable to PolyOne common shareholders	<u>\$ 29.4</u>	<u>\$ 15.3</u>	<u>\$ 14.1</u>	<u>92.2 %</u>
Earnings per common share attributable to PolyOne common shareholders - Basic:				
Continuing operations	\$ 0.31	\$ 0.12		
Discontinued operations	—	0.05		
Total	<u>\$ 0.31</u>	<u>\$ 0.17</u>		
Earnings per common share attributable to PolyOne common shareholders - Diluted:				
Continuing operations	\$ 0.31	\$ 0.12		
Discontinued operations	—	0.04		
Total	<u>\$ 0.31</u>	<u>\$ 0.16</u>		

Sales

Sales increased 25.1% in the first quarter of 2014 compared to the first quarter of 2013. Sales increased 24.1% due to the acquisition of Spartech and 2.7% due to improved price and mix. These increases were partially offset by a 1.7% decline in volume.

Cost of sales

As a percent of sales, cost of sales increased from 79.7% in the first quarter of 2013 to 81.2% in the first quarter of 2014, primarily due to \$11.0 million of restructuring charges recognized as a result of Spartech re-alignment actions. The remaining increase to cost of sales, as a percent of sales, was primarily due to Spartech sales, which currently have lower margins than organic PolyOne sales.

Selling and administrative expense

These costs include selling, technology, administrative functions, corporate and general expenses. Selling and administrative expense increased \$9.9 million during the three months ended March 31, 2014 compared to the three months ended March 31, 2013, primarily related to the acquisition of Spartech.

Interest expense, net

Net interest expense decreased in the first quarter ended March 31, 2014, as compared to the three months ended March 31, 2013, as the increase in interest expense associated with the \$600.0 million of 2023 senior notes issued February 28, 2013 was more than offset by decreased interest expense due to the repayment of \$297.0 million under our senior secured term loan on February 28, 2013, repurchases of \$44.7 million aggregate principal amount of our 2015 debentures and 2020 senior notes that occurred during the second half of 2013, and \$1.9 million of

interest cost recognized in during the first quarter of 2013 related to the final amortization of the bridge financing commitment that was obtained at the time we announced the Spartech acquisition.

Debt extinguishment costs

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 from continuing operations

Income tax expense from continuing operations was \$10.7 million for the first quarter of 2014 compared to \$4.7 million in the first quarter of 2013. This increase was primarily driven by higher earnings within the U.S. for the three months ended March 31, 2014. Favorably impacting tax expense for the three months ended March 31, 2014 was a \$4.0 million adjustment related to favorable settlements of outstanding tax issues with U.S. and foreign tax authorities. Favorably impacting tax expense for the three months ended March 31, 2013 was the recognition of 2012 U.S. research and development credits totaling \$0.9 million that were recognized in 2013. These credits were retroactively reinstated into law on January 2, 2013.

Discontinued operations, net of income taxes

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 \$223.7 million (\$138.5 million net of tax), primarily recognized in the second quarter of 2013. As a result, this business is no longer reflected in our results.

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 phase-out costs; executive separation agreements; stock-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*.

PolyOne has five reportable segments: (1) Global Color, Additives and Inks; (2) Global Specialty Engineered Materials; (3) Designed Structures and Solutions, (4) Performance Products and Solutions; and (5) PolyOne Distribution.

Our segments are further discussed in Note 12, *Segment Information*, to the accompanying consolidated financial statements.

Sales and Operating Income — The three months ended March 31, 2014 compared to the three months ended March 31, 2013:

(Dollars in millions)	Three Months Ended March 31,		Variances — Favorable (Unfavorable)	
	2014	2013	Change	% Change
Sales:				
Global Color, Additives and Inks	\$ 219.6	\$ 205.3	\$ 14.3	7.0 %
Global Specialty Engineered Materials	157.4	152.9	4.5	2.9 %
Designed Structures and Solutions	173.6	41.5	132.1	318.3 %
Performance Products and Solutions	207.6	166.6	41.0	24.6 %
PolyOne Distribution	284.1	268.0	16.1	6.0 %
Corporate and eliminations	(40.0)	(33.2)	(6.8)	(20.5)%
Total Sales	\$ 1,002.3	\$ 801.1	\$ 201.2	25.1 %
Operating income:				
Global Color, Additives and Inks	\$ 30.4	\$ 24.2	\$ 6.2	25.6 %
Global Specialty Engineered Materials	18.3	15.8	2.5	15.8 %
Designed Structures and Solutions	11.2	1.5	9.7	646.7 %
Performance Products and Solutions	16.0	13.6	2.4	17.6 %
PolyOne Distribution	17.2	16.2	1.0	6.2 %
Corporate and eliminations	(36.7)	(30.8)	(5.9)	(19.2)%
Total Operating Income	\$ 56.4	\$ 40.5	\$ 15.9	39.3 %
Operating income as a percentage of sales:				
Global Color, Additives and Inks	13.8%	11.8%	2.0	% points
Global Specialty Engineered Materials	11.6%	10.3%	1.3	% points
Designed Structures and Solutions	6.5%	3.6%	2.9	% points
Performance Products and Solutions	7.7%	8.2%	(0.5)	% points
PolyOne Distribution	6.1%	6.0%	0.1	% points
Total	5.6%	5.1%	0.5	% points

Global Color, Additives and Inks

Sales increased \$14.3 million, or 7.0%, in the first quarter of 2014 compared to the first quarter of 2013. Sales increased 7.1% as a result of the Spartech acquisition and 6.3% due to improved price and mix. These increases were partially offset by a 6.4% decline in volume primarily in the industrial end markets.

Operating income increased \$6.2 million in the first quarter of 2014 as compared to the first quarter of 2013. The increase is primarily due to improvement in price and mix.

Global Specialty Engineered Materials

Sales increased \$4.5 million, or 2.9%, in the first quarter of 2014 compared to the first quarter of 2013. Sales increased 2.5% due to the Spartech acquisition, 0.4% due to improved product mix and 0.2% due to increased volume, while unfavorable foreign exchange rates impacted sales by 0.2%.

Operating income increased \$2.5 million in the first quarter of 2014 as compared to the first quarter of 2013. This increase was driven primarily due to improvement in price and mix, and growth in Europe.

Designed Structures and Solutions

Sales increased \$132.1 million, or 318.3%, while operating income increased \$9.7 million in the first quarter of 2014 compared to the first quarter of 2013. 2014 reflects a full quarter of results of the acquired Spartech business while 2013 reflects results from March 13, 2013 through March 31, 2013. Additionally, improved price and mix favorably impacted sales and operating income.

Performance Products and Solutions

Sales increased \$41.0 million, or 24.6%, in the first quarter of 2014 as compared to the first quarter of 2013. Sales increased 25.6% due to the Spartech acquisition and 0.1% as a result of favorable foreign exchange rates, partially offset by unfavorable price and mix of 1.0% and volume declines of 0.1%.

Operating income increased \$2.4 million in the first quarter of 2014 as compared to the first quarter of 2013 due to sales associated with the Spartech acquisition, slightly offset by unfavorable price and mix.

PolyOne Distribution

Sales increased \$16.1 million, or 6.0%, in the first quarter of 2014 as compared to the first quarter of 2013. Sales expanded 3.4% as a result of increased pricing associated with higher raw material costs, while volume increases favorably impacted sales by 2.6%.

Operating income increased \$1.0 million in the first quarter of 2014 as compared to the first quarter of 2013 due to increased sales.

Corporate and Eliminations

The following table breaks down *Corporate and eliminations* into its various components for the three months ended March 31, 2014 and 2013:

(In millions)	Three Months Ended March 31,	
	2014	2013
Environmental remediation costs	\$ (0.9)	\$ (2.0)
Insurance recoveries	—	5.2
Employee separation and plant phase-out costs	(17.9)	(9.9)
Stock based compensation	(3.8)	(7.0)
Non-stock based incentive compensation	(8.8)	(6.9)
Acquisition related costs, including inventory fair value adjustments	(0.2)	(8.7)
All other and eliminations ⁽¹⁾	(5.1)	(1.5)
Total Corporate and eliminations	\$ (36.7)	\$ (30.8)

(1) 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

Our objective is to finance our business through operating cash flow and an appropriate mix of debt and equity. By laddering our debt maturity structure, we avoid concentrations of debt, reducing liquidity risk. We may from time to time seek to retire or purchase our outstanding debt with cash and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. We may also seek to repurchase our outstanding common stock. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

The following table summarizes our liquidity as of March 31, 2014 and December 31, 2013:

(In millions)	March 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 238.3	\$ 365.2
Revolving credit availability	327.3	285.7
Liquidity	\$ 565.6	\$ 650.9

As of March 31, 2014, approximately 84.1% of the Company's cash and cash equivalents reside outside the United States. Repatriation of these funds could result in potential foreign and domestic taxes. Based on current projections, we believe that we will be able to continue to manage and control working capital, discretionary spending and capital expenditures and that cash provided by operating activities, along with available borrowing capacity under our revolving credit facilities, should allow us to maintain adequate levels of available capital resources to fund our operations, meet debt service obligations and continue to repurchase our outstanding common stock.

Cash Flows

The following describes the material components of cash flows from operating, investing and financing activities for the three months ended March 31, 2014 and 2013.

Operating Activities — In the three months ended March 31, 2014, net cash used by operating activities was \$74.9 million as compared to \$91.5 million in the three months ended March 31, 2013. The decrease in net cash used by operating activities of \$16.6 million was primarily driven by higher earnings in 2014 and reduced pension contributions as a result of our improved funded status, partially offset by increased tax payments, increased interest payments, and restructuring payments associated with the Spartech actions.

Working capital as a percentage of sales, which we define as average accounts receivable, plus average inventory, less average accounts payable, divided by sales, for the first quarter of 2014 increased to 10.1% compared to 9.6% for the first quarter of 2014. The increase in working capital primarily related to the acquisition of Spartech, which unfavorably impacted working capital by 0.5%. Days sales outstanding for the first quarter of 2014 was 42.5 compared to 43.5 for the first quarter of 2013.

Investing Activities — Net cash provided by investing activities during the three months ended March 31, 2014 of \$9.3 million reflects \$17.5 million of capital expenditures offset by the third and final earn-out from the sale of our 50% equity investment in SunBelt Chlor Alkali Partnership (SunBelt) of \$26.8 million.

Cash used by investing activities during the three months ended March 31, 2013 was \$248.7 million, primarily reflecting the acquisition of Spartech of \$258.8 million, net of cash acquired and capital expenditures of \$12.9 million. These cash outflows were partially offset by cash proceeds received of \$24.1 million primarily related to year two of the three year earn-out from the sale of our 50% equity investment in SunBelt.

Financing Activities — Net cash used by financing activities for the three months ended March 31, 2014 of \$61.2 million reflects repurchases of \$51.0 million of our outstanding common stock, cash dividends paid of \$7.6 million and repayment of long term debt of \$8.0 million. These cash outflows more than offset the tax benefit of \$5.4 million related to the exercise of employee equity awards.

Net cash provided by financing activities for the three months ended March 31, 2013 was \$299.3 million, which includes repayment of our senior secured term loan of \$297.0 million, debt financing costs of \$13.0 million, repayments under the credit facility of \$10.0 million, repurchases of \$20.8 million of our outstanding common stock and cash dividends paid of \$4.5 million. These cash outflows were more than offset by proceeds received from the issuance of our senior notes due 2023 of \$600.0 million, proceeds from borrowings under our credit facilities of \$41.7 million and income tax benefits of \$2.9 million related to the exercise of employee equity awards.

Debt

As of March 31, 2014, debt totaled \$980.9 million. Aggregate maturities of debt for the current year, next five years and thereafter, are as follows:

(In millions)		
2014	\$	12.6
2015		49.2
2016		0.5
2017		0.5
2018		0.6
Thereafter		917.5
Aggregate maturities	\$	<u>980.9</u>

During the first quarter of 2014, we repaid an \$8.0 million industrial revenue bond that was acquired as a result of the Spartech acquisition.

On March 1, 2013, the agreement governing our \$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 March 31, 2014, we were in compliance with all covenants, had no outstanding borrowings and had availability of \$323.9 million under this facility.

On February 28, 2013, we issued \$600.0 million aggregate principal amount of senior notes, which mature on March 15, 2023. The senior notes bear interest at an annual rate of 5.25% payable semi-annually, in arrears, on March 15 and September 15 of each year, which commenced on September 15, 2013. We used a portion of the proceeds to repay the outstanding principal amount of \$297.0 million under our senior secured term loan.

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. In 2013, the Company renewed the credit line with Saudi Hollandi Bank and increased the facility size to \$16.0 million. As of March 31, 2014, borrowings under the credit line were \$12.3 million with an interest rate of 1.85%.

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. The remaining guarantee is \$24.4 million as of March 31, 2014. 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.

Contractual Obligations

We have future obligations under various contracts relating to debt and interest payments, operating leases, pension and post-retirement benefit plans and purchase obligations. During the three months ended March 31, 2014, there were no material changes to these obligations as reported in our annual report on Form 10-K for the year ended December 31, 2013.

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. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” and other words and terms of 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; estimated capital expenditures; 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 we conduct business;
- changes in global industry capacity or in the rate at which anticipated changes in industry capacity come online in the industries in which we participate;
- 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;
- 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 markets;
- 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;
- 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;
- the amount and timing of repurchases, if any, of PolyOne common shares;
- our ability to pay regular quarterly cash dividends and the amounts and timing of any future dividends;
- our ability to realize anticipated savings and operational benefits from the realignment of assets, including the planned closure of certain manufacturing facilities; the timing of closings and shifts of production to new facilities related to asset realignments and any unforeseen disruptions of service or quality caused by such closings and/or production shifts; separation and severance amounts that differ from original estimates, amounts for non-cash charges related to asset write-offs and accelerated depreciation realignments of property, plant and equipment, that differ from original estimates;
- our ability to identify and evaluate acquisition targets and consummate acquisitions;
- the ability to successfully integrate acquired companies into our operations, retain the management teams of acquired companies, and retain relationships with customers of acquired companies, including, without limitation, Spartech; and
- other factors described in our annual report on Form 10-K for the year ended December 31, 2013 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

There have been no material changes to exposures to market risk as reported in our annual report on Form 10-K for the year ended December 31, 2013.

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 March 31, 2014 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

In December 2007, the United States Environmental Protection Agency (EPA) met with the Company to discuss possible violations of the Clean Air Act, the Clean Water Act and the Resource Conservation and Recovery Act at its polyvinyl chloride resin manufacturing facilities located in Henry, Illinois and Pedricktown, New Jersey. Further discussions between representatives for the Company and the EPA occurred in 2008, during which the Company provided additional information requested by the EPA, as well as its position regarding the compliance status of the facilities, and discussed certain modifications to testing procedures and record keeping in these facilities. In January 2009, we received a letter from the EPA proposing a resolution of any violations identified that would include our payment of penalties in the amount of \$1.3 million. We subsequently reached a tentative settlement with the EPA under which the Company will pay a \$0.3 million penalty, install certain Supplemental Environmental Projects (each a "SEP") and undertake certain modifications to its operations and recordkeeping at these two facilities.

On May 30, 2013, the Company divested these two facilities, and the business they support to Mexichem. In that transaction, Mexichem undertook to perform the Company's post-transaction operational obligations under a final settlement with the EPA, other than the obligations to pay the penalty and to install the SEPs. The Company, Mexichem and the United States subsequently executed a settlement document in the form of a Consent Order. The United States thereupon filed an action against the Company in the Central District for Illinois and moved the court to enter the Consent Order. As required by law and regulation, the court ordered publication for public comment. The public comment period expired December 27, 2013. Once the court enters the Consent Order, the Company will pay the penalty and complete installation of the SEPs. Mexichem will have the obligation to honor and perform the recordkeeping and operational modifications contained in the Consent Order going forward.

Information regarding other legal proceedings can be found in Note 13, *Commitments and Contingencies*, to the consolidated financial statements and is incorporated by reference herein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information regarding repurchase of shares of our common stock during the period indicated.

Period	Total Number of Shares Purchased	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⁾
January 1 to January 31	629,200	\$ 34.56	629,200	14,370,800
February 1 to February 28	420,195	35.14	420,195	13,950,605
March 1 to March 31	389,400	37.10	389,400	13,561,205
Total	1,438,795	\$ 35.42	1,438,795	

(1) In August 2008, PolyOne's Board of Directors approved a common stock repurchase program authorizing PolyOne to purchase up to 10.0 million shares of its common stock. On October 11, 2011, PolyOne's Board of Directors increased the common stock repurchase authorization by an additional 5.3 million shares of common stock. On October 23, 2012, PolyOne's Board of Directors further increased the common stock repurchase authorization amount by an additional 13.2 million shares of common stock to 20.0 million. Purchases of common stock may be made by open market purchases or privately negotiated transactions and may be made pursuant to Rule 10b5-1 plans and accelerated share repurchases.

ITEM 6. Exhibits

Exhibits - Refer to the Exhibit Index attached, which is incorporated herein by reference.

SIGNATURES

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

May 1, 2014

POLYONE CORPORATION

/s/ Bradley C. Richardson

Bradley C. Richardson
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Exhibit Description
10.1	Amended and Restated Letter Agreement, dated as of March 6, 2014, between the Company and Stephen D. Newlin, originally effective as of February 13, 2006.
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 Bradley C. Richardson, 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 Bradley C. Richardson, 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

March 6, 2014

Mr. Stephen D. Newlin

Dear Steve:

The terms and conditions of your employment by PolyOne Corporation ("PolyOne") are set forth in a letter agreement dated January 30, 2006, which was accepted by you on February 6, 2006, and amended and restated on February 21, 2008 and on July 16, 2008 (the January 30, 2006 letter agreement, as it has been amended and restated is referred to herein as the "Letter Agreement"). In connection with your relinquishment of the titles of President and Chief Executive Officer, and your continued employment as the Executive Chairman, of PolyOne, PolyOne desires to further amend and restate the Letter Agreement effective May 15, 2014 (the "Effective Date").

1. Position and Duties.

You will have the title of Executive Chairman of the Board, reporting to PolyOne's Board of Directors (the "Board") and will have the normal duties, responsibilities and authority of an executive serving in such position, with the objective of successfully transitioning your duties as President and Chief Executive Officer to the successor President and Chief Executive Officer. You will perform your duties and responsibilities to the best of your abilities in a diligent, trustworthy, businesslike and efficient manner. While serving in this role, you will remain an employee of PolyOne and both PolyOne and you anticipate that the level of bona fide services that you will perform in the role of Executive Chairman will be more than 20% of the average level of bona fide services that you performed over the 36-month period immediately preceding the Effective Date.

You will remain a member the Board and so long as you serve as Executive Chairman, the Board will nominate you to stand for election as a member of the Board at PolyOne's annual meeting of shareholders.

You agree that the Management Continuity Agreement that you entered into with PolyOne on February 26, 2006, as it was most recently restated on March 21, 2008, is hereby amended to remove as "good reason" your election to terminate your employment for any reason during the 30-day period immediately following the first anniversary of a change of control.

2. Compensation.

- (a) **Base Salary.** Your base salary for the one-year period beginning on the Effective Date will be equal to \$1,050,000. Effective May 15, 2015, your annual base salary will be adjusted to \$655,850.
- (b) **Bonus/Annual Incentive.**
 - (i) You will remain eligible to receive an annual incentive award based on achievement of specified performance goals (as determined by the Compensation Committee), with a target attainment equal to 110% of your base salary for 2014. You will not be eligible to receive any further annual incentive awards for periods after 2014.
- (c) **Outstanding Long-Term Incentive Awards.**
 - (i) If you have a Qualifying Separation from Service, as defined below, your outstanding Stock Appreciation Rights ("SARs"), Restricted Stock Units ("RSUs") and Performance Units ("PUs") awarded to you as long-term incentive awards under PolyOne's 2010 Equity and Performance Incentive Plan or any prior PolyOne long-term incentive plan will be subject to the rules of this Paragraph 2(c). The award agreements applicable to such long-term incentive awards are hereby amended to reflect the following if your termination of employment occurs as a result of your Qualifying Separation from Service:
 - (A) The SARs shall continue to vest and become exercisable upon their terms as if such Qualifying Separation from Service had not occurred (with no pro-rata as may be provided in any award agreement).
 - (B) All outstanding vested SARs held by you may be exercised in whole or in part for the remainder of their term, but in no event beyond the termination of such SARs as provided in the applicable award agreement.

(C) PolyOne shall waive: (I) any requirement that you have been in the continuous employ of PolyOne or any PolyOne subsidiary during a specified period or through a specified date in order for the RSUs and the PUs (collectively, the "LTIP Rights") to become nonforfeitable, provided such waiver will not affect the date on which such LTIP Rights become nonforfeitable nor affect the timing of payment of any LTIP Rights; (II) any term providing for pro-ration of vesting and/or payment of the LTIP Rights upon termination of employment due to retirement; and (III) any provision that the LTIP Rights will be forfeited if your employment terminates before a specified date.

(ii) You will be considered to have a Qualifying Separation from Service if your employment terminates for any reason after the Effective Date other than if it is involuntarily terminated for Serious Cause.

- (d) **Expense Reimbursement.** PolyOne will reimburse you for all reasonable business expenses incurred by you during the Employment Period in the course of performing your duties under this agreement that are consistent with PolyOne's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to PolyOne's requirements applicable generally with respect to reporting and documentation of such expenses. Reasonable expenses relating to lodging, meals and travel between your state of residence and PolyOne facilities and any other business-related travel expenses during the Employment Period will be considered business expenses for purposes of this Paragraph 2(d). PolyOne will reimburse the amount of federal, including Medicare, Social Security and FICA/FUTA, state and local taxes imposed on you as a result of such expense reimbursement being considered taxable income, such reimbursement to be made, subject to Paragraph 5(c), no later than December 31 of the year following the year in which you remitted the applicable taxes.
- (e) **Standard Benefits.** You will be entitled during the Employment Period to participate, on the same basis as other salaried employees of PolyOne, in PolyOne's standard benefit programs (the "Standard Benefits Package"). The Standard Benefits Package means those benefits (including the PolyOne Retirement Savings Plan, the PolyOne Supplemental Retirement Savings Plan, the health care programs, short-term and long-term disability benefits, life insurance, business travel accident coverage, flexible spending accounts, and an employee assistance program) for which PolyOne salaried employees are from time to time generally eligible, as determined from time to time by the Committee or the Board. Notwithstanding anything to the contrary contained in this agreement, the Standard Benefits Package will not include the right to participate in the PolyOne Employee Transition Plan (the "ETP") or the Executive Severance Plan ("ESP"), both of which the parties agree do not apply to you.
- (f) **Other.** You will also be entitled to the following: (i) five weeks of paid vacation per year; (ii) an annual benefit allowance equal to \$2,000 per month; (iii) an annual allowance for financial planning and tax preparation in an amount equal to up to \$13,000, payable upon submission of itemized invoices; and (iv) an annual executive physical.
- (g) **Reimbursement.** Any reimbursement of expenses under this Paragraph 2 shall be for expenses incurred by you during the Employment Period and such reimbursement shall be made not later than December 31 of the year following the year in which you incur the expense. In no event will the amount of expenses so reimbursed by PolyOne in one year affect the amount of expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year.

3. Other Agreements. You agree that your continued employment with PolyOne is subject to the terms and conditions of PolyOne's standard: (a) Management Continuity Agreement for executive officers (providing for 36 months of compensation upon the terms and conditions in such agreement); (b) Employee Agreement; (c) Confidential Information, Invention and Non-Solicitation Agreement; (d) Code of Conduct; and (e) Code of Ethics for Senior Officers (collectively, the "Other Agreements").

4. Employment Period.

- (a) **The Employment Period.** Except as otherwise provided herein, the Employment Period will commence on the Effective Date and will continue at least until the first to occur of: (i) February 21, 2016; provided, however, that the Board, in its discretion but subject to your approval, may extend this date until a later mutually agreed-upon date; (ii) your death; (iii) PolyOne's termination of your employment on account of your Disability; (iv) a voluntary termination of your employment by you (including your retirement); (v) an involuntary termination of your employment by PolyOne for Serious Cause (as defined below); (vi) an

involuntary termination of your employment by PolyOne without Serious Cause (as defined below); or (vii) you terminate for “Good Reason” (as defined below) (the “Employment Period”).

- (b) **Serious Cause.** For purposes of this agreement, “Serious Cause” shall mean conduct set forth in Paragraph 5(g)(i)(a) or (b) below, and will also include any material breach of a provision of this Agreement or of any of the Other Agreements; provided, however, that you shall have 30 days from the date of notice to cure such breach.
- (c) **Good Reason.** For purposes of the agreement, “Good Reason” means a material diminution in your authority, duties or responsibilities or any action or inaction by PolyOne that constitutes a material breach of this agreement; provided, however, you must give notice of Good Reason within 90 days of the condition first occurring. PolyOne shall have 30 days to cure such condition.

5. Post-Employment Period Payments.

- (a) **Accrued Compensation/Benefits.** Except as provided in Paragraphs 5(b), 5(d), 5(e) and 5(f) below, at the end of the Employment Period for any reason, you will no longer have any rights to compensation or benefits except as provided herein and you shall be entitled only to (i) any base salary that has accrued but is unpaid, any reimbursable expenses that have been incurred but are unpaid, and any unexpired vacation days that have accrued under PolyOne’s vacation policy but are unused, as of the end of the Employment Period; (ii) any plan benefits that by their terms extend beyond termination of your employment (but only to the extent provided in any such benefit plan in which you have participated as an employee of PolyOne and excluding the ETP and the ESP); and (iii) any benefits to which you are entitled under the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended (“COBRA”);
- (b) **Severance Payments.** Notwithstanding the foregoing, if (i) your Employment Period ends prior to February 21, 2016 (or such later date that may be established as the end of the Employment Period pursuant to Paragraph 4(a)(i)) for any reason other than as set forth in Paragraph 4(a)(ii) through 4(a)(v) above and the end of your Employment Period constitutes a “separation from service,” as defined for purposes of Section 409A (a “Separation From Service”), (ii) such termination is not following a change in control of PolyOne entitling you to benefits under your Management Continuity Agreement and (iii) on or before the 45th day following such end of your Employment Period, you agree to standard non-compete and non-solicitation covenants for a period of 36 months following the date of termination and to other standard terms and conditions, including a full release of claims, you will also be entitled to the following amounts and benefits, all payable in accordance with the requirements of Section 409A:
 - (A) 36 months of salary continuation, benefit allowance and financial planning/tax preparation allowance, with monthly payments to commence, except as provided in Paragraph 5(c), with the first normal pay period that occurs on or after 60 calendar days after the end of your Employment Period (the “Initial Payment Date”);
 - (B) An annual incentive amount as earned for the year in which termination of employment occurs, to be paid in the year following the year in which your Employment Period terminates but no later than March 15 of such year, prorated for the amount of time that has elapsed from the beginning of the applicable performance period until the date of termination of employment; and
 - (C) 24 months of continuation in PolyOne’s medical and dental plans (the “Health Plans”), provided that Health Plans expressly do not include life insurance, short-term disability or long-term disability. You will be required to pay the full cost of the continuation coverage in the Health Plans on an after-tax basis. On the Initial Payment Date and on January 2 of the year following the year in which the Initial Payment Date occurs, PolyOne will make a payment to you (the “Health Plans Premium Reimbursement”) equal to the difference between (A) the amount you are required to pay during the calendar year of payment for such continuation coverage and, with respect to the payment on the Initial Payment Date, the amount, if any, you are required to pay for such continuation coverage in the prior year, and (B) the amount you would have been required to pay during such years for such continuation coverage if you had paid the same percentage of the cost that a similarly situated active employee would pay, as of the date your employment terminated. PolyOne will reimburse the amount of the federal, including Medicare, Social Security and FICA/FUTA, state and local taxes imposed on you as a result of your receipt of the Health Plans Premium Reimbursement, such reimbursement to be made, subject to Paragraph 5(c), no later than December 31 of the year

following the year in which you remitted the applicable taxes. Your right to continuation coverage under the Health Plans pursuant to this Paragraph 5(b)(C) shall satisfy the Health Plans' obligation to provide you continuation coverage pursuant to COBRA.

The monthly financial planning/tax preparation allowance to be provided pursuant to subparagraph (A) above shall be in an amount equal to one-twelfth of the full annual financial planning/tax preparation allowance to which you are entitled pursuant to Paragraph 2(f)(iii) as of the end of your Employment Period (without the requirement to submit itemized invoices).

Each cash payment made by PolyOne pursuant to this Paragraph 5(b), including but not limited to reimbursement of financial planning/tax preparation expenses, shall be considered a separate payment and not one of a series of payments for purposes of Section 409A.

- (c) **Delayed Payment for Specified Employee.** Notwithstanding the foregoing, if you are a "specified employee," as determined by PolyOne in its Specified Employee Designation Procedure, on the date of your Separation From Service and any payment under Paragraph 5 would be considered to be deferred compensation under Section 409A, then any such payment that is considered to be deferred compensation that would otherwise be payable during the six-month period following your Separation From Service will instead be paid on the earlier of (i) the first business day of the seventh month following the date of your Separation From Service, or (ii) your death.
- (d) **Retirement Benefits.** Upon your Qualifying Separation from Service, you will be entitled to annual Supplemental Executive Retirement Plan payments (the "SERP Payments"), payable in the form of a fifteen year certain and continuous life annuity. The amount of each annual SERP Payment shall be determined as provided on Appendix A.
 - (i) The first SERP Payment will be made on the first business day of the seventh month following the date of your Separation From Service ("First Payment Date"). Each subsequent annual SERP Payment will be made on the succeeding anniversaries of the First Payment Date.
 - (ii) The fifteen year certain and continuous life annuity will provide for annual payments to you for your entire life and if you die after SERP Payments have commenced but before fifteen SERP Payments have been made to you, annual payments will be made to your named beneficiary or beneficiaries on the dates specified in subparagraph (i) above until fifteen SERP Payments have been paid to you and your named beneficiary or beneficiaries. If all of you and your named beneficiary or beneficiaries die before a total of fifteen SERP Payments have been paid, the remaining SERP Payments will continue to be paid on the dates specified in subparagraph (i) above to the estate of the last to die of you and your named beneficiary or beneficiaries (for this purpose looking through any trust designated as a beneficiary to its beneficiary or beneficiaries).
 - (iii) If your death occurs either before you have a Qualifying Separation from Service or after you have a Qualifying Separation from Service but before SERP Payments have commenced, your named beneficiary or beneficiaries will be entitled to receive fifteen annual SERP Payments in the amount set forth in Appendix A, commencing on the first business day of the month following the date of your death. Each subsequent annual SERP Payment will be made on the succeeding anniversaries of this date. If all of your named beneficiaries die before fifteen SERP Payments have been paid, the remaining SERP Payments shall continue to be paid on such anniversary date to the estate of the last to die of your named beneficiaries (for this purpose looking through any trust designated as a beneficiary to its beneficiary or beneficiaries) until a total of fifteen SERP Payments have been paid under this subparagraph (iii).
 - (iv) If you incur a Disability before you have a Qualifying Separation from Service, you will be entitled to SERP Payments in an amount determined as provided on Appendix A, payable in the form of a fifteen year certain and continuous life annuity. Such SERP Payments will commence to be paid upon the earlier of (A) the date on which you are determined to be "disabled" for purposes of Section 409A, or (B) the date of your Separation From Service, provided that if commencement of payment is based on (y) the determination that you are "disabled," the initial SERP Payment will be made sixty days after such determination, or (z) your Separation From Service, the initial SERP Payment will be made on the first day of the seventh month following your Separation From Service. Each subsequent annual SERP Payment under this subparagraph (iv) will be made on the succeeding anniversaries of the initial payment date.

- (v) The SERP Payments will be unsecured and unfunded obligations of PolyOne, provided, however, that PolyOne has established a grantor trust in part to fund PolyOne's obligation under this Paragraph 5(d) and may, in its sole discretion fund such grantor trust; provided further, however, that under the terms of the Non-Qualified Deferred Compensation Trust Agreement that PolyOne entered into with Wells Fargo Bank, National Association, no later than five days following the occurrence of a Change in Control, as defined therein, PolyOne is required to contribute to the trust established thereunder no less than 100% and no more than 125% of the amount sufficient to provide for the payment of the SERP Payments; and provided further, however, that any funds contained therein will remain subject to the claims of PolyOne's general creditors.
- (vi) PolyOne's obligation to pay you the SERP Payments or the COBRA Medical Plan Premium Reimbursement described in Paragraph 5(e) or to provide the office space and administrative support described in Paragraph 5(f) will be conditioned upon your execution of a release and waiver, which must be executed no later than forty-five calendar days after your Separation From Service, or the determination of your "disabled" status for purposes of Section 409A, if payment commences upon such determination under subparagraph (iv) above.
- (e) **Retiree Medical Benefits.** Upon your Qualifying Separation from Service, you and your eligible dependents will have access to retiree medical benefits under PolyOne's standard retiree medical benefit program, to the extent PolyOne continues to maintain such program for the benefit of its retirees and their eligible dependents. As provided in the PolyOne retiree medical program, you and your dependents will be responsible for payment of all premiums in connection with such retiree medical coverage. PolyOne will make available to you, for a period of 24 months following your Qualifying Separation from Service, COBRA continuation coverage under PolyOne's medical plan for you and your eligible dependents. You will be eligible to elect coverage under PolyOne's standard retiree medical benefit program either immediately following your Qualifying Separation from Service or following the termination of such COBRA continuation coverage. On the second anniversary of the date of your Qualifying Separation from Service, PolyOne will make a payment to you (the "COBRA Medical Plan Premium Reimbursement") equal to the difference between (A) the amount you were required to pay as premiums for such COBRA continuation medical coverage for yourself and your eligible dependents for the two-year period following your Qualifying Separation from Service, and (B) the amount you would have been required to pay for coverage of yourself and your eligible dependents during such two-year period for comparable active employee medical benefit coverage. PolyOne will reimburse the amount of the federal, including Medicare, Social Security and FICA/FUTA, state and local taxes imposed on you as a result of your receipt of the COBRA Medical Plan Premium Reimbursement, such reimbursement to be made, subject to Paragraph 5(c), no later than December 31 of the year following the year in which you remitted the applicable taxes.
- (f) **Office Space; Administrative Support.** For the five-year period following your termination of employment as described in Paragraph 4(a) (iv), PolyOne shall provide you with suitable furnished office space and an administrative assistant in the Phoenix, Arizona geographic area. In no event will the amount of in-kind benefits provided under this Paragraph 5(f) in one taxable year affect the amount of in-kind benefits provided to you under this Paragraph 5(f) in any other taxable year.
- (g) **Forfeiture of Benefits.**
 - (i) Your right to the SERP Payments and retiree medical benefits will cease upon (a) your engaging in any acts which constitute fraud or embezzlement that cause material harm against PolyOne or disclosure of confidential information, or (b) your engaging in any of the acts or conduct prohibited by your Employee Agreement executed most recently prior to your Qualifying Separation from Service, regardless of whether such Employee Agreement remains in effect at the time of such acts or conduct, that causes material harm to the Company.
 - (ii) **Confidential Information.** For purposes of this agreement, "confidential information" means all information of any nature and in any form that is owned by the Company and that is not publicly available (other than by your breach of this subparagraph) or generally known to persons engaged in businesses similar or related to those of the Company. Confidential or proprietary information shall include, without limitation, the Company's financial matters, customers, employees, industry contracts, strategic business plans, product development (or other proprietary product data), marketing plans, and all other secrets and all other information of a confidential or proprietary nature. For purposes of the preceding two sentences, the term "Company" shall also include any subsidiary controlled by the Company (collectively, the "Restricted Group"). The foregoing obligations imposed by this subparagraph shall not apply (i) during the Employment Period, in the

course of the business of and for the benefit of the Company, (ii) if such confidential or proprietary information has become, through no fault of yours, generally known to the public, or (iii) if you are required by law to make disclosure (after giving the Company notice and an opportunity to contest such requirement). These rights of the Company are in addition to and without limitation to those rights and remedies otherwise available by law for protection of the types of such confidential or proprietary information.

- (iii) Prior to any forfeiture of benefits, PolyOne shall provide you a written notice of its intentions to exercise any forfeiture of benefits at least 60 days in advance. You have the right to contest the forfeiture of benefits by filing a written response within 30 days from the date of PolyOne's notice of intention to contest PolyOne's decision or cure the improper conduct.

6. Miscellaneous.

You represent and warrant to PolyOne that: (a) the execution, delivery and performance of this agreement by you does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which you are a party or by which you are bound, (b) except as disclosed in writing to PolyOne, you are not a party to or bound by any employment agreement, noncompete/non-solicitation agreement or confidentiality agreement with any other person or entity and (c) upon the execution and delivery of this agreement by you, this agreement will be a valid and binding obligation of you, enforceable in accordance with its terms.

PolyOne may withhold from any amounts payable under this agreement, including, but not limited to the SERP Payments, all federal, including Medicare, Social Security and FICA/FUTA, state, city or other taxes as PolyOne is required to withhold pursuant to any applicable law, regulation or ruling.

Whenever possible, each provision of this agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

This agreement embodies the complete agreement and understanding between the parties with respect to the subject matter hereof and effective as of its date supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way. In the event any term of this agreement conflicts with any plan, program, award or policy, this agreement shall control, and such conflicting term shall be deemed amended by this agreement.

This agreement may be executed in separate counterparts, each of which shall be deemed to be an original and both of which taken together shall constitute one and the same agreement.

This Agreement shall be governed by the internal law, and not the laws of conflicts, of the State of Ohio.

The provisions of this agreement may be amended or waived only with the prior written consent of PolyOne and you, and no course of conduct or failure or delay in enforcing the provisions of this agreement shall affect the validity, binding effect or enforceability of this agreement.

PolyOne shall pay your reasonable legal fees and costs associated with entering into this Agreement. All payments by PolyOne of your legal fees and costs hereunder shall be for expenses incurred during 2014 and shall be made within ninety days following the date you submit evidence of the incurrence of such expenses, and in all events prior to December 31, 2015. In no event will the amount of expenses reimbursed or paid in one year affect the amount of expenses eligible for reimbursement, or payment to, or for you in any other taxable year.

PolyOne shall pay and be solely responsible for:

- (i) 100% of the first \$100,000; and
- (ii) 70% of any excess above \$100,000, of

any and all attorneys' and related fees and expenses incurred by you to successfully (in whole or in part, and whether by modification of PolyOne's position, agreement, compromise, settlement or administrative or judicial determination) enforce PolyOne's agreement or any provision hereof as a result of PolyOne or any shareholder contesting the validity or enforceability

of this agreement or any provision hereof. To secure the foregoing obligation, PolyOne shall, within 90 days after being requested by you to do so, enter into a contract with an insurance company, open a letter of credit or establish an escrow in a form satisfactory to you.

It is intended that this Agreement comply with the provisions of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), and any proposed, temporary or final regulations, or any guidance promulgated with respect to Section 409A by the U.S. Department of Treasury or the Internal Revenue Service so as to prevent the inclusion in gross income of any amounts deferred hereunder in a taxable year that is prior to the taxable year or years in which such amounts would otherwise actually be distributed or made available to you or your beneficiaries. This Agreement shall be administered in a manner consistent with such intent. PolyOne will reimburse the amount of the federal, including Medicare, Social Security and FICA/FUTA, state and local taxes imposed on you, and any penalties, interest or other liability, including reasonable attorneys' fees, that you incur, as a result of a Section 409A violation related to any benefits provided under this agreement.

All reimbursements under the two immediately preceding paragraphs shall be for expenses incurred by you during your lifetime. Reimbursement shall be made no sooner than the first business day of the seventh month following the Qualifying Separation from Service and in all events shall be made prior to the last day of the calendar year following the calendar year in which you incurred the expense or remitted the taxes, as the case may be. In no event will the amount of expenses so reimbursed by PolyOne in one year affect the amount of expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year. Each provision of reimbursement pursuant to this paragraph shall be considered a separate payment and not one of a series of payments for purposes of Section 409A of the Code.

If you find this agreement acceptable, please sign and date the letter below and return it to me. This agreement will become effective on the latest date set forth below.

Sincerely,

POLYONE CORPORATION

By: /s/ Gordon D. Harnett

Name: Gordon D. Harnett

Title: Chairperson of the Compensation
Committee and Lead Director

Date: March 6, 2014

I agree to the terms and conditions
in this letter agreement.

/s/ Stephen D. Newlin

Name: Stephen D. Newlin

Date: March 6, 2014

APPENDIX A

Date of Separation From Service*	Amount of Annual SERP Payment
On or after 2/21/2014 but before 2/21/2015	\$568,600
On or after 2/21/2015 but before 2/21/2016	\$626,000**
On or after 2/21/2016 but before the date of the May 2016 annual meeting of shareholders	\$685,000**

*Or date of the determination that you are “disabled,” within the meaning of Section 409A, if the commencement of your SERP Payments is determined under Paragraph 5(d)(iv)(y).

**Beginning on 3/21/15 and continuing until 2/21/16, this amount will be increased monthly on a pro-rata basis of \$59,700, and beginning on 3/21/16, this amount will be increased monthly on a pro-rata basis of \$61,500.

CERTIFICATION

I, Stephen D. Newlin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PolyOne Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 1, 2014

/s/ Stephen D. Newlin

Stephen D. Newlin

Chairman, President and Chief Executive Officer

CERTIFICATION

I, Bradley C. Richardson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PolyOne Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 1, 2014

/s/ Bradley C. Richardson

Bradley C. Richardson

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of PolyOne Corporation (the “Company”) for the period ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stephen D. Newlin, Chairman, President and Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Stephen D. Newlin

Stephen D. Newlin

Chairman, President and Chief Executive Officer

May 1, 2014

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of PolyOne Corporation (the “Company”) for the period ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bradley C. Richardson, Executive Vice President and Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Bradley C. Richardson

Bradley C. Richardson

Executive Vice President and Chief Financial Officer

May 1, 2014

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.