
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 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 June 30, 2014 was 92,329,201.

Part I — Financial Information

Item 1. Financial Statements

PolyOne Corporation
Condensed Consolidated Statements of Income (Unaudited)
(In millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Sales	\$ 1,005.5	\$ 1,037.6	\$ 2,007.8	\$ 1,838.7
Cost of sales	821.0	833.9	1,635.1	1,472.7
Gross margin	184.5	203.7	372.7	366.0
Selling and administrative expense	135.1	123.0	266.9	244.9
Income related to previously owned equity affiliates	—	—	—	0.1
Operating income	49.4	80.7	105.8	121.2
Interest expense, net	(15.7)	(16.6)	(31.2)	(32.2)
Debt extinguishment costs	—	—	—	(10.6)
Other (expense) income, net	(0.4)	(1.2)	(1.4)	0.2
Income from continuing operations before income taxes	33.3	62.9	73.2	78.6
Income tax expense	(2.6)	(24.6)	(13.3)	(29.3)
Net income from continuing operations	30.7	38.3	59.9	49.3
Income from discontinued operations, net of income taxes	0.8	142.3	0.8	146.4
Net income	31.5	180.6	60.7	195.7
Net loss attributable to noncontrolling interests	0.2	0.3	0.4	0.5
Net income attributable to PolyOne common shareholders	\$ 31.7	\$ 180.9	\$ 61.1	\$ 196.2
Earnings per common share attributable to PolyOne common shareholders - Basic:				
Continuing operations	\$ 0.33	\$ 0.39	\$ 0.64	\$ 0.52
Discontinued operations	0.01	1.46	0.01	1.55
Total	\$ 0.34	\$ 1.85	\$ 0.65	\$ 2.07
Earnings per common share attributable to PolyOne common shareholders - Diluted:				
Continuing operations	\$ 0.33	\$ 0.39	\$ 0.63	\$ 0.52
Discontinued operations	0.01	1.44	0.01	1.53
Total	\$ 0.34	\$ 1.83	\$ 0.64	\$ 2.05
Weighted-average shares used to compute earnings per share:				
Basic	93.0	97.7	93.7	94.7
Diluted	94.3	99.1	94.9	95.8
Cash dividends declared per share of common stock	\$ 0.08	\$ 0.06	\$ 0.16	\$ 0.12

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 31.5	\$ 180.6	\$ 60.7	\$ 195.7
Other comprehensive income				
Translation adjustments	1.1	(4.7)	0.4	(10.7)
Total comprehensive income	32.6	175.9	61.1	185.0
Comprehensive loss attributable to noncontrolling interests	0.2	0.3	0.4	0.5
Comprehensive income attributable to PolyOne common shareholders	<u>\$ 32.8</u>	<u>\$ 176.2</u>	<u>\$ 61.5</u>	<u>\$ 185.5</u>

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation
Condensed Consolidated Balance Sheets
(In millions)

	(Unaudited) June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 261.5	\$ 365.2
Accounts receivable, net	501.3	428.0
Inventories, net	315.7	342.5
Other current assets	100.5	117.9
Total current assets	1,179.0	1,253.6
Property, net	612.3	646.2
Goodwill	568.9	559.0
Intangible assets, net	354.5	365.8
Other non-current assets	132.0	119.5
Total assets	\$ 2,846.7	\$ 2,944.1
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 12.7	\$ 12.7
Accounts payable	422.5	386.9
Accrued expenses and other liabilities	170.8	209.3
Total current liabilities	606.0	608.9
Non-current liabilities:		
Long-term debt	967.9	976.2
Pension and other post-retirement benefits	63.7	77.3
Deferred income taxes	113.7	133.8
Other non-current liabilities	182.4	169.4
Total non-current liabilities	1,327.7	1,356.7
Shareholders' equity:		
PolyOne shareholders' equity	911.7	976.8
Noncontrolling interests	1.3	1.7
Total equity	913.0	978.5
Total liabilities and shareholders' equity	\$ 2,846.7	\$ 2,944.1

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2014	2013
Operating Activities		
Net income	\$ 60.7	\$ 195.7
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	72.2	45.8
Debt extinguishment costs	—	10.6
Provision for doubtful accounts	0.3	—
Stock based compensation expense	10.1	10.1
Gain on sale of business	(0.8)	(223.6)
Change in assets and liabilities, net of effect of acquisitions and divestitures:		
Increase in accounts receivable	(74.0)	(70.6)
Decrease (increase) in inventories	23.4	(3.9)
Increase in accounts payable	35.9	15.5
Decrease in pension and other post-retirement benefits	(21.1)	(65.7)
(Decrease) increase in accrued expenses and other assets and liabilities - net	(62.9)	60.9
Net cash provided (used) by operating activities	43.8	(25.2)
Investing Activities		
Capital expenditures	(38.0)	(26.7)
Business acquisitions, net of cash acquired	—	(259.4)
Proceeds from sale of equity affiliate and other assets	27.3	274.1
Net cash used by investing activities	(10.7)	(12.0)
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	125.0
Repayments under credit facilities	(20.9)	(117.5)
Purchase of common shares	(119.9)	(71.2)
Exercise of stock awards	6.3	3.3
Cash dividends paid	(15.1)	(9.9)
Net cash (used) provided by financing activities	(136.7)	219.7
Effect of exchange rate changes on cash	(0.1)	(0.1)
(Decrease) increase in cash and cash equivalents	(103.7)	182.4
Cash and cash equivalents at beginning of period	365.2	210.0
Cash and cash equivalents at end of period	\$ 261.5	\$ 392.4

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 six months ended June 30, 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.

Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board issued Auditing Standards Update 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09), which clarifies existing accounting literature relating to how and when a company recognizes revenue. Under ASU 2014-09, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. ASU 2014-09 will be effective for the Company January 1, 2017. The Company is in the process of determining what impact, if any, the adoption of ASU 2014-09 will have on its financial position, results of operations and cash flows.

Note 2 — BUSINESS COMBINATIONS

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. 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.

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 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 is being recognized as stock compensation expense 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 the acquisition is not deductible for tax purposes. See Note 4, *Goodwill and Intangible Assets* for further information.

The following unaudited pro forma information presents a summary of PolyOne's Combined Statements of Income for the six months ended June 30, 2013 as if the acquisition and related financing occurred on January 1, 2013. The following pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction occurred on the assumed date, nor is it necessarily an indication of trends in future results for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma information, cost savings from operating efficiencies, potential synergies, and the impact of incremental costs incurred in integrating the businesses:

(In millions)	Six Months Ended June 30, 2013
Sales	\$ 2,056.7
Net income attributable to PolyOne common shareholders	\$ 50.8

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 first half of 2013, we incurred \$6.0 million of acquisition-related costs primarily associated with the Sparteck 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 (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 (\$139.3 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 and six months ended June 30, 2014 and 2013, which are reflected in our Condensed Consolidated Statements of Income as a discontinued operation.

(In millions)	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013*	2014	2013*
Sales	\$ —	\$ 22.9	\$ —	\$ 55.3
Gain on sale	—	223.6	—	223.6
Income from operations	—	5.7	—	12.2
Income before income taxes	—	229.3	—	235.8
Income tax benefit (expense)	0.8	(87.0)	0.8	(89.4)
Income from discontinued operations, net of income taxes	\$ 0.8	\$ 142.3	\$ 0.8	\$ 146.4

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

Note 4 — GOODWILL AND INTANGIBLE ASSETS

Goodwill as of June 30, 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 and other	(0.5)	(0.1)	—	—	—	(0.6)
Balance December 31, 2013	99.9	310.2	136.3	11.0	1.6	559.0
Currency translation and other	0.4	0.9	8.4	0.2	—	9.9
Balance June 30, 2014	\$ 100.3	\$ 311.1	\$ 144.7	\$ 11.2	\$ 1.6	\$ 568.9

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

(In millions)	As of June 30, 2014				
	Acquisition Cost	Accumulated Amortization	Currency Translation	Impairment	Net
Customer relationships	\$ 190.4	\$ (38.4)	\$ 0.2	\$ (1.3)	\$ 150.9
Patents, technology and other	139.9	(35.6)	0.1	—	104.4
Indefinite-lived trade names	96.3	—	—	(0.5)	95.8
In-process research and development	3.4	—	—	—	3.4
Total	\$ 430.0	\$ (74.0)	\$ 0.3	\$ (1.8)	\$ 354.5

(In millions)	As of December 31, 2013				
	Acquisition Cost	Accumulated Amortization	Currency Translation	Impairment	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 Sparteck 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 Sparteck 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 Sparteck, 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 Sparteck acquisition. In addition to these actions, PolyOne incurred severance costs related to former Sparteck 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 Sparteck. Finally, the Company has also incurred charges at other Sparteck locations primarily related to further asset rationalization.

The Company anticipates that it will incur approximately \$90.0 million of charges in connection with the Sparteck actions noted above. These costs include \$27.0 million of severance, \$34.0 million of asset-related charges, including accelerated depreciation, and \$29.0 million of other ongoing costs.

The table below summarizes restructuring activity related to Spartech since the date of acquisition.

(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
Charge to expense	8.9	2.2	8.5	19.6
Cash payments	—	(4.5)	(8.5)	(13.0)
Non-cash utilization	(8.9)	—	—	(8.9)
Accrual balance at June 30, 2014	\$ —	\$ 12.0	\$ —	\$ 12.0

We expect to recognize additional restructuring charges of approximately \$10.0 million in 2014 related to these Spartech actions.

In June 2014, PolyOne determined it would close its Diadema and Joinville Brazil facilities that were acquired in 2011 with the acquisition of Uniplen Industria de Polimeros Ltda. (Uniplen). These actions are expected to accelerate our specialty strategy in Brazil, streamline operations and improve our financial performance in the region. The Company recognized \$14.3 million of charges relates to these actions during the three months ended June 30, 2014. These charges included fixed asset related charges of \$5.5 million, intangible asset impairment of \$1.8 million and \$4.1 million of other asset write downs. Additionally, we incurred \$2.9 million of severance charges.

Total charges related to these actions are expected to be \$17.0 million. The remaining \$2.7 million of charges are expected to be recognized in the second half of 2014.

During the three months ended June 30, 2014, we recognized total restructuring charges of \$35.1 million, which included \$22.1 million recognized within *Cost of goods sold* and \$13.0 million recognized in *Selling and administrative expenses*. During the three months ended June 30, 2013, we recognized \$2.9 million of employee separation and plant phase-out costs, related primarily to Spartech severance and ongoing plant exit costs related to locations that were closed prior to our acquisition of Spartech and are recognized in *Selling and administrative expenses*. All employee separation and plant phase-out costs are reflected within *Corporate and eliminations* within segment disclosures.

During the six months ended June 30, 2014, we recognized total restructuring charges of \$53.0 million, which included \$33.1 million recognized within *Cost of goods sold* and \$19.9 million recognized in *Selling and administrative expenses* within the Condensed Consolidated Statements of Income. During the six months ended June 30, 2013, PolyOne recognized \$12.8 million of employee separation and plant phase-out costs, which included \$8.0 million related to Spartech's executive severance agreements, \$2.9 million of Spartech severance and ongoing plant exit costs primarily related to actions that were underway prior to PolyOne's acquisition of Spartech and \$1.9 million related primarily to PolyOne's announced actions in Europe. These charges are recognized in *Selling and administrative expenses*. All employee separation and plant phase-out costs are reflected within *Corporate and eliminations* within segment disclosures.

Note 6 — INVENTORIES, NET

Components of *Inventories, net* are as follows:

(In millions)	June 30, 2014	December 31, 2013
At FIFO cost:		
Finished products	\$ 184.6	\$ 203.6
Work in process	3.9	3.9
Raw materials and supplies	127.2	135.0
Inventories, net	<u>\$ 315.7</u>	<u>\$ 342.5</u>

Note 7 — PROPERTY, NET

Components of *Property, net* are as follows:

(In millions)	June 30, 2014	December 31, 2013
Land and land improvements	\$ 52.9	\$ 52.5
Buildings	315.6	315.4
Machinery and equipment	1,083.4	1,079.2
Property, gross	1,451.9	1,447.1
Less accumulated depreciation and amortization	(839.6)	(800.9)
Property, net	<u>\$ 612.3</u>	<u>\$ 646.2</u>

Note 8 — INCOME TAXES

Income tax expense from continuing operations was \$2.6 million, an effective rate of 7.8%, for the second quarter of 2014 compared to \$24.6 million, an effective rate of 39.1%, for the second quarter of 2013. The lower effective rate for the second quarter of 2014 was driven primarily by a \$5.4 million tax benefit associated with our investments in certain foreign affiliates and a \$1.9 million favorable adjustment related to amended state returns. The remaining decrease is primarily attributed to favorable earnings mix.

Income tax expense from continuing operations was \$13.3 million, an effective rate of 18.2%, for the first half of 2014 compared to \$29.3 million, an effective rate of 37.3%, for the first half of 2013. The lower effective rate for the first half of 2014 was driven by the items noted above in addition to settlements with U.S. and foreign tax authorities of \$4.0 million that were recognized in the first quarter of 2014.

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

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Weighted-average shares outstanding – basic	93.0	97.7	93.7	94.7
Plus dilutive impact of stock options and awards	1.3	1.4	1.2	1.1
Weighted-average shares – diluted	<u>94.3</u>	<u>99.1</u>	<u>94.9</u>	<u>95.8</u>

For the three months ended June 30, 2014 and 2013, 0.1 million and 0.3 million of equity-based awards, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

For the six months ended June 30, 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 three and six months ended June 30, 2014, 0.3 million of stock appreciation rights were excluded from the weighted average share count because the stock price targets required for vesting were not met as of June 30, 2014.

Note 10 — EMPLOYEE BENEFIT PLANS

Components of defined benefit pension plan net periodic gains are as follows:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Service cost	\$ 0.5	\$ 0.4	\$ 0.9	\$ 0.8
Interest cost	6.2	5.9	12.5	11.8
Expected return on plan assets	(8.0)	(9.3)	(16.1)	(18.6)
Net periodic benefit gains	<u>\$ (1.3)</u>	<u>\$ (3.0)</u>	<u>\$ (2.7)</u>	<u>\$ (6.0)</u>

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

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest cost	\$ 0.1	\$ 0.2	\$ 0.3	\$ 0.4
Net periodic benefit costs	<u>\$ 0.1</u>	<u>\$ 0.2</u>	<u>\$ 0.3</u>	<u>\$ 0.4</u>

Note 11 — FINANCING ARRANGEMENTS

Debt consists of the following instruments:

(Dollars in millions)	June 30, 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	15.3	23.6
Total long-term debt	980.6	988.9
Less current portion	12.7	12.7
Total long-term debt, net of current portion	<u>\$ 967.9</u>	<u>\$ 976.2</u>

During the first quarter of 2014, we repaid an \$8.0 million industrial revenue bond that was assumed 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 second 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 June 30, 2014, we were in compliance with all covenants, had no outstanding borrowings and had availability of \$309.8 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 June 30, 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 June 30, 2014 and December 31, 2013 was \$1,028.9 million and \$1,010.3 million, respectively, compared to carrying values of \$980.6 million and \$988.9 million as of June 30, 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

Operating income is the primary financial measure that is reported to the chief operating decision maker for purposes of allocating resources to segments and assessing segment performance. Operating income at the segment level does not include: corporate general and administrative costs that are not allocated to segments; intersegment sales and profit eliminations; charges related to specific strategic initiatives, such as the consolidation of operations; restructuring activities, including employee separation costs resulting from personnel reduction programs, plant closure and 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 maker. 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.

Segment information for the three and six months ended June 30, 2014 and 2013 is as follows:

(In millions)	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Sales to External Customers	Total Sales	Operating Income	Sales to External Customers	Total Sales	Operating Income
Global Color, Additives and Inks	\$ 224.4	\$ 228.7	\$ 37.7	\$ 227.9	\$ 229.4	\$ 30.9
Global Specialty Engineered Materials	145.7	157.8	18.9	147.9	158.8	15.0
Designed Structures and Solutions	163.7	164.0	12.9	198.9	198.9	9.0
Performance Products and Solutions	187.7	211.2	17.6	189.9	210.3	15.3
PolyOne Distribution	284.0	287.0	17.3	273.0	275.1	16.9
Corporate and eliminations	—	(43.2)	(55.0)	—	(34.9)	(6.4)
Total	\$ 1,005.5	\$ 1,005.5	\$ 49.4	\$ 1,037.6	\$ 1,037.6	\$ 80.7

(In millions)	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Sales to External Customers	Total Sales	Operating Income	Sales to External Customers	Total Sales	Operating Income
Global Color, Additives and Inks	\$ 439.9	\$ 448.3	\$ 68.1	\$ 432.5	\$ 434.7	\$ 55.1
Global Specialty Engineered Materials	292.7	315.2	37.2	289.6	311.7	30.8
Designed Structures and Solutions	337.2	337.6	24.1	240.4	240.4	10.5
Performance Products and Solutions	373.0	418.8	33.6	337.1	376.9	28.9
PolyOne Distribution	565.0	571.1	34.5	539.1	543.1	33.1
Corporate and eliminations	—	(83.2)	(91.7)	—	(68.1)	(37.2)
Total	\$ 2,007.8	\$ 2,007.8	\$ 105.8	\$ 1,838.7	\$ 1,838.7	\$ 121.2

(In millions)	Total Assets	
	June 30, 2014	December 31, 2013
Global Color, Additives and Inks	\$ 944.2	\$ 962.0
Global Specialty Engineered Materials	385.0	379.6
Designed Structures and Solutions	529.4	549.4
Performance Products and Solutions	269.2	278.7
PolyOne Distribution	231.0	216.7
Corporate and eliminations	487.9	557.7
Total assets	\$ 2,846.7	\$ 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 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 six months ended June 30, 2014 and 2013, PolyOne recognized \$1.8 million and \$3.3 million, respectively, of expense related to environmental activities at our active and inactive sites. During the six months ended June 30, 2013, we received \$20.1 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 \$120.5 million at June 30, 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 June 30, 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 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 June 30, 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)	June 30, 2014	
	Notional	Other current liabilities
Foreign currency forwards	\$ 12.6	\$ (0.1)

(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 June 30,		Location
	2014	2013	
Foreign currency options - (losses)	\$ —	\$ (0.3)	Selling & administrative
Foreign currency forwards - (losses)	(0.1)	(0.2)	Other expense, net

(In millions)	Six Months Ended June 30,		Location
	2014	2013	
Foreign currency options - (losses)	\$ —	\$ (0.2)	Selling and administrative expense
Foreign currency forwards - (losses) gains	(0.1)	0.2	Other (expense) income, net

Note 15 — EQUITY

Changes in equity for the six months ended June 30, 2014 and June 30, 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	61.1	(0.4)	60.7
Other comprehensive income			
Translation adjustment	0.4	—	0.4
Total comprehensive income	61.5	(0.4)	61.1
Cash dividend declared	(15.0)	—	(15.0)
Repurchase of common shares	(119.9)	—	(119.9)
Stock incentive plan activity	8.3	—	8.3
Balance at June 30, 2014	<u>\$ 911.7</u>	<u>\$ 1.3</u>	<u>\$ 913.0</u>

Balance at December 31, 2012	\$ 629.1	\$ 2.3	\$ 631.4
Net income	196.2	(0.5)	195.7
Other comprehensive income			
Translation adjustment	(10.7)	—	(10.7)
Total comprehensive income	185.5	(0.5)	185.0
Cash dividend declared	(11.2)	—	(11.2)
Issuance of common shares in connection to the Spartech acquisition	253.8	—	253.8
Repurchase of common shares	(71.2)	—	(71.2)
Stock incentive plan activity	7.9	—	7.9
Balance at June 30, 2013	<u>\$ 993.9</u>	<u>\$ 1.8</u>	<u>\$ 995.7</u>

Changes in accumulated other comprehensive loss year-to-date as of June 30, 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	0.4	—	—	0.4
Balance at June 30, 2014	<u>\$ (19.8)</u>	<u>\$ 5.2</u>	<u>\$ 0.2</u>	<u>\$ (14.4)</u>
Balance at January 1, 2013	\$ (16.5)	\$ 5.2	\$ 0.2	\$ (11.1)
Translation adjustments	(10.7)	—	—	(10.7)
Balance at June 30, 2013	<u>\$ (27.2)</u>	<u>\$ 5.2</u>	<u>\$ 0.2</u>	<u>\$ (21.8)</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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2014	2013	2014	2013
Sales	\$ 1,005.5	\$ 1,037.6	\$ 2,007.8	\$ 1,838.7
Operating income	49.4	80.7	105.8	121.2
Net income from continuing operations	30.7	38.3	59.9	49.3
Net income attributable to PolyOne common shareholders	\$ 31.7	\$ 180.9	\$ 61.1	\$ 196.2

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. 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 (\$139.3 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 and six months ended June 30, 2014 compared to three and six months ended June 30, 2013:*

(Dollars in millions, except per share data)	Three Months Ended June 30,		Variances — Favorable (Unfavorable)		Six Months Ended June 30,		Variances — Favorable (Unfavorable)	
	2014	2013	Change	% Change	2014	2013	Change	% Change
Sales	\$ 1,005.5	\$ 1,037.6	\$ (32.1)	(3.1)%	\$ 2,007.8	\$ 1,838.7	\$ 169.1	9.2 %
Cost of sales	821.0	833.9	12.9	1.5 %	1,635.1	1,472.7	(162.4)	(11.0)%
Gross margin	184.5	203.7	(19.2)	(9.4)%	372.7	366.0	6.7	1.8 %
Selling and administrative expense	135.1	123.0	(12.1)	(9.8)%	266.9	244.9	(22.0)	(9.0)%
Income related to previously owned equity affiliates	—	—	—	— %	—	0.1	(0.1)	(100.0)%
Operating income	49.4	80.7	(31.3)	(38.8)%	105.8	121.2	(15.4)	(12.7)%
Interest expense, net	(15.7)	(16.6)	0.9	5.4 %	(31.2)	(32.2)	1.0	3.1 %
Debt extinguishment costs	—	—	—	— %	—	(10.6)	10.6	100.0 %
Other (expense) income, net	(0.4)	(1.2)	0.8	66.7 %	(1.4)	0.2	(1.6)	(800.0)%
Income from continuing operations before income taxes	33.3	62.9	(29.6)	(47.1)%	73.2	78.6	(5.4)	(6.9)%
Income tax expense	(2.6)	(24.6)	22.0	89.4 %	(13.3)	(29.3)	16.0	54.6 %
Net income from continuing operations	30.7	38.3	(7.6)	(19.8)%	59.9	49.3	10.6	21.5 %
Income from discontinued operations, net of income taxes	0.8	142.3	(141.5)	(99.4)%	0.8	146.4	(145.6)	(99.5)%
Net income	\$ 31.5	\$ 180.6	\$ (149.1)	(82.6)%	\$ 60.7	\$ 195.7	\$ (135.0)	(69.0)%
Net loss attributable to noncontrolling interests	0.2	0.3	(0.1)	(33.3)%	0.4	0.5	(0.1)	(20.0)%
Net income attributable to PolyOne common shareholders	<u>\$ 31.7</u>	<u>\$ 180.9</u>	<u>\$ (149.2)</u>	<u>(82.5)%</u>	<u>\$ 61.1</u>	<u>\$ 196.2</u>	<u>\$ (135.1)</u>	<u>(68.9)%</u>
Earnings per common share attributable to PolyOne common shareholders - Basic:								
Continuing operations	\$ 0.33	\$ 0.39			\$ 0.64	\$ 0.52		
Discontinued operations	0.01	1.46			0.01	1.55		
Total	<u>\$ 0.34</u>	<u>\$ 1.85</u>			<u>\$ 0.65</u>	<u>\$ 2.07</u>		
Earnings per common share attributable to PolyOne common shareholders - Diluted:								
Continuing operations	\$ 0.33	\$ 0.39			\$ 0.63	\$ 0.52		
Discontinued operations	0.01	1.44			0.01	1.53		
Total	<u>\$ 0.34</u>	<u>\$ 1.83</u>			<u>\$ 0.64</u>	<u>\$ 2.05</u>		

Sales

Sales decreased \$32.1 million, or 3.1%, in the second quarter of 2014 compared to the second quarter of 2013. Sales decreased by 8.2% due to volume declines primarily within the DSS segment as we continue to shift toward higher margin, specialty sales. This decrease was partially offset by improved mix and price of 4.7% and favorable currency exchange rate impact of 0.4%.

Sales increased \$169.1 million, or 9.2%, in the first half of 2014 compared to the first half of 2013 driven by a 10.5% increase due to the acquisition of Spartech, a 3.4% increase due to improved mix and price, and a 0.2% favorable currency exchange rate impact. These increases were partially offset by a 4.9% decline in volume.

Cost of sales

As a percent of sales, cost of sales increased from 80.4% in the second quarter of 2013 to 81.7% in the second quarter of 2014 and from 80.1% in the first half of 2013 to 81.4% in the first half of 2014. The increase was driven primarily by \$22.1 million and \$33.1 million of restructuring charges during the second quarter and first half of 2014, respectively. Further, the three and six months ended June 30, 2013 included insurance recoveries of \$14.9 million and \$20.1 million, respectively, related to previously incurred environmental liabilities which lowered 2013 cost of goods sold. These unfavorable items impacting 2014 in comparison to 2013 were slightly offset by improved mix and price.

Selling and administrative expense

These costs include selling, technology, administrative functions, corporate and general expenses. The increase in selling and administrative expense of \$12.1 million for the three months ended June 30, 2014 compared to 2013 was driven primarily by increased restructuring charges of \$9.9 million. The increase in selling and administrative expense for the six months ended June 30, 2014 compared to 2013 of \$22.0 million was driven primarily by the acquisition of Spartech and increased restructuring charges of \$5.1 million.

Interest expense, net

Net interest expense decreased in the second quarter and first half of 2014, as compared to the second quarter and first half of 2013. The decrease is primarily a result of lower average debt balances in 2014 compared to 2013 due to the repurchase of \$43.4 million aggregate principal amount of our 7.375% senior notes due 2020 and \$1.3 million aggregate principal amount of our 7.50% debentures due 2015.

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 \$2.6 million, an effective rate of 7.8%, for the second quarter of 2014 compared to \$24.6 million, an effective rate of 39.1%, for the second quarter of 2013. The lower effective rate for the second quarter of 2014 was driven primarily by a \$5.4 million tax benefit associated with our investments in certain foreign affiliates and a \$1.9 million favorable adjustment related to amended state returns. The remaining decrease is primarily attributed to favorable earnings mix.

Income tax expense from continuing operations was \$13.3 million, an effective rate of 18.2%, for the first half of 2014 compared to \$29.3 million, an effective rate of 37.3%, for the first half of 2013. The lower effective rate for the first half of 2014 was driven by the items noted above in addition to settlements with U.S. and foreign tax authorities of \$4.0 million that were recognized in the first quarter of 2014.

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 (\$139.3 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 maker for purposes of allocating resources to segments and assessing segment performance. Operating income at the segment level does not include: corporate general and administrative costs that are not allocated to segments; intersegment sales and profit eliminations; charges related to specific strategic initiatives, such as the consolidation of operations; restructuring activities, including employee separation costs resulting from personnel reduction programs, plant closure and 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 maker. 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 and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013:*

(Dollars in millions)	Three Months Ended June 30,		Variances — Favorable (Unfavorable)		Six Months Ended June 30,		Variances — Favorable (Unfavorable)	
	2014	2013	Change	% Change	2014	2013	Change	% Change
Sales:								
Global Color, Additives and Inks	\$ 228.7	\$ 229.4	\$ (0.7)	(0.3)%	\$ 448.3	\$ 434.7	\$ 13.6	3.1 %
Global Specialty Engineered Materials	157.8	158.8	(1.0)	(0.6)%	315.2	311.7	3.5	1.1 %
Designed Structures and Solutions	164.0	198.9	(34.9)	(17.5)%	337.6	240.4	97.2	40.4 %
Performance Products and Solutions	211.2	210.3	0.9	0.4 %	418.8	376.9	41.9	11.1 %
PolyOne Distribution	287.0	275.1	11.9	4.3 %	571.1	543.1	28.0	5.2 %
Corporate and eliminations	(43.2)	(34.9)	(8.3)	(23.8)%	(83.2)	(68.1)	(15.1)	(22.2)%
Total Sales	\$ 1,005.5	\$ 1,037.6	\$ (32.1)	(3.1)%	\$ 2,007.8	\$ 1,838.7	\$ 169.1	9.2 %
Operating income:								
Global Color, Additives and Inks	\$ 37.7	\$ 30.9	\$ 6.8	22.0 %	\$ 68.1	\$ 55.1	\$ 13.0	23.6 %
Global Specialty Engineered Materials	18.9	15.0	3.9	26.0 %	37.2	30.8	6.4	20.8 %
Designed Structures and Solutions	12.9	9.0	3.9	43.3 %	24.1	10.5	13.6	129.5 %
Performance Products and Solutions	17.6	15.3	2.3	15.0 %	33.6	28.9	4.7	16.3 %
PolyOne Distribution	17.3	16.9	0.4	2.4 %	34.5	33.1	1.4	4.2 %
Corporate and eliminations	(55.0)	(6.4)	(48.6)	(759.4)%	(91.7)	(37.2)	(54.5)	(146.5)%
Total Operating Income	\$ 49.4	\$ 80.7	\$ (31.3)	(38.8)%	\$ 105.8	\$ 121.2	\$ (15.4)	(12.7)%
Operating income as a percentage of sales:								
Global Color, Additives and Inks	16.5%	13.5%	3.0	% points	15.2%	12.7%	2.5	% points
Global Specialty Engineered Materials	12.0%	9.4%	2.6	% points	11.8%	9.9%	1.9	% points
Designed Structures and Solutions	7.9%	4.5%	3.4	% points	7.1%	4.4%	2.7	% points
Performance Products and Solutions	8.3%	7.3%	1.0	% points	8.0%	7.7%	0.3	% points
PolyOne Distribution	6.0%	6.1%	(0.1)	% points	6.0%	6.1%	(0.1)	% points
Total	4.9%	7.8%	(2.9)	% points	5.3%	6.6%	(1.3)	% points

Global Color, Additives and Inks

Sales decreased \$0.7 million, or 0.3%, in the second quarter of 2014 compared to the second quarter of 2013. Sales increased 4.9% due to improved mix and price and 1.4% due to favorable exchange rates. These increases were more than offset by a 6.6% decline in volume primarily related to acquired Spartech business. Sales increased \$13.6 million, or 3.1%, in the first half of 2014 compared to the first half of 2013. Sales increased 3.3% as a result of the Spartech acquisition, 5.6% due to improved mix and price, and 0.7% due to favorable exchange rates. These increases were partially offset by a 6.5% decline in volume primarily related to acquired Spartech business.

Operating income increased \$6.8 million in the second quarter of 2014 as compared to the second quarter of 2013. The increase is primarily due to improvement in mix and price. Operating income increased \$13.0 million for the first half of 2014 as compared to the first half of 2013 driven by improved mix and price.

Global Specialty Engineered Materials

Sales decreased \$1.0 million, or 0.6%, in the second quarter of 2014 compared to the second quarter of 2013. Sales increased 7.2% due to improved product mix while foreign exchange rates also favorably impacted sales by 1.2%. These increases were more than offset by a 9.0% decline in volume experienced primarily in Brazil. Sales increased

\$3.5 million, or 1.1%, in the first half of 2014 compared to the first half of 2013. Sales increased 1.2% due to the Spartech acquisition, 3.9% due to improved product mix and 0.5% due to favorable foreign exchange rates. These increases were partially offset by volume declines of 4.5%, largely in Brazil.

Operating income increased \$3.9 million in the second quarter of 2014 as compared to the second quarter of 2013 and \$6.4 million in the first half of 2014 as compared to the first half of 2013. Operating income improvement was primarily driven by margin expansion resulting from improved pricing and mix.

Designed Structures and Solutions

Sales decreased \$34.9 million, or 17.5%, in the second quarter of 2014 compared to the second quarter of 2013. Sales declined 25.1% due to decreased volume as a result of low or negative margin business being pruned. This was partially offset by improved mix of 7.8%. Sales increased \$97.2 million, or 40.4%, for the first half of 2014 compared to the first half of 2013. Sales increased 55.0% as a result of the Spartech acquisition and 6.4% as a result of improved mix. Partially offsetting these increases were volume declines of 20.8% as a result of low or negative margin business being pruned while foreign exchange rates negatively impacted sales by 0.2%.

Operating income increased \$3.9 million in the second quarter of 2014 as compared to the second quarter of 2013, and \$13.6 million in the first half of 2014 compared to the first half of 2013 driven by inclusion of the Spartech acquisition for the full half of the year, improved mix and price, synergies achieved and cost reductions from the North American realignment actions.

Performance Products and Solutions

Sales increased \$0.9 million, or 0.4%, in the second quarter of 2014 as compared to the second quarter of 2013. Sales increased 0.3% due to volume increases and 0.1% as a result of favorable mix and price. Sales increased \$41.9 million, or 11.1%, in the first half of 2014 as compared to the first half of 2013. Sales increased 11.3% due to the Spartech acquisition and 0.1% as a result of increased volume. These increases were partially offset by unfavorable mix and price of 0.3%.

Operating income increased \$2.3 million in the second quarter of 2014 as compared to the second quarter of 2013 due to favorable mix, synergies and cost reductions related to the North American realignment actions. Operating income increased \$4.7 million in the first half of 2014 as compared to the first half of 2013 due to sales associated with the Spartech acquisition and improved mix.

PolyOne Distribution

Sales increased \$11.9 million, or 4.3%, in the second quarter of 2014 as compared to the second quarter of 2013. Sales increased 3.6% due to increased pricing associated with higher raw material costs and 0.7% as a result of increased volume. Sales increased \$28.0 million, or 5.2%, in the first half of 2014 as compared to the first half of 2013. Sales increased 3.5% due to increased pricing associated with higher raw material costs, while volume increases favorably impacted sales by 1.7%.

Operating income increased \$0.4 million in the second quarter of 2014 as compared to the second quarter of 2013 and \$1.4 million in the first half of 2014 as compared to the first half of 2013 due to increased sales.

Corporate and Eliminations

The following table breaks down *Corporate and eliminations* into its various components for the three and six months ended June 30, 2014 and 2013:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Environmental remediation costs	\$ (0.9)	\$ (1.3)	\$ (1.8)	\$ (3.3)
Insurance settlements	—	14.9	—	20.1
Employee separation and plant phase-out costs	(35.1)	(2.9)	(53.0)	(12.8)
Stock based compensation	(6.3)	(3.1)	(10.1)	(10.1)
Non-stock based incentive compensation	(9.6)	(6.0)	(18.4)	(12.9)
Acquisition related costs, including inventory fair value adjustments	(0.5)	(4.9)	(0.7)	(13.6)
All other and eliminations ⁽¹⁾	(2.6)	(3.1)	(7.7)	(4.6)
Total Corporate and eliminations	<u>\$ (55.0)</u>	<u>\$ (6.4)</u>	<u>\$ (91.7)</u>	<u>\$ (37.2)</u>

(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 seek to 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 June 30, 2014 and December 31, 2013:

(In millions)	June 30, 2014	December 31, 2013
Cash and cash equivalents	\$ 261.5	\$ 365.2
Revolving credit availability	313.2	285.7
Liquidity	<u>\$ 574.7</u>	<u>\$ 650.9</u>

As of June 30, 2014, approximately 80% 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, continue to pay dividends on our common stock 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 six months ended June 30, 2014 and 2013.

Operating Activities — In the first half of 2014, net cash provided by operating activities was \$43.8 million as compared to net cash used by operating activities of \$25.2 million for the first half of 2013. The increase in net cash provided by operating activities of \$69.0 million was primarily driven by reduced pension contributions as a result of our improved funded status and improved working capital partially offset by higher interest, tax and restructuring payments in 2014.

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 second quarter of 2014 decreased to 10.1% compared to 10.6% for the second quarter of 2013. Days sales outstanding for the second quarter of 2014 was 45.5 compared to 44.7 for the second quarter of 2013.

Investing Activities — Net cash used by investing activities during the six months ended June 30, 2014 of \$10.7 million reflects \$38.0 million of capital expenditures partially offset by the third and final earn-out payment 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 June 30, 2013 was \$12.0 million, primarily reflecting the acquisition of Spartech of \$258.8 million, net of cash acquired and capital expenditures of \$26.7 million. These cash outflows were partially offset by cash proceeds received of \$274.1 million primarily related to the sale of our Resin Business and year two of the three-year earn-out payment from the sale of our 50% equity investment in SunBelt.

Financing Activities — Net cash used by financing activities for the six months ended June 30, 2014 of \$136.7 million reflects repurchases of \$119.9 million of our outstanding common stock, cash dividends paid of \$15.1 million and repayment of long-term debt of \$8.0 million. These cash outflows more than offset the tax benefit of \$6.3 million related to the exercise of employee equity awards.

Net cash provided by financing activities for the six months ended June 30, 2013 was \$219.7 million, which includes repayment of our senior secured term loan of \$297.0 million, debt financing costs of \$13.0 million, repurchases of \$71.2 million of our outstanding common stock and cash dividends paid of \$9.9 million. These cash outflows were more than offset by proceeds received from the issuance of our senior notes due 2023 of \$600.0 million, net proceeds from borrowings under our credit facilities of \$7.5 million and income tax benefits of \$3.3 million related to exercise of equity awards.

Debt

As of June 30, 2014, debt totaled \$980.6 million. Aggregate maturities of debt for the current year, next five years and thereafter, are as follows:

(In millions)		
2014	\$	12.5
2015		49.2
2016		0.5
2017		0.5
2018		0.6
Thereafter		917.3
Aggregate maturities	\$	<u>980.6</u>

During the first quarter of 2014, we repaid an \$8.0 million industrial revenue bond that was assumed 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 June 30, 2014, we were in compliance with all covenants, had no outstanding borrowings and had availability of \$309.8 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 June 30, 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 amount of the guarantee is \$24.4 million as of June 30, 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 six months ended June 30, 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 environmental liabilities; 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 June 30, 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 and the public comment period expired December 27, 2013. The Court entered the Consent Order in June 2014, and the Company has paid the penalty and completed installation of the SEPs. Mexichem has 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⁾
April 1 to April 30	507,437	\$ 37.37	507,437	13,053,768
May 1 to May 31	1,300,000	38.46	1,300,000	11,753,768
June 1 to June 30	—	—	—	11,753,768
Total	1,807,437	\$ 38.15	1,807,437	

(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.

July 22, 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	Executive severance Plan, as amended and restated effective May 15, 2014
10.2	Form of Performance Share Award Agreement under the PolyOne Corporation 2010 Equity and Performance Incentive Plan, as amended
31.1	Certification of Robert M. Patterson, 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 Robert M. Patterson, 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

POLYONE CORPORATION**EXECUTIVE SEVERANCE PLAN**

(As Amended and Restated Effective May 15, 2014)

ARTICLE I- PURPOSE

The Board of Directors of PolyOne Corporation (the “Company”), acting through the Compensation Committee (formerly known as the Compensation and Governance Committee), adopted the PolyOne Corporation Executive Severance Plan (the “Plan”) effective May 25, 2006. The Plan is designed to provide severance protection to certain officers of the Company who are expected to make substantial contributions to the success of the Company and thereby provide for stability and continuity of operations.

ARTICLE II- ESTABLISHMENT OF THE PLAN

Section 2.1 Effective Date. The Plan was effective May 25, 2006 (the “Effective Date”). The Plan was amended and restated effective December 31, 2007 to comply with the guidance issued under Code Section 409A, amended and restated effective December 31, 2008 to comply with additional guidance issued under Code Section 409A, amended and restated effective February 17, 2009 to reflect the provisions of the American Recovery and Reinvestment Act of 2009, further and amended and restated effective May 15, 2014 to extend the benefits and conditions of the Plan to the Chief Executive Officer, and to remove the provisions of the American Recovery and Reinvestment Act of 2009.

Section 2.2 Applicability of Plan. The benefits provided by the Plan shall be available to Participants, as defined in Section 3.14.

Section 2.3 Contractual Right to Benefits. Subject to the provisions of Article X hereof, the Plan establishes and vests in each Participant a contractual right to the benefits to which the Participant is entitled hereunder, enforceable by the Participant against the Company on the terms and subject to the conditions hereof.

ARTICLE III- DEFINITIONS

Section 3.1 “Affiliate” means, with respect to any person, any entity, directly or indirectly, controlled by, controlling or under common control with such person.

Section 3.2 “Base Salary” of a Participant means the Participant’s annual base salary as in effect on the Termination Date.

Section 3.3 “Board” means the Board of Directors of the Company.

Section 3.4 “Cause” means the Participant’s commission of any of the following:

- (a) Serious violation or deliberate disregard of the Company’s policies;

- (b) Gross dereliction in the performance of Participant's job duties and responsibilities;
- (c) Violation of the Code of Business Conduct;
- (d) Misappropriation of property of the Company or an Affiliate;
- (e) Commission of an act of fraud upon, or bad faith, dishonesty or disloyalty toward the Company or any of its Affiliates;
- (f) Breach of any of the covenants under Section 6.3 or Article VII;
- (g) An event of egregious misconduct involving serious moral turpitude to the extent that, in the reasonable judgment of the Committee, the Participant's credibility and reputation no longer conforms to the standards applicable to Company executives; or
- (h) An act or omission that the Company reasonably determines may prejudice significantly its best interests if the Participant's employment is not terminated.

Section 3.5 "Code" means the Internal Revenue Code of 1986, as amended.

Section 3.6 "Committee" means the Compensation Committee of the Board, or any successor committee of the Board that performs the executive compensation functions delegated to the Committee as of the Effective Date.

Section 3.7 "Disability" means a Participant's incapacity due to physical or mental illness that results in a Participant being absent from the Participant's duties with an Employer on a full-time basis for a period of 180 consecutive days.

Section 3.8 "Elected Officer" means an officer of the Company who is elected to office by the Board and who has not resigned or otherwise been removed from that position. An Elected Officer will not include an officer of the Company who is appointed by the Board.

Section 3.9 "Employer" means the Company or any Affiliate that employs a Participant.

Section 3.10 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

Section 3.11 "Executive Officer" means an Elected Officer who is elected to office by the Board in the category of "Executive Officer."

Section 3.12 "Key Employee" means a "specified employee," determined pursuant to procedures adopted by the Company in compliance with Section 409A of the Code.

Section 3.13 "Management Continuity Agreement" means an agreement entered into between the Company and a Participant that sets forth benefits that the Company agrees to

provide the Participant under certain circumstances following a Change of Control (as defined in such agreement).

Section 3.14 “Participant” means an Elected Officer and any other employee of an Employer who is expressly designated by the Committee as a Participant, who, after becoming a Participant, has not entered into an employment, severance or other similar agreement with the Company (other than a stock option, restricted stock, supplemental retirement, deferred compensation or similar plan or agreement or other form of participant document entered into pursuant to an Employer-sponsored plan that may contain provisions operative on a termination of the Participant’s employment or may incidentally refer to accelerated vesting or accelerated payment upon a Change of Control (as defined in such separate plan or document), such as a Management Continuity Agreement). Each individual who, as of the Effective Date, is an Elected Officer shall become a Participant as of the Effective Date. Each individual who, after the Effective Date, becomes an Elected Officer or is designated by the Committee as a Participant, shall become a Participant as of the date so elected or designated. A Participant shall cease to be a Participant hereunder when he or she is no longer an Elected Officer or, by action of the Committee, is no longer a Participant.

Section 3.15 “Plan Administrator” means the Company.

Section 3.16 “Severance Payment” or “Severance Payments” means the amount or amounts to be paid to a Participant under Article IV hereof.

Section 3.17 “Severance Period” means (a) for all Executive Officers, the period of time commencing on the Termination Date and continuing until the second anniversary of the Termination Date, and (b) for all other Participants, the period of time commencing on the Termination Date and continuing until the first anniversary of the Termination Date.

Section 3.18 “Termination Date” means the date on which the Participant incurs a “separation from service” from the Company within the meaning of the Section 409A(a)(2)(A)(i) of the Code.

Section 3.19 “409A Guidance” means Section 409A of the Code, including proposed, temporary or final regulations or any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto.

ARTICLE IV- SEVERANCE PAYMENTS

Section 4.1 Right to Severance Payment.

(a) Subject to Section 5.1, a Participant shall be entitled to receive from the Company Severance Payments in the amount provided in Section 4.1(b), payable as described in Section 4.1(d), upon the termination by the Employers of the Participant’s employment without Cause and for reasons other than death or Disability.

(b) The amount of Severance Payments under this Section 4.1(b) shall equal the sum of:

(i) the Participant's Base Salary multiplied by (i) two in the case of Executive Officers or (ii) one in the case of all other Participants; and

(ii) the Participant's annual bonus under the Company's annual incentive program in which the Participant participates as earned for the year in which the Termination Date occurs;

minus the sum of:

(iii) the amount equal to the aggregate amount of any other cash payments in the nature of severance payments, if any, paid or payable to the Participant by an Employer pursuant to any agreement, plan, program, arrangement or requirement of statutory or common law (other than this Plan or cash payments received in lieu of stock incentives); and

(iv) the amount, if any, the Participant may be required to repay to the Company under the Company's relocation program;

provided, however, for purposes of this Section 4.1(b), any reduction required by Section 4.1(b)(iii) or Section 4.1(b)(iv) shall first be taken against the amount payable under Section 4.1(b)(i); and provided further, that the offset provided by Section 4.1(b)(iv) shall not exceed \$5,000 in any calendar year and shall be made at the same time and in the same manner as the repayment would otherwise be due from the Participant to the Company under the Company's relocation program.

(c) In the event a Participant is entitled to severance payments under this Article IV, the Company shall provide the Participant continued participation in the Company's medical, dental and vision plans (the "Health Plans") for the Severance Period, subject to the terms and conditions of the Health Plans. The Participant will be required to pay the full cost for such continuation coverage in the Health Plans on an after-tax basis. On the Initial Payment Date, as defined below, and on each January 2 of the Severance Period beginning in the year following the year in which the Initial Payment Date occurs, PolyOne will make a payment to the Participant (the "Health Plans Premium Reimbursement") equal to the difference between (A) the amount the Participant is 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, the Participant is required to pay for such continuation coverage in the prior year, and (B) the amount the Participant would have been required to pay during such years for such continuation coverage if the Participant had paid the same percentage of the cost that a similarly situated active employee would pay, as of the Termination Date.

The Participant's continued participation in the Health Plans for the Severance Period shall satisfy the Health Plans' obligation to provide the Participant the right to

continuation coverage under the Health Plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended.

The Company will reimburse the amount of the federal, state and local taxes imposed on the Participant as a result of the Participant's receipt of the Health Plans Premium Reimbursement, such reimbursement to be made, subject to Section 4.1(d)(iii), no later than December 31 of the year following the year in which the Participant remits the applicable taxes.

(d) (i) The Severance Payment paid pursuant to Section 4.1(b)(i) shall be paid in equal installments during the period beginning on the date 60 calendar days after the Participant's Termination Date and ending at the end of the Severance Period according to the Company's then current payroll policies. The first installment to which a Participant is entitled under this Section 4.1(d)(i) shall be paid with the first normal pay period that occurs on or after 60 calendar days after the Participant's Termination Date (the "Initial Payment Date") and shall include any installments that would have been paid during the Severance Period but for the 60-day delay in commencement of payment. The amount of each installment shall be equal to the total amount of the Severance Payment paid pursuant to Section 4.1(b)(i) divided by the number of payroll dates in the Severance Period.

(ii) Except to the extent subject to a valid deferral election executed by the Participant that would require payment at a different time, the Severance Payment paid pursuant to Section 4.1(b)(ii) shall be paid during the calendar year immediately following the calendar year in which the performance objectives giving rise to such annual bonus payment are satisfied.

(iii) Notwithstanding the foregoing, if any of the Severance Payments described in Section 4.1(c), Section 4.1(d)(i) or Section 4.1(d)(ii) would be considered "nonqualified deferred compensation," within the meaning of the 409A Guidance, then to the extent necessary to comply with Section 409A of the Code and to the extent payable to a Participant who is a Key Employee, such payment shall not be made during the six-month period following the Participant's Termination Date. Any Severance Payments that would, but for the foregoing sentence, be paid during such six-month period, shall be paid to the Participant by the Company in cash and in full, on the first business day of the seventh month following the Participant's Termination Date.

(iv) If a Participant entitled to Severance Payments under this Section 4.1 should die before all amounts payable to him or her have been paid, such unpaid amounts shall be paid no later than 90 days following the Participant's death to the Participant's legal representative, if there be one, and, if not, to the Participant's spouse, parents, children or other relatives or dependents of such Participant as the Company, in its discretion, may determine, provided, however, such payee or payees shall not have the right to designate the taxable year of

payment. Any payment so made shall be a complete discharge of any liability with respect to such benefit.

Section 4.2 Business Expenses. Each Participant shall be responsible for any personal charges incurred on any Company credit card or other account used by the Participant prior to the Participant's Termination Date and the Participant shall pay all such charges when due. The Company shall reimburse the Participant for any pending, reasonable business-related credit card charges for which the Participant has not already been reimbursed as of the Participant's Termination Date provided the Participant files a proper travel and expense report. Such reimbursement shall be made not later than December 31 of the year following the year in which the Participant incurs the expense. In no event will the amount of expenses so reimbursed by the Company in one year affect the amount of expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year.

Section 4.3 Outplacement. Each Participant shall be eligible to initiate outplacement services with the Company's designated service provider within 90 days of the Termination Date. Any fees for such outplacement benefits shall be paid by the Company directly to the outplacement service provider and such services shall be completed within 12 months after the date the Participant so initiates outplacement services.

Section 4.4 Withholding. The Company shall withhold such amounts from the payments described in this Article IV as are required by applicable tax or other law.

Section 4.5 Other Rights and Obligations.

(a) Nothing in this Plan will affect the rights that a Participant may have, based on termination of the Participant's employment as of the Termination Date, pursuant to any agreement, policy, plan, program or arrangement of the Company providing for payment of accrued vacation pay, long-term incentive compensation or retirement benefits under the PolyOne Corporation Retirement Savings Plan or any other qualified or non-qualified retirement plan of the Company or any Affiliate, which rights will be governed by the terms thereof, as such agreements, policies, plans, programs or arrangements may be modified from time to time consistent with the terms of such agreements, policies, plans, programs or arrangements.

(b) Except as specifically set forth in this Plan, no other compensation or benefits are due to a Participant under this Plan, the PolyOne Employee Transition Plan, the Management Continuity Agreement, or any other agreement, policy or program of the Company. If the Participant has entered into a Management Continuity Agreement with the Company and is entitled to payment under such Management Continuity Agreement, then the Participant is not eligible to receive benefits under this Plan.

(c) In connection with the termination of the Participant's employment, such Participant shall follow the Company's standard procedures relating to departing employees, including, without limitation, returning (and providing confirmation that the Participant has so returned) all Company owned property, documents and materials

(including copies, reproductions, summaries and/or analyses), and all other materials that contain, reflect, summarize, describe, analyze or refer or relate to any items of Information (as defined in Article VII below).

(d) The Participant shall not be required to mitigate damages or the amount of the Participant's Severance Payment by seeking other employment or otherwise, nor, except as provided in the following sentence, shall the amount of such payment be reduced by any compensation earned by the Participant as a result of employment after the termination of the Participant's employment by the Employers. In the event a person receiving benefits under the Plan is reemployed by an Employer, all payments then payable will cease.

ARTICLE V- RELEASE

Section 5.1 Release. Notwithstanding anything to the contrary contained in this Plan, a Participant shall not be entitled to receive any Severance Payment hereunder unless and until the Participant has signed and returned to the Company a release (the "Release") by the deadline established by the Plan Administrator (which shall be no later than 50 calendar days after the Participant's Termination Date) and the period during which the Participant may revoke the Release, if any, has elapsed. The Release, which shall be signed by the Participant no earlier than the Participant's Termination Date, shall be a written document, in a form prescribed by the Company, intended to create a binding agreement by a Participant to release any claim that the Participant has or may have against the Company and certain related entities and individuals, that arise on or before the date on which Participant signs the Release, including, without limitation, any claims under the federal Age Discrimination in Employment Act.

Section 5.2 Breach. The Company's payment obligations and the Participant's participation rights under Article IV shall cease in the event the Participant breaches any of the covenants contained in the Release or in Articles VI or VII.

ARTICLE VI- NON-COMPETITION, NON- SOLICITATION, AND NON-DISPARAGEMENT

Section 6.1 Non-Competition. From the Termination Date until the conclusion of the Severance Period, a Participant shall not, without prior written consent of the Company (to be decided by the Plan Administrator upon submission of a written request by the Participant describing the specific opportunity for which consent is sought), engage, directly or indirectly, either personally or as an employee, director, partner, agent, representative, or consultant for another, in any activity that competes directly or indirectly with the Company or any of its Affiliates in any products, services, systems, or other business activities (or in any product, service, system, or business activity that was under either active development or consideration while the Participant was employed by the Company). The foregoing sentence of this Section 6.1 is intended to cover and encompass activity by a Participant that poses a competitive threat to the Company or any of its Affiliates. The Company competes worldwide in the sale of products, services, systems, and business activities and the market for technology related to its products, services, systems, and business activities is worldwide. For purposes of this Section 6.1, indirect

competition shall include engaging in any of the prohibited activities through an intermediary or third-party or as a shareholder of any corporation in which a Participant or Participant's immediate family member owns, directly or indirectly, individually or in the aggregate, more than five percent (5%) of the outstanding stock.

Section 6.2 Non-Solicitation. From the Termination Date until the conclusion of the Severance Period, a Participant shall not directly or indirectly (a) induce or assist others in inducing any person who is an employee, officer, consultant, or agent of the Company or its Affiliates to give up employment or business affiliation with the Company or its Affiliates; or (b) employ or associate in business with any person who is employed by or associated in business with the Company or its Affiliates at any time during the Severance Period or in the one-year period prior to the Termination Date; provided, however, that the foregoing shall not prohibit the Participant, or any business with whom Participant becomes associated, from engaging in general solicitations of employment or hiring persons that respond to such solicitations. In the event that the scope of the restrictions in Sections 6.1 or 6.2 are found overly broad, a court should reform the restrictions by limiting them to the maximum reasonable scope.

Section 6.3 Statements to Third Parties. A Participant shall not, directly or indirectly, make or cause to be made any statements to any third parties criticizing or disparaging the Company or comment on its character or business reputation. A Participant further shall not: (a) comment to others concerning the status, plans or prospects of the business of the Company, or (b) engage in any act or omission that would be detrimental, financially or otherwise, to the Company, or that would subject the Company to public disrespect, scandal, or ridicule. For purposes of this Section 6.3, the "Company" shall mean PolyOne Corporation and its directors, officers, predecessors, and Affiliates. The foregoing undertakings shall not apply to any statements or opinions that are made under oath in any investigation, civil or administrative proceeding or arbitration in which the individual has been compelled to testify by subpoena or other judicial process or which are privileged communications.

ARTICLE VII- CONFIDENTIAL INFORMATION

As an employee of the Company or an Affiliate, a Participant may have created or had access to information, trade secrets, substances and inventions including confidential information relating to the business or interests of persons with whom the Company or any of its Affiliates may have commercial, technical, or scientific relations ("Information") that is valuable to the Company or any of its Affiliates and may lose its value if disclosed to third parties. Participants shall treat all such Information as confidential and belonging to the Company and take all actions reasonably requested to confirm such ownership. A Participant shall not, without the prior written consent of the Company, disclose or use the Information. This non-disclosure obligation shall continue until such Information becomes public knowledge through no fault of the Participant. A Participant shall promptly inform the Company of any request, order, or legal process requesting or requiring the Participant to disclose Information. A Participant shall cooperate with legal efforts by the Company to prevent or limit disclosure of Information.

ARTICLE VIII- SUCCESSORS; THIRD PARTY BENEFICIARIES

Section 8.1 Participant's Successors. This Plan shall inure to the benefit of and be enforceable by the Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees and/or legatees.

Section 8.2 Exclusive Benefit. This Plan is intended to be for the exclusive benefit of the Company and the Participants, and except as provided in Section 8.1, no third party shall have any rights hereunder.

ARTICLE IX- AMENDMENT AND TERMINATION

The Company, through the Committee, reserves the right to amend or terminate the Plan at any time without any prior notice to or approval of any Participant without any notice to or approval of any other Employer. Any such amendment or termination may be retroactive to any date up to and including the effective date of the Plan; provided, however, that no such amendment, modification or change shall adversely affect any benefit under the Plan previously paid or provided to a Participant (or a Participant's successor in interest).

ARTICLE X- ADMINISTRATION OF PLAN

Section 10.1 Administration.

(a) The Plan shall be administered by the Plan Administrator. The Plan Administrator shall have the sole and absolute discretion to interpret where necessary all provisions of the Plan (including, without limitation, by supplying omissions from, correcting deficiencies in, or resolving inconsistencies or ambiguities in, the language of the Plan), to make factual findings with respect to any issue arising under the Plan, to determine the rights and status under the Plan of Participants or other persons, to resolve questions (including factual questions) or disputes arising under the Plan and to make any determinations with respect to the benefits payable under the Plan and the persons entitled thereto as may be necessary for the purposes of the Plan. Without limiting the generality of the foregoing, the Plan Administrator is hereby granted the authority (i) to determine whether a particular employee is a Participant, and (ii) to determine if a person is entitled to benefits hereunder and, if so, the amount and duration of such benefits. The Plan Administrator's determination of the rights of any person hereunder shall be final and binding on all persons, subject only to the provisions of Section 10.3 hereof.

(b) The Plan Administrator may delegate any of its administrative duties, including, without limitation, duties with respect to the processing, review, investigation, approval and payment of benefits, to a named administrator or administrators.

Section 10.2 Regulations. The Plan Administrator shall promulgate any rules and regulations it deems necessary in order to carry out the purposes of the Plan or to interpret the provisions of the Plan. The rules, regulations and interpretations made by the Plan Administrator shall, subject only to the provisions of Section 10.3 hereof, be final and binding on all persons.

Section 10.3 Claims Procedures.

(a) The Plan Administrator shall determine the rights of any person to any benefit hereunder. Any person who believes that he or she has not received the benefit to which he or she is entitled under the Plan must file a claim in writing with the Plan Administrator specifying the basis for his or her claim and the facts upon which he or she relies in making such a claim.

(b) The Plan Administrator will notify the claimant of its decision regarding his or her claim within a reasonable period of time, but not later than 90 days following the date on which the claim is filed, unless special circumstances require a longer period for adjudication and the claimant is notified in writing of the reasons for an extension of time prior to the end of the initial 90-day period and the date by which the Plan Administrator expects to make the final decision. In no event will the Plan Administrator be given an extension for processing the claim beyond 180 days after the date on which the claim is first filed with the Plan Administrator.

If such a claim is denied, the Plan Administrator's notice will be in writing, will be written in a manner calculated to be understood by the claimant and will contain the following information:

- (i) The specific reason(s) for the denial;
- (ii) A specific reference to the pertinent Plan provision(s) on which the denial is based;
- (iii) A description of additional information or material necessary for the claimant to perfect his or her claim, if any, and an explanation of why such information or material is necessary; and
- (iv) An explanation of the Plan's claim review procedure and the applicable time limits under such procedure and a statement as to the claimant's right to bring a civil action under ERISA after all of the Plan's review procedures have been satisfied.

If additional information is needed, the claimant shall be provided at least 45 days within which to provide the information and any otherwise applicable time period for making a determination shall be suspended during the period the information is being obtained.

Within 60 days after receipt of a denial of a claim, the claimant must file with the Plan Administrator, a written request for review of such claim. If a request for review is not filed within such 60-day period, the claimant shall be deemed to have acquiesced in the original decision of the Plan Administrator on his or her claim. If a request for review is filed, the Plan Administrator shall conduct a full and fair review of the claim. The claimant will be provided, upon request and free of charge, reasonable access to and copies of all documents and information relevant to the claim for benefits. The claimant may submit issues and comments in writing, and the review must take into account all information submitted by the claimant regardless of whether it was reviewed as part of the initial determination. The decision by the Plan Administrator with respect to the review must be given within 60 days after receipt of the

request for review, unless circumstances warrant an extension of time not to exceed an additional 60 days. If this occurs, written notice of the extension will be furnished to the claimant before the end of the initial 60-day period, indicating the special circumstances requiring the extension and the date by which the Plan Administrator expects to make the final decision. The decision shall be written in a manner calculated to be understood by the claimant, and it shall include

- (A) The specific reason(s) for the denial;
- (B) A reference to the specific Plan provision(s) on which the denial is based;
- (C) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all information relevant to the claimant's claim for benefits; and
- (D) A statement describing any voluntary appeal procedures offered by the Plan and a statement of the claimant's right to bring a civil action under ERISA.

The Plan Administrator's decision on review shall be, to the extent permitted by applicable law, final and binding on all interested persons.

Section 10.4 Mediation. After a Participant has exhausted all administrative remedies as provided in Section 10.3, the Participant may submit any dispute to mediation by written notice to the other party or parties. The mediator shall be selected by agreement of the parties. If the parties cannot agree on a mediator, a mediator shall be designated by the American Arbitration Association at the request of a party. Any mediator so designated must be acceptable to all parties. The mediation shall be conducted as specified by the mediator and agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with facilitation by the mediator, to reach an amicable resolution of the dispute. The mediation shall be treated as a settlement discussion and therefore shall be confidential. The mediator may not testify for either party in any later proceeding relating to the dispute. No recording or transcript shall be made of the mediation proceedings. Each party shall bear its own costs in the mediation. The fees and expenses of the mediator shall be shared equally by the parties.

ARTICLE XI- MISCELLANEOUS

Section 11.1 Alienation. Except as otherwise required by law, no benefit shall be subject in any way to alienation, sale, transfer, assignment, pledge, attachment, garnishment, execution or encumbrance of any kind, and any attempt to accomplish the same shall be void.

Section 11.2 Incapacity. Benefits shall be payable hereunder only to a Participant who is eligible therefor, except that if the Company shall find that such Participant is unable to manage his or her affairs for any reason, any benefit payable to him or her shall be paid to his or her duly appointed legal representative, if there be one, and, if not, to the spouse, parents, children or other relatives or dependents of such Participant as the Company, in its discretion, may determine. Any payment so made shall be a complete discharge of any liability with respect to such benefit.

Section 11.3 Employment Rights. The Participant's rights, and the Company's rights to discharge a Participant shall not be enlarged or affected by reason of the Plan. Nothing

contained in the Plan shall be deemed to alter in any manner the management rights of the Company or any of its Affiliates.

Section 11.4 Notices. For all purposes of this Plan, all communications, including, without limitation, notices, consents, requests or approvals provided for herein, shall be in writing and shall be deemed to have been duly given when delivered, addressed to the Company (to the attention of the Chief Legal Officer) at its principal executive offices and to any Participant at his principal residential address on file with the Company, or to such other address as any party may have furnished to the other in writing and in accordance herewith. Notices of change of address shall be effective only upon receipt.

Section 11.5 Governing Law. Any dispute, controversy, or claim of whatever nature arising out of or relating to this Plan or breach thereof shall be governed by and under the laws of the State of Ohio without regard to conflict of law principles.

Section 11.6 Validity. The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan, which shall nevertheless remain in full force and effect.

Section 11.7 Captions and Paragraph Headings. Captions and paragraph headings used herein are for convenience and are not part of this Plan and shall not be used in construing it.

Section 11.8 Section 409A Compliance. It is intended that this Plan comply with the provisions of Section 409A of the Code, 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 a Participant or his or her beneficiaries. This Agreement shall be administered in a manner consistent with such intent.

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has caused this Plan to be executed as of the 15th day of May, 2014.

POLYONE CORPORATION

By: /s/ Ana G. Rodriguez



Exhibit 10.2

THIS AGREEMENT CONSTITUTES PART OF A PROSPECTUS COVERING SECURITIES REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE COMMON SHARES OF THE COMPANY ARE LISTED ON THE NEW YORK STOCK EXCHANGE.

[DATE]

Attn: [NAME]
PolyOne Corporation

POLYONE CORPORATION INCENTIVE AWARDS

Dear _____:

Subject to the terms and conditions of the PolyOne Corporation 2010 Equity and Performance Incentive Plan, as amended (the "Plan"), and this letter agreement (this "Agreement"), the Compensation Committee of the Board of Directors (the "Committee") of PolyOne Corporation ("PolyOne") has granted to you, as of [DATE], the following award(s) (collectively, the "Incentive Awards"):

- _____ performance shares (the "Performance Shares"), which shall become non-forfeitable in accordance with the terms set forth on Schedule A attached hereto. Each Performance Share shall represent one hypothetical Common Share and shall at all times be equal in value to one Common Share.

A copy of the Plan is available for your review through the Corporate Secretary's office. Unless otherwise indicated, the capitalized terms used in this Agreement (including the Schedule attached hereto) shall have the same meanings as set forth in the Plan.

1. **Non-Assignability.** The Incentive Award is personal to you and is not transferable by you other than by will or the laws of descent and distribution. Any purported transfer or encumbrance in violation of the provisions of this Section 1 shall be void, and the other party to any such purported transaction shall not obtain any right to or interest in such Incentive Award.
2. **Adjustments.** In the event of any change in the number of Common Shares by reason of a merger, consolidation, reorganization, recapitalization, or similar transaction, or in the event of a stock dividend, stock split, or distribution to shareholders (other than normal cash dividends), the number and class of shares subject to this outstanding Incentive Award will be adjusted. Such adjustment shall be made automatically on the customary arithmetical basis in the case of any stock split, including a stock split effected by means of a stock dividend, and in the case of any other dividend paid in Common Shares. If any such transaction or event occurs, the Committee may provide in substitution for outstanding Incentive Awards such alternative consideration (including, without limitation, in the form of cash, securities or other property) as it may determine to be equitable in the circumstances and may require in connection therewith the

surrender of the Incentive Award subject to this Agreement. No adjustment provided for in this Section 2 will require PolyOne to issue any fractional shares.

3. **Miscellaneous.**

- (a) The contents of this Agreement are subject in all respects to the terms and conditions of the Plan as approved by the Board and the shareholders of PolyOne, which are controlling. The interpretation and construction by the Board and/or the Committee of any provision of the Plan or this Agreement shall be final and conclusive upon you, your estate, executor, administrator, beneficiaries, personal representative and guardian and PolyOne and its successors and assigns.
- (b) The grant of the Incentive Award is discretionary and will not be considered to be an employment contract or a part of your terms and conditions of employment or of your salary or compensation. Information about you and your participation in the Plan, including, without limitation, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in PolyOne, and details of the Incentive Award or other entitlement to shares of stock awarded, cancelled, exercised, vested, unvested or outstanding in your favor may be collected, recorded, held, used and disclosed by PolyOne and any of its Subsidiaries and any non-PolyOne entities engaged by PolyOne to provide services in connection with this grant (a "Third Party Administrator"), for any purpose related to the administration of the Plan. You understand that PolyOne and its Subsidiaries may transfer such information to Third Party Administrators, regardless of whether such Third Party Administrators are located within your country of residence, the European Economic Area or in countries outside of the European Economic Area, including the United States of America. You consent to the processing of information relating to you and your participation in the Plan in any one or more of the ways referred to above. This consent may be withdrawn at any time in writing by sending a declaration of withdrawal to PolyOne's chief human resources officer.
- (c) Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto. The terms and conditions of this Agreement may not be modified, amended or waived, except by an instrument in writing signed by a duly authorized executive officer at PolyOne. Notwithstanding the foregoing, no amendment shall adversely affect your rights under this Agreement without your consent.
- (d) By signing this Agreement, you acknowledge that you have entered into an Employee Agreement (the "Employee Agreement") with PolyOne. You understand that, as set forth in the Employee Agreement, you have agreed not to engage in certain prohibited practices in competition with PolyOne following the termination of your employment (hereinafter referred to as the "Covenant Not to Compete"). You further acknowledge that as consideration for entering into the Covenant Not to Compete, PolyOne is providing you the opportunity to participate in PolyOne's long-term incentive plan and receive the Incentive Award set forth in this Agreement. You understand that eligibility for receiving this Incentive Award was conditioned upon entering into the Covenant Not to Compete. You further understand and acknowledge that you would have been ineligible to receive this Incentive Award had you decided not to agree to the Covenant Not to Compete. You

understand that the acknowledgment contained in this sub-section is a part of the Employee Agreement and is to be interpreted in a manner consistent with its terms.

4. **Notice.** All notices under this Agreement to PolyOne must be delivered personally or mailed to PolyOne Corporation at PolyOne Center, Avon Lake, Ohio 44012, Attention: Corporate Secretary. PolyOne's address may be changed at any time by written notice of such change to you. Also, all notices under this Agreement to you will be delivered personally or mailed to you at your address as shown from time to time in PolyOne's records.
5. **Compliance with Section 409A of the Code.**
 - (a) To the extent applicable, it is intended that this Agreement (including the Schedules attached hereto) and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to you. This Agreement and the Plan shall be administered in a manner consistent with this intent.
 - (b) Reference to Section 409A of the Code will also include any regulations or other formal guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.
6. **Counterparts.** 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.
7. **Severability.** If one or more of the provisions of this Agreement (including the Schedules attached hereto) is invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

This Agreement (including the Schedules attached), and the terms and conditions of the Plan, shall bind, and inure to the benefit of you, your estate, executor, administrator, beneficiaries, personal representative and guardian and PolyOne and its successors and assigns.

Very Truly Yours,

POLYONE CORPORATION

By:

Accepted:

SCHEDULE A - Performance Shares

1. Vesting of Performance Shares.

- (a) Subject to the provisions of the Plan and the Agreement (including this Schedule A), the Performance Shares will be earned contingent upon meeting the specified performance objective (the “Performance Goal”) as defined in Section 1(b) of this Schedule A provided that you have been in the continuous employ of PolyOne or a Subsidiary from [DATE] until [DATE] (the “Performance Period”). If the Performance Goal is achieved, then the Performance Shares shall become non-forfeitable on [DATE] (the “Vesting Date”).
- (b) For purposes of this Agreement, the Performance Goal is defined as [INSERT PERFORMANCE GOAL].
- (c) For awards to Covered Employees, the Committee shall have the ability and authority to reduce, but not increase, the amount of Performance Shares that become earned hereunder. In no event shall any Performance Share become earned if actual performance for the Performance Period falls below the Performance Goal or if the Committee does not certify that the Performance Goal has been satisfied for the Performance Period.
- (d) Notwithstanding the provisions of Section 1(a) of this Schedule A, (i) all of the Performance Shares shall immediately become non-forfeitable if a Change of Control occurs, and (ii) a pro-rata portion of the Performance Shares shall immediately become non-forfeitable if your employment terminates prior to [DATE] due to (A) your permanent and total disability (as defined under the relevant disability plan or program of PolyOne or a Subsidiary in which you then participate), or (B) your death. The proration will be based on the number of days you were employed by PolyOne or a Subsidiary during the Performance Period. The remaining portion of the Performance Shares will be forfeited.

2. Other Termination. If your employment with PolyOne or a Subsidiary terminates before the Vesting Date for any reason other than as set forth in Section 1(d)(ii) of this Schedule A and before a Change of Control, the Performance Shares will be forfeited.

3. Payment of Performance Shares.

- (a) The Performance Shares that have become non-forfeitable pursuant to Section 1 of this Schedule A will be paid in Common Shares transferred to you within 10 business days following the Vesting Date, provided, however, that, subject to Section 3(b) of this Schedule A, (i) in the event a Change of Control occurs prior to the Vesting Date or (ii) in the event your employment terminates on account of the reasons set forth in Section 1(d)(ii) of this Schedule A prior to the Vesting Date, the Performance Shares will be paid within 20 business days following such Change of Control or the date of the termination of your employment, whichever applies. If PolyOne determines that it is required to withhold taxes from any payment, PolyOne will withhold Common Shares with a Market Value per Share equal to the amount of these taxes from the payment.
- (b) If the event triggering the right to payment under Section 3(a) of this Schedule A does not constitute a permitted distribution event under Section 409A(a)(2) of the Code, then notwithstanding anything herein to the contrary, the payment of Common Shares will be made to you, to the extent necessary to comply with Section 409A of the Code, on the earliest of (i) your “separation from service” with PolyOne or a Subsidiary (determined in accordance with Section 409A) that occurs after the event giving rise to payment; (ii) the

Vesting Date; or (iii) your death. In addition, if you are a “key employee” as determined pursuant to procedures adopted by PolyOne in compliance with Section 409A of the Code and any payment of Common Shares made pursuant to this Schedule A is considered to be a “deferral of compensation” (as such phrase is defined for purposes of Section 409A of the Code) that is payable upon your “separation from service” (within the meaning of Section 409A of the Code), then the payment date for such payment shall be the date that is the tenth business day of the seventh month after the date of your “separation from service” with PolyOne or a Subsidiary (determined in accordance with Section 409A of the Code).

4. **Dividend, Voting and Other Rights.** You shall have no rights of ownership in the Performance Shares and shall have no right to vote them until the date on which the Performance Shares are transferred to you pursuant to Section 3 of this Schedule A. While the Performance Shares are still outstanding, on the date that PolyOne pays a cash dividend to holders of Common Shares generally, you shall be entitled to a number of additional whole Performance Shares determined by dividing (a) the product of (i) the dollar amount of the cash dividend paid per Common Share on such date and (ii) the total number of Performance Shares (including dividend equivalents paid thereon) previously credited to you as of such date, by (b) the Market Value per Share on such date. Such dividend equivalents shall be subject to the same terms and conditions and shall be settled or forfeited in the same manner and at the same time as the Performance Shares to which the dividend equivalents were credited.

CERTIFICATION

I, Robert M. Patterson, 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.

July 22, 2014

/s/ Robert M. Patterson

Robert M. Patterson

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.

July 22, 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 June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert M. Patterson, 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/ Robert M. Patterson

Robert M. Patterson

President and Chief Executive Officer

July 22, 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 June 30, 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

July 22, 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.