

POLYONE CORP  
Form 10-Q  
October 25, 2017

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 September 30, 2017

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-16091

POLYONE CORPORATION  
(Exact name of registrant as specified in its charter)

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

33587 Walker Road, Avon Lake, Ohio 44012  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (440) 930-1000

Former name, former address and former fiscal year, if changed since last report: Not Applicable  
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No  
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 the registrant's outstanding common shares, \$0.01 par value, as of September 30, 2017 was 80,804,215.



## 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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Sales	\$818.5	\$746.7	\$2,429.3	\$2,243.8
Cost of sales	639.0	580.6	1,879.5	1,719.2
Gross margin	179.5	166.1	549.8	524.6
Selling and administrative expense	111.8	94.1	318.1	300.4
Operating income	67.7	72.0	231.7	224.2
Interest expense, net	(15.5 )	(15.1 )	(45.3 )	(44.3 )
Debt extinguishment costs	—	—	(0.3 )	(0.4 )
Other expense, net	(0.7 )	(0.1 )	(3.2 )	—
Income from continuing operations before income taxes	51.5	56.8	182.9	179.5
Income tax expense	(11.3 )	(14.0 )	(44.8 )	(48.4 )
Net income from continuing operations	40.2	42.8	138.1	131.1
(Loss) income from discontinued operations, net of income taxes	(1.4 )	(0.5 )	(233.8 )	0.2
Net income (loss)	\$38.8	\$42.3	\$(95.7 )	\$131.3
Net loss attributable to noncontrolling interests	—	—	—	0.1
Net income (loss) attributable to PolyOne common shareholders	\$38.8	\$42.3	\$(95.7 )	\$131.4
Earnings (loss) per common share attributable to PolyOne common shareholders - Basic:				
Continuing operations	\$0.50	\$0.51	\$1.69	\$1.56
Discontinued operations	(0.02 )	(0.01 )	(2.86 )	—
Total	\$0.48	\$0.50	\$(1.17 )	\$1.56
Earnings (loss) per common share attributable to PolyOne common shareholders - Diluted:				
Continuing operations	\$0.49	\$0.51	\$1.68	\$1.55
Discontinued operations	(0.02 )	(0.01 )	(2.84 )	—
Total	\$0.47	\$0.50	\$(1.16 )	\$1.55
Weighted-average shares used to compute earnings per common share:				
Basic	81.2	83.9	81.7	84.2
Plus dilutive impact of share-based compensation	0.8	0.6	0.6	0.6
Diluted	82.0	84.5	82.3	84.8
Anti-dilutive shares not included in diluted common shares outstanding	—	0.2	—	0.2
Cash dividends declared per share of common stock	\$0.135	\$0.120	\$0.405	\$0.360

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	\$38.8	\$42.3	\$(95.7)	\$131.3
Other comprehensive income (loss)				
Translation adjustments	16.0	0.7	35.4	(3.6 )
Unrealized gain on available-for-sale securities	—	0.2	(0.1 )	0.2
Total comprehensive income (loss)	54.8	43.2	(60.4 )	127.9
Comprehensive loss attributable to noncontrolling interests	—	—	—	0.1
Comprehensive income (loss) attributable to PolyOne common shareholders	\$54.8	\$43.2	\$(60.4)	\$128.0

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation  
Condensed Consolidated Balance Sheets  
(In millions)

	(Unaudited) September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 233.5	\$ 225.5
Accounts receivable, net	431.1	325.6
Inventories, net	308.9	266.4
Current assets held-for-sale	—	86.5
Other current assets	70.5	45.5
Total current assets	1,044.0	949.5
Property, net	447.8	426.3
Goodwill	608.9	532.7
Intangible assets, net	405.7	342.7
Non-current assets held for sale	—	347.4
Other non-current assets	143.1	139.8
Total assets	\$ 2,649.5	\$ 2,738.4
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term and current portion of long-term debt	\$ 32.5	\$ 18.5
Accounts payable	378.2	320.9
Current liabilities held-for-sale	—	45.3
Accrued expenses and other current liabilities	123.2	125.2
Total current liabilities	533.9	509.9
Non-current liabilities:		
Long-term debt	1,319.5	1,239.4
Pension and other post-retirement benefits	63.4	63.1
Non-current liabilities held for sale	—	52.8
Other non-current liabilities	164.0	147.7
Total non-current liabilities	1,546.9	1,503.0
Shareholders' equity:		
PolyOne shareholders' equity	567.9	724.7
Noncontrolling interests	0.8	0.8
Total equity	568.7	725.5
Total liabilities and shareholders' equity	\$ 2,649.5	\$ 2,738.4

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2017	2016
Operating Activities		
Net (loss) income	\$(95.7 )	\$131.3
Adjustments to reconcile net income to net cash used by operating activities:		
Loss on sale of business, net of tax	228.7	—
Depreciation and amortization	75.7	74.7
Accelerated depreciation and fixed asset charges associated with restructuring activities	0.9	4.6
Gain from sale of closed facilities	(3.6 )	—
Debt extinguishment costs	0.3	0.4
Share-based compensation expense	8.0	6.5
Change in assets and liabilities, net of the effect of acquisitions:		
Increase in accounts receivable	(83.6 )	(67.4 )
Increase in inventories	(21.7 )	(10.4 )
Increase in accounts payable	43.0	30.1
Decrease in pension and other post-retirement benefits	(10.4 )	(31.3 )
Decrease in accrued expenses and other assets and liabilities - net	(30.4 )	(6.0 )
Net cash provided by operating activities	111.2	132.5
Investing Activities		
Capital expenditures	(52.0 )	(58.0 )
Business acquisitions, net of cash acquired	(163.8 )	(158.3 )
Proceeds from sale of business and other assets	123.0	9.8
Net cash used by investing activities	(92.8 )	(206.5 )
Financing Activities		
Proceeds from long-term debt	—	100.0
Borrowings under credit facilities	1,111.2	805.9
Repayments under credit facilities	(1,013.3 )	(806.4 )
Purchase of common shares for treasury	(70.7 )	(50.7 )
Cash dividends paid	(33.2 )	(30.1 )
Repayment of long-term debt	(4.9 )	(4.4 )
Payments of withholding tax on share awards	(2.9 )	(4.7 )
Debt financing costs	(2.5 )	(1.9 )
Net cash (used) provided by financing activities	(16.3 )	7.7
Effect of exchange rate changes on cash	4.7	(1.3 )
Increase (decrease) in cash and cash equivalents	6.8	(67.6 )
Cash and cash equivalents at beginning of period	226.7	279.8
Cash and cash equivalents at end of period	\$233.5	\$212.2
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, including those that are normal recurring, 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, 2016 of PolyOne Corporation. When used in this quarterly report on Form 10-Q, the terms “we,” “us,” “our”, "PolyOne" and the “Company” mean PolyOne Corporation and its consolidated subsidiaries.

Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be attained in subsequent periods or for the year ending December 31, 2017. Historical information has been retrospectively adjusted to reflect the classification of discontinued operations. Discontinued operations are further discussed in Note 3, Discontinued Operations.

Accounting Standards Adopted

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which simplifies the accounting for share-based payment transactions. Excess tax benefits and deficiencies reflect the difference between the book expense and the tax deduction of share based compensation. Book expense is based on an estimated fair value of the award at the grant date and the tax deduction is based on the actual value of the award at the exercise or vesting date. Such book and tax differences are required to be recognized as income tax expense or benefit in the Consolidated Statements of Income rather than additional paid-in capital. Further, the update allows an entity to make a policy election to recognize forfeitures as they occur or estimate the number of awards expected to be forfeited. We have adopted ASU 2016-09 as of January 1, 2017.

As a result of this adoption, certain reclassifications of the prior period presentation have been made to conform to the presentation for the current period. The excess tax benefits are classified as an operating activity, rather than a financing activity, and the cash paid for shares withheld to satisfy statutory tax withholding obligations are classified as a financing activity (\$4.7 million for the nine months ended September 30, 2016) on the Consolidated Statement of Cash Flows. Also, we elected to continue to estimate forfeitures rather than account for them as they occur.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. This standard removes the second step of the goodwill impairment test, where a determination of the fair value of individual assets and liabilities of a reporting unit were needed to measure the goodwill impairment. Under this updated standard, goodwill impairment will now be the amount by which a reporting unit's fair value is less than its carrying value. Any impairment is not to exceed the respective carrying value of goodwill. We have adopted this update for any impairment test performed after January 1, 2017.

Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). Under this standard, a company recognizes revenue when it transfers promised goods or services to customers for an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard implements a five-step process for revenue recognition that focuses on transfer of control. We are analyzing the impact of the standard on our contract portfolio and reviewing our current accounting policies and practices to identify the impact of the new standard. The implementation team has identified our revenue streams and is currently assessing the expected impact that ASU 2014-09, along with the subsequent updates and clarifications collectively known as Accounting Standards Codification (ASC) 606, will have on our Consolidated Financial Statements as well as future disclosure requirements, processes and internal controls. We expect to adopt ASC 606

using the modified retrospective method. We do not expect a material impact to the Consolidated Financial Statements from the adoption of ASC 606. The Company will adopt ASC 606 no later than the required date of January 1, 2018.



In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (ASU 2016-02), which requires a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a lease term of more than twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. The Company will adopt ASU 2016-02 no later than the required date of January 1, 2019. We are currently assessing the impact this standard will have on our Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other than Inventory (ASU 2016-16), which requires companies to recognize the income tax effects of intercompany sales or transfers of assets, other than inventory, in the income statement as income tax expense (or benefit) in the period the sale or transfer occurs. There would be no material impact on our Consolidated Financial Statements from intercompany transactions completed as of December 31, 2016 and September 30, 2017. We will continue to assess the impact of ASU 2016-16 on future transactions and the Company will adopt ASU 2016-16 no later than the required date of January 1, 2018.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07). This standard requires the presentation of the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. All other components of net periodic benefit cost will be presented below operating income. The Company will adopt ASU 2017-07 no later than the required date of January 1, 2018. For detail on the components of our annual net periodic benefit cost please see Note 10, Employee Benefit Plans in our annual report on Form 10-K for the year ended December 31, 2016.

#### Note 2 — BUSINESS COMBINATIONS

On July 5, 2017, the Company completed the acquisition of Mesa Industries, Inc. (Mesa), a producer of solid and liquid colorant technologies. Goodwill recognized as a result of this acquisition is deductible for tax purposes.

On June 8, 2017, the Company completed the acquisition of Rutland Plastic Technologies, Inc. (Rutland). Rutland is a leading producer of specialty inks and an innovator in textile screen printing solutions and services. Goodwill recognized as a result of this acquisition is not deductible for tax purposes.

On January 3, 2017, the Company completed the acquisition of SilCoTec, Inc. (SilCoTec), a leading producer of innovative silicone colorants, dispersions and formulations. Goodwill recognized as a result of this acquisition is deductible for tax purposes.

The combined purchase price of Mesa, Rutland and SilCoTec was \$163.8 million, net of cash acquired. The preliminary purchase price allocation for Mesa, Rutland and SilCoTec resulted in goodwill of \$76.8 million, intangible assets of \$76.8 million, net working capital of \$21.9 million and deferred tax liabilities of \$25.1 million. The intangible assets that have been acquired are being amortized over a period of 5 to 20 years. The results of operations of Mesa, Rutland and SilCoTec are reported in the Color, Additives and Inks segment subsequent to the acquisition dates. Sales of Mesa, Rutland and SilCoTec included in our three and nine month ended September 30, 2017 results were \$23.8 million and \$35.5 million, respectively.

#### Note 3 — DISCONTINUED OPERATIONS

On July 19, 2017, PolyOne divested its Designed Structures and Solutions segment (DSS) to an affiliate of Arsenal Capital Partners for \$115.0 million cash. The sale resulted in the recognition of an after-tax loss of \$228.7 million, which is reflected within the Loss from discontinued operations, net of income taxes line of the Condensed Consolidated Statements of Income.

PolyOne has classified the DSS assets and liabilities as held-for-sale as of December 31, 2016 in the accompanying Condensed Consolidated Balance Sheets and has classified the DSS operating results and the loss on the sale, net of tax, as discontinued operations in the accompanying Condensed Consolidated Statement of Income for all periods presented. Previously, DSS was included as a separate operating segment.

The following table summarizes the discontinued operations associated with DSS for the three and nine months ended September 30, 2017 and 2016:

(In millions)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Sales	\$15.8	\$96.9	\$222.1	\$308.3
Loss on sale	\$0.5	\$—	\$(295.4)	\$—
Loss from operations	(3.3 )	(0.9 )	(8.6 )	—
Loss before taxes	(2.8 )	(0.9 )	(304.0 )	—
Income tax benefit	1.4	0.4	70.2	0.2
(Loss) income from discontinued operations, net of taxes	\$(1.4 )	\$(0.5 )	\$(233.8 )	\$0.2

The following table summarizes the assets and liabilities of DSS as of December 31, 2016:

(In millions)	December 31, 2016
Assets:	
Current assets:	
Total current assets	\$ 86.5
Non-current assets:	
Property, net	181.4
Goodwill	144.7
Intangible assets, net	20.8
Other non-current assets	0.5
Total non-current assets	347.4
Assets held-for-sale	\$ 433.9
Liabilities:	
Current liabilities:	
Total current liabilities	\$ 45.3
Non-current liabilities:	
Deferred income taxes	51.3
Other	1.5
Total non-current liabilities	52.8
Liabilities held-for-sale	\$ 98.1

## Note 4 — GOODWILL AND INTANGIBLE ASSETS

Goodwill as of September 30, 2017 and December 31, 2016, and changes in the carrying amount of goodwill by segment were as follows:

(In millions)	Specialty Engineered Materials	Color, Additives and Inks	Performance Products and Solutions	PolyOne Distribution	Total
Balance December 31, 2016	\$ 173.5	\$ 346.4	\$ 11.2	\$ 1.6	\$532.7
Acquisition of businesses	—	75.4	—	—	75.4
Currency translation and other adjustments	(0.2 )	1.0	—	—	0.8
Balance September 30, 2017	\$ 173.3	\$ 422.8	\$ 11.2	\$ 1.6	\$608.9

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

(In millions)	As of September 30, 2017			
	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Customer relationships	\$257.3	\$ (58.3 )	\$ —	\$199.0
Patents, technology and other	158.2	(51.7 )	(0.1 )	106.4
Indefinite-lived trade names	100.3	—	—	100.3
Total	\$515.8	\$ (110.0 )	\$ (0.1 )	\$405.7

(In millions)	As of December 31, 2016			
	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Customer relationships	\$205.1	\$ (49.9 )	\$ (0.3 )	\$154.9
Patents, technology and other	132.3	(44.4 )	(0.4 )	87.5
Indefinite-lived trade names	100.3	—	—	100.3
Total	\$437.7	\$ (94.3 )	\$ (0.7 )	\$342.7

## Note 5 — INVENTORIES, NET

Components of Inventories, net are as follows:

(In millions)	September 30, 2017	December 31, 2016
Finished products	\$ 183.0	\$ 177.4
Work in process	6.2	4.5
Raw materials and supplies	119.7	84.5
Inventories, net	\$ 308.9	\$ 266.4

## Note 6 — PROPERTY, NET

Components of Property, net are as follows:

(In millions)	September 30, 2017	December 31, 2016
Land and land improvements	\$ 40.5	\$ 38.7
Buildings	300.2	285.2
Machinery and equipment	1,020.1	966.3
Property, gross	1,360.8	1,290.2
Less accumulated depreciation and amortization	(913.0 )	(863.9 )
Property, net	\$ 447.8	\$ 426.3

## Note 7 — INCOME TAXES

During the three months ended September 30, 2017 and 2016, the Company's effective tax rate of 21.9% and 24.6%, respectively, was below the Company's federal statutory rate of 35.0% primarily due to the favorable impact of foreign tax rate differences on foreign earnings.



During the nine months ended September 30, 2017 and 2016, the Company's effective tax rate of 24.5% and 27.0%, respectively, was below the Company's federal statutory rate of 35.0% primarily due to the favorable impact of foreign tax rate differences on foreign earnings.

#### Note 8 — FINANCING ARRANGEMENTS

Debt consists of the following instruments:

As of September 30, 2017 (In millions)	Principal Amount	Unamortized discount and debt issuance cost	Net Debt	Weighted average interest rate
Senior secured term loan due 2022	\$639.1	\$ 8.8	\$630.3	3.27 %
Senior secured revolving credit facility due 2022	98.5	—	98.5	2.71 %
5.25% senior notes due 2023	600.0	6.2	593.8	5.25 %
Other debt <sup>(1)</sup>	29.4	—	29.4	
Total long-term debt	\$1,367.0	\$ 15.0	\$1,352.0	
Less short-term and current portion of long-term debt	32.5	—	32.5	
Total long-term debt, net of current portion	\$1,334.5	\$ 15.0	\$1,319.5	

  

As of December 31, 2016 (In millions)	Principal Amount	Unamortized discount and debt issuance cost	Net Debt	Weighted average interest rate
Senior secured term loan due 2022	\$644.0	\$ 8.7	\$635.3	3.61 %
5.25% senior notes due 2023	600.0	7.1	592.9	5.25 %
Other debt <sup>(1)</sup>	29.7	—	29.7	
Total long-term debt	\$1,273.7	\$ 15.8	\$1,257.9	
Less short-term and current portion of long-term debt	18.5	—	18.5	
Total long-term debt, net of current portion	\$1,255.2	\$ 15.8	\$1,239.4	

<sup>(1)</sup> Other debt includes capital lease obligations of \$17.7 million and \$17.4 million as of September 30, 2017 and December 31, 2016, respectively.

On August 15, 2017, the Company entered into a fourth amendment to its senior secured term loan. Under the terms of the amended senior secured term loan, the margin was reduced by 25 basis points to 200 basis points. At the Company's discretion, interest is based upon (i) a margin rate of 200 basis points plus the 1-, 2-, 3-, or 6-month LIBOR, subject to a floor of 75 basis points or (ii) a margin rate of 100 basis points plus a Prime Rate, subject to a floor of 175 basis points.

The agreements governing our senior secured revolving credit facility and our secured term loan, and the indentures and credit agreements governing other debt, contain a number of customary financial and restrictive covenants that, among other things, limit our ability to: consummate asset sales, incur additional debt or liens, consolidate or merge with any entity or transfer or sell all or substantially all of our assets, pay dividends or make certain other restricted payments, make investments, enter into transactions with affiliates, create dividend or other payment restrictions with respect to subsidiaries, make capital investments and alter the business we conduct. As of September 30, 2017, we were in compliance with all covenants.

The estimated fair value of PolyOne's debt instruments at September 30, 2017 and December 31, 2016 was \$1,396.0 million and \$1,271.7 million, respectively, compared to carrying values of \$1,352.0 million and \$1,257.9 million as of September 30, 2017 and December 31, 2016, 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 9 — SEGMENT INFORMATION

Operating income is the primary measure that is reported to our chief operating decision maker for purposes of allocating resources to the segments and assessing their performance. Operating income at the segment level does not include: corporate general and administrative expenses 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 realignment costs; executive separation agreements; share-based compensation costs; asset impairments; environmental remediation costs and other liabilities for facilities no longer owned or closed in prior years; gains and losses on the divestiture of joint ventures and equity investments; actuarial gains and losses associated with our pension and other post-retirement

benefit plans; and certain other items that are not included in the measure of segment profit or loss that is reported to and reviewed by our chief operating decision maker. These costs are included in Corporate and eliminations. PolyOne has four reportable segments: (1) Color, Additives and Inks; (2) Specialty Engineered Materials; (3) Performance Products and Solutions; and (4) PolyOne Distribution. Previously, PolyOne had five reportable segments. However, as a result of the divestiture of DSS, we have removed DSS as a separate operating segment and its results are presented as a discontinued operation. Historical information has been retrospectively adjusted to reflect these changes. Please see Note 3, Discontinued Operations for additional information.

Segment information for the three and nine months ended September 30, 2017 and 2016 is as follows:

(In millions)	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Sales to External Customers	Total Sales	Operating Income	Sales to External Customers	Total Sales	Operating Income
Color, Additives and Inks	\$232.6	\$235.1	\$ 36.4	\$191.3	\$ 195.9	\$ 31.4
Specialty Engineered Materials	143.9	156.3	18.3	132.6	146.2	20.5
Performance Products and Solutions	155.1	175.7	17.8	152.4	171.3	18.0
PolyOne Distribution	286.9	291.1	18.6	270.4	274.8	18.2
Corporate and eliminations	—	(39.7 )	(23.4 )	—	(41.5 )	(16.1 )
Total	\$818.5	\$818.5	\$ 67.7	\$746.7	\$ 746.7	\$ 72.0

  

(In millions)	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Sales to External Customers	Total Sales	Operating Income	Sales to External Customers	Total Sales	Operating Income
Color, Additives and Inks	\$657.2	\$670.6	\$ 110.1	\$598.5	\$ 613.0	\$ 104.5
Specialty Engineered Materials	436.6	474.1	62.2	392.6	430.5	65.3
Performance Products and Solutions	480.6	543.6	62.2	449.6	510.3	59.0
PolyOne Distribution	854.9	868.0	57.5	803.1	816.2	53.5
Corporate and eliminations	—	(127.0 )	(60.3 )	—	(126.2 )	(58.1 )
Total	\$2,429.3	\$2,429.3	\$ 231.7	\$2,243.8	\$2,243.8	\$ 224.2

(In millions)	Total Assets	
	September 30, 2017	September 30, 2016
Color, Additives and Inks	\$1,161.8	\$ 923.8
Specialty Engineered Materials	543.2	542.8
Performance Products and Solutions	281.9	241.8
PolyOne Distribution	247.9	207.0
Corporate and eliminations	414.7	389.1
Total assets from continuing operations	2,649.5	2,304.5
Assets held for sale	—	433.9
Total assets	\$2,649.5	\$ 2,738.4

#### Note 10 — COMMITMENTS AND CONTINGENCIES

Environmental — We have been notified by federal and state environmental agencies and by private parties that we may be a potentially responsible party (PRP) in connection with the environmental investigation and remediation of certain 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 may also 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 position, results of operations or cash flows.



In September 2007, the United States District Court for the Western District of Kentucky in the case of Westlake Vinyls, Inc. v. Goodrich Corporation, et al., held that PolyOne must pay the remediation costs at the former Goodrich Corporation Calvert City facility (now largely owned and operated by Westlake Vinyls), together with certain defense costs of Goodrich Corporation. The rulings also provided that PolyOne can seek indemnification for contamination attributable to Westlake Vinyls. Following the Court rulings, the parties to the litigation agreed to settle all claims regarding past environmental costs incurred at the site. The settlement agreement provides a mechanism to pursue allocation of future remediation costs at the Calvert City site to Westlake Vinyls. While we do not currently assume any allocation of costs in our current accrual, we will adjust our accrual, in the future, consistent with any such future allocation of costs.

A remedial investigation and feasibility study (RIFS) is underway at Calvert City. The United States Environmental Protection Agency (USEPA) provided a remedial investigation report in 2015 and assumed responsibility for the completion of the feasibility study. In 2016, the USEPA conducted additional site investigations from which results are still being reviewed. We continue to pursue available insurance coverage related to this matter and recognize gains as we receive reimbursement.

On March 13, 2013, PolyOne acquired Spartech Corporation (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 Passaic River. 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 approximately 17 miles of the lower Passaic River (the lower Passaic River Study Area). In response, Franklin-Burlington and approximately 70 other companies (collectively, the Cooperating Parties) agreed, pursuant to an Administrative Order on Consent (AOC) with the USEPA, to assume responsibility for development of a RIFS of the lower Passaic River Study Area. By agreeing to bear a portion of the cost of the RIFS, Franklin-Burlington did not admit to any liability or agree to bear any remediation or natural resource damage costs.

In 2015, the Cooperating Parties submitted to the USEPA a remedial investigation report for the lower Passaic River Study Area. In March 2016, the USEPA issued a Record of Decision selecting a remedy for an eight-mile portion of the lower Passaic River Study Area at an estimated and discounted cost of \$1.4 billion. In September 2016, the USEPA reached an agreement with Occidental Chemical Corporation (OCC), which orders OCC to perform the remedial design for the lower eight mile portion of the Passaic River.

As of September 30, 2017, we have concluded that the same uncertainties that limited our ability to reasonably estimate an accrual at December 31, 2016 still exist and any potential accrual will not be material to our Consolidated Financial Statements.

During the nine months ended September 30, 2017 and 2016, PolyOne recognized \$12.1 million and \$6.2 million, respectively, of expense related to environmental remediation activities. During the nine months ended September 30, 2017 and 2016, PolyOne received \$6.3 million and \$5.3 million, respectively, of insurance recoveries for previously incurred environmental costs. These expenses and insurance recoveries are included within Cost of sales within our Condensed Consolidated Statements of Income. Insurance recoveries are recognized as a gain when received.

Our Consolidated Balance Sheet includes accruals totaling \$117.8 million and \$117.3 million as of September 30, 2017 and December 31, 2016, respectively, based on our estimates of probable future environmental expenditures relating to previously contaminated sites. These undiscounted amounts are included in Accrued expenses and other liabilities and Other non-current liabilities on the accompanying Consolidated Balance Sheets. The accruals represent our best estimate of probable future costs that we can reasonably estimate, based upon currently available information and technology and our view of the most likely remedy. Depending upon the results of future testing, completion and results of remedial investigation and feasibility studies, the ultimate remediation alternatives undertaken, changes in regulations, technology development, 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 September 30, 2017. However, such additional costs, if any, cannot be currently estimated.

## Note 11 — EQUITY

Changes in accumulated other comprehensive loss year-to-date as of September 30, 2017 and 2016 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, 2017	\$ (99.8 )	\$ 5.2	\$ 0.4	\$(94.2)
Translation adjustments	35.4	—	—	35.4
Unrealized loss on available-for-sale securities	—	—	(0.1 )	(0.1 )
Balance at September 30, 2017	\$ (64.4 )	\$ 5.2	\$ 0.3	\$(58.9)
Balance at January 1, 2016	\$ (76.8 )	\$ 5.2	\$ 0.3	\$(71.3)
Translation adjustments	(3.6 )	—	—	(3.6 )
Unrecognized gain on available-for-sale securities	—	—	0.2	0.2
Balance at September 30, 2016	\$ (80.4 )	\$ 5.2	\$ 0.5	\$(74.7)

## 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 engineered materials, color and additive systems and polymer distribution. We are also a highly specialized developer and manufacturer of performance enhancing additives, liquid colorants, fluoropolymer and silicone colorants. Headquartered in Avon Lake, Ohio, we have employees at manufacturing sites and distribution facilities in North America, South America, Europe, Asia and Africa. 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", "PolyOne" and the "Company" mean PolyOne Corporation and its consolidated subsidiaries.

## Highlights and Executive Summary

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
(In millions)				
Sales	\$818.5	\$746.7	\$2,429.3	\$2,243.8
Operating income	\$67.7	\$72.0	\$231.7	\$224.2
Net income from continuing operations	\$40.2	\$42.8	\$138.1	\$131.1
(Loss) income from discontinued operations, net of income taxes	(1.4 )	(0.5 )	(233.8 )	0.2
Net income (loss)	\$38.8	\$42.3	\$(95.7 )	\$131.3
Net income (loss) attributable to PolyOne common shareholders	\$38.8	\$42.3	\$(95.7 )	\$131.4

## Recent Developments

On July 19, 2017, PolyOne divested its Designed Structures and Solutions (DSS) segment to an affiliate of Arsenal Capital Partners. Previously, DSS was included as a separate operating segment. As a result of the sale, the DSS operating segment results are now reported as discontinued operations. Historical information has been retrospectively adjusted to reflect these changes.

On July 5, 2017, the Company completed the acquisition of Mesa Industries, Inc. (Mesa), a United States producer of color and additive materials and services.

On June 8, 2017, the Company completed the acquisition of Rutland Plastic Technologies, Inc. (Rutland), a leading producer of specialty inks and an innovator in textile screen printing solutions and service.

On January 3, 2017, the Company completed the acquisition of SilCoTec, Inc. (SilCoTec), a leading producer of innovative silicone colorants, dispersions and formulations.

The results of operations of these acquisitions are included in the Color, Additives and Inks segment subsequent to the respective acquisition dates. These acquisitions are expected to add approximately \$85.0 million in sales on an annual basis.

Edgar Filing: POLYONE CORP - Form 10-Q

Results of Operations — The three and nine months ended September 30, 2017 compared to three and nine months ended September 30, 2016:

(Dollars in millions, except per share data)	Three Months Ended September 30,		Variances — Favorable (Unfavorable)		Nine Months Ended September 30,		Variances — Favorable (Unfavorable)			
	2017	2016	Change	% Change	2017	2016	Change	% Change		
Sales	\$818.5	\$746.7	\$71.8	9.6 %	\$2,429.3	\$2,243.8	\$185.5	8.3 %		
Cost of sales	639.0	580.6	(58.4 )	(10.1)%	1,879.5	1,719.2	(160.3 )	(9.3 )%		
Gross margin	179.5	166.1	13.4	8.1 %	549.8	524.6	25.2	4.8 %		
Selling and administrative expense	111.8	94.1	(17.7 )	(18.8)%	318.1	300.4	(17.7 )	(5.9 )%		
Operating income	67.7	72.0	(4.3 )	(6.0 )%	231.7	224.2	7.5	3.3 %		
Interest expense, net	(15.5 )	(15.1 )	(0.4 )	(2.6 )%	(45.3 )	(44.3 )	(1.0 )	(2.3 )%		
Debt extinguishment costs	—	—	—	— %	(0.3 )	(0.4 )	0.1	25.0 %		
Other expense, net	(0.7 )	(0.1 )	(0.6 )	nm	(3.2 )	—	(3.2 )	nm		
Income from continuing operations before income taxes	51.5	56.8	(5.3 )	(9.3 )%	182.9	179.5	3.4	1.9 %		
Income tax expense	(11.3 )	(14.0 )	2.7	19.3 %	(44.8 )	(48.4 )	3.6	7.4 %		
Net income from continuing operations	40.2	42.8	(2.6 )	(6.1 )%	138.1	131.1	7.0	5.3 %		
(Loss) income from discontinued operations, net of income taxes	(1.4 )	(0.5 )	(0.9 )	nm	(233.8 )	0.2	(234.0 )	nm		
Net income (loss)	38.8	42.3	(3.5 )	(8.3 )%	(95.7 )	131.3	(227.0 )	nm		
Net loss attributable to noncontrolling interests	—	—	—	— %	—	0.1	(0.1 )	(100.0)%		
Net income (loss) attributable to PolyOne common shareholders	\$38.8	\$42.3	\$(3.5 )	(8.3 )%	\$(95.7 )	\$131.4	\$(227.1)	nm		

Earnings (loss) per common share attributable to PolyOne common shareholders - Basic:

Continuing operations	\$0.50	\$0.51		\$1.69	\$1.56
Discontinued operations	(0.02 )	(0.01 )		(2.86 )	—
Total	\$0.48	\$0.50		\$(1.17 )	\$1.56

Earnings (loss) per common share attributable to PolyOne common shareholders - Diluted:

Continuing operations	\$0.49	\$0.51		\$1.68	\$1.55
Discontinued operations	(0.02 )	(0.01 )		(2.84 )	—
Total	\$0.47	\$0.50		\$(1.16 )	\$1.55

nm - not meaningful

Sales

Sales increased \$71.8 million, or 9.6%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Previous commercial investments led to organic sales growth of 5.1%, acquisitions added 3.8% to the growth rate and favorable foreign exchange increased sales 0.7%.

Sales increased \$185.5 million, or 8.3%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Previous commercial investments drove organic sales growth of 5.9% and acquisitions increased sales by 2.8%. Unfavorable foreign exchange partially offset sales by 0.4%.

Cost of sales

As a percent of sales, cost of sales increased from 77.8% in the three months ended September 30, 2016 to 78.1% in the three months ended September 30, 2017 and from 76.6% in the nine months ended September 30, 2016 to 77.4% in the nine months ended September 30, 2017, primarily as a result of raw material cost inflation.

Selling and administrative expense

Selling and administrative expenses increased \$17.7 million during the three months ended September 30, 2017 compared to the three months ended September 30, 2016 driven primarily by \$9.6 million of additional incentives and other employee costs and \$5.0 million associated with acquired businesses.

Selling and administrative expenses for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 increased \$17.7 million primarily as a result of \$10.7 million associated with acquired businesses, \$8.8 million in additional compensation and employee costs. A \$3.8 million reversal of certain non-income tax reserves due to the expiration of statute of limitations in 2017 partially offset these increases.

#### Income taxes

During the three months ended September 30, 2017, the Company's effective tax rate was 21.9% versus 24.6% for the three months ended September 30, 2016, primarily due to a more favorable impact of foreign tax rate differences on foreign earnings.

During the nine months ended September 30, 2017, the Company's effective tax rate of 24.5% was lower than the nine months ended September 30, 2016 rate of 27.0% primarily due to the overall mix of domestic and foreign earnings.

#### SEGMENT INFORMATION

Operating income is the primary measure that is reported to our chief operating decision maker for purposes of allocating resources to the segments and assessing their performance. Operating income at the segment level does not include: corporate general and administrative expenses 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 realignment costs; executive separation agreements; share-based compensation costs; asset impairments; environmental remediation costs and other liabilities for facilities no longer owned or closed in prior years; gains and losses on the divestiture of joint ventures and equity investments; actuarial gains and losses associated with our pension and other post-retirement benefit plans; and certain other items that are not included in the measure of segment profit or loss that is reported to and reviewed by our chief operating decision maker. These costs are included in Corporate and eliminations.

PolyOne has four reportable segments: (1) Color, Additives and Inks; (2) Specialty Engineered Materials; (3) Performance Products and Solutions; and (4) PolyOne Distribution. Our segments are further discussed in Note 9, Segment Information, to the accompanying Consolidated Financial Statements.

As a result of the divestiture of DSS, we have removed DSS as a separate operating segment and its results are presented as a discontinued operation. Historical information has been retrospectively adjusted to reflect these changes. Discontinued operations are further discussed in Note 3, Discontinued Operations, to the accompanying Consolidated Financial Statements.

Sales and Operating Income — The three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016:

(Dollars in millions)	Three Months Ended September 30,		Variances — Favorable (Unfavorable)			Nine Months Ended September 30,		Variances — Favorable (Unfavorable)		
	2017	2016	Change	% Change		2017	2016	Change	% Change	
<b>Sales:</b>										
Color, Additives and Inks	\$235.1	\$195.9	\$39.2	20.0 %		\$670.6	\$613.0	\$57.6	9.4 %	
Specialty Engineered Materials	156.3	146.2	10.1	6.9 %		474.1	430.5	43.6	10.1 %	
Performance Products and Solutions	175.7	171.3	4.4	2.6 %		543.6	510.3	33.3	6.5 %	
PolyOne Distribution	291.1	274.8	16.3	5.9 %		868.0	816.2	51.8	6.3 %	
Corporate and eliminations	(39.7 )	(41.5 )	1.8	4.3 %		(127.0 )	(126.2 )	(0.8 )	(0.6 )%	
<b>Total Sales</b>	<b>\$818.5</b>	<b>\$746.7</b>	<b>\$71.8</b>	<b>9.6 %</b>		<b>\$2,429.3</b>	<b>\$2,243.8</b>	<b>\$185.5</b>	<b>8.3 %</b>	
<b>Operating income:</b>										
Color, Additives and Inks	\$36.4	\$31.4	\$5.0	15.9 %		\$110.1	\$104.5	\$5.6	5.4 %	
Specialty Engineered Materials	18.3	20.5	(2.2 )	(10.7)%		62.2	65.3	(3.1 )	(4.7 )%	
Performance Products and Solutions	17.8	18.0	(0.2 )	(1.1 )%		62.2	59.0	3.2	5.4 %	
PolyOne Distribution	18.6	18.2	0.4	2.2 %		57.5	53.5	4.0	7.5 %	
Corporate and eliminations	(23.4 )	(16.1 )	(7.3 )	(45.3)%		(60.3 )	(58.1 )	(2.2 )	(3.8 )%	
<b>Total Operating Income</b>	<b>\$67.7</b>	<b>\$72.0</b>	<b>\$(4.3 )</b>	<b>(6.0 )%</b>		<b>\$231.7</b>	<b>\$224.2</b>	<b>\$7.5</b>	<b>3.3 %</b>	
<b>Operating income as a percentage of sales:</b>										
Color, Additives and Inks	15.5 %	16.0 %	(0.5 )	nm		16.4 %	17.0 %	(0.6 )	nm	
Specialty Engineered Materials	11.7 %	14.0 %	(2.3 )	nm		13.1 %	15.2 %	(2.1 )	nm	
Performance Products and Solutions	10.1 %	10.5 %	(0.4 )	nm		11.4 %	11.6 %	(0.2 )	nm	
PolyOne Distribution	6.4 %	6.6 %	(0.2 )	nm		6.6 %	6.6 %	—	nm	
<b>Total</b>	<b>8.3 %</b>	<b>9.6 %</b>	<b>(1.3 )</b>	<b>nm</b>		<b>9.5 %</b>	<b>10.0 %</b>	<b>(0.5 )</b>	<b>nm</b>	

nm - not meaningful

Color, Additives and Inks

Sales grew by \$39.2 million, or 20.0%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Acquisitions increased sales by 13.3% and organic sales growth of 4.8% was primarily driven by the packaging, wire & cable and textile end markets. Favorable foreign exchange added 1.9% to the sales growth rate.

Sales grew by \$57.6 million, or 9.4%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Acquisitions increased sales by 6.7% and organic sales growth of 3.1% was primarily driven by the packaging, wire & cable and textile end markets. Slightly offsetting these increases was unfavorable foreign exchange impacts of 0.4%.

Operating income rose by \$5.0 million in the three months ended September 30, 2017 as compared to the three months ended September 30, 2016, largely driven by \$3.7 million from acquisitions, \$2.7 million from higher organic sales and a favorable foreign exchange impact of \$0.8 million. These increases were partially offset by raw material inflation and increased incentive costs.

Operating income rose by \$5.6 million in the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. This growth was largely driven by \$6.7 million from acquisitions partially offset by unfavorable foreign exchange, raw material cost inflation and increased incentive costs.

#### Specialty Engineered Materials

Sales increased \$10.1 million, or 6.9%, in the three months ended September 30, 2017 compared to the three months ended September 30, 2016, largely driven by organic growth of 4.1%, a 1.4% impact from acquisitions and favorable foreign exchange of 1.4%.

Sales increased \$43.6 million, or 10.1%, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, largely driven by organic growth of 5.7% and a 5.0% impact from acquisitions.

Unfavorable foreign exchange of 0.6% offset sales.

Operating income decreased \$2.2 million in the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 and \$3.1 million in the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 as the benefit of increased sales was more than offset by raw material cost inflation.

#### Performance Products and Solutions

Sales increased \$4.4 million, or 2.6%, in the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 due to volume growth in the electrical market as well as higher average selling prices, resulting from an increase in hydrocarbon based raw material costs.

Sales increased \$33.3 million, or 6.5%, in the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 primarily due to volume growth in the industrial and electrical markets as well as higher average selling prices resulting from an increase in hydrocarbon based raw material costs.

Operating income decreased \$0.2 million in the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 as the benefit of increased sales were more than offset by raw material cost inflation and higher manufacturing costs resulting from hurricane Harvey.

Operating income increased \$3.2 million in the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 as the benefit of increased sales was partially offset by raw material cost inflation.

#### PolyOne Distribution

Sales increased \$16.3 million, or 5.9%, in the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 and \$51.8 million, or 6.3%, in the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 as a result of growth in the consumer, appliance and industrial end markets, and higher overall average selling prices associated with hydrocarbon based raw material cost inflation.

Operating income increased \$0.4 million in the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 and \$4.0 million in the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 primarily as a result of increased sales and favorable mix, which was partially offset by increased costs related to our continued investment in commercial resources.

#### Corporate and Eliminations

Corporate and eliminations increased \$7.3 million in the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 primarily as a result of higher compensation and employee costs.

Corporate and eliminations increased \$2.2 million in the nine months ended September 30, 2017 as compared to the three months ended September 30, 2016 primarily as a result of increased compensation and employee costs, partially offset by a \$3.8 million reversal of certain non-income tax reserves in 2017 due to the expiration of statute of limitations.

#### 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 the maturity structure, we avoid concentrations of debt maturities, 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 shares. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved have been and may continue to be material.





The following table summarizes our liquidity as of September 30, 2017 and December 31, 2016:

(In millions)	September 30, December 31,	
	2017	2016
Cash and cash equivalents	\$ 233.5	\$ 225.5
Revolving credit availability	277.8	386.2
Liquidity	\$ 511.3	\$ 611.7

As of September 30, 2017, approximately 83% of the Company's cash and cash equivalents resided outside the United States. Repatriation of these funds could result in potential foreign and domestic taxes. To the extent foreign earnings previously treated as permanently reinvested were to be repatriated, the potential U.S. tax liability may be reduced by any foreign income taxes paid on these earnings. However, based on the Company's policy of permanent reinvestment, it is not practicable to determine the U.S. federal income tax liability, if any, due to the complexities associated with this hypothetical calculation.

#### Cash Flows

The following describes the significant components of cash flows from operating, investing and financing activities for the nine months ended September 30, 2017 and 2016.

**Operating Activities** — In the nine months ended September 30, 2017, net cash provided by operating activities was \$111.2 million as compared to net cash provided by operating activities of \$132.5 million for the nine months ended September 30, 2016 reflecting an increase in working capital in support of higher revenues.

Working capital as a percentage of sales, which we define as the average accounts receivable, plus average inventory, less average accounts payable, divided by sales, for the third quarter of 2017 increased to 10.3% compared to 9.9% for the third quarter of 2016. This working capital increase is primarily due to the impact of recent acquisitions.

**Investing Activities** — Net cash used by investing activities during the nine months ended September 30, 2017 of \$92.8 million reflects \$163.8 million of acquisitions and \$52.0 million of capital expenditures, partially offset by the proceeds from sale of business and other assets of \$123.0 million.

Net cash used by investing activities during the nine months ended September 30, 2016 of \$206.5 million reflects \$158.3 million of acquisitions and \$58.0 million of capital expenditures, partially offset by the sale of assets of \$9.8 million.

**Financing Activities** — Net cash used by financing activities for the nine months ended September 30, 2017 of \$16.3 million reflects the \$70.7 million of repurchases of our outstanding common shares and \$33.2 million of dividends paid, primarily offset by net borrowings of \$97.9 million under our senior secured revolving credit facility.

Net cash provided by financing activities for the nine months ended September 30, 2016 of \$7.7 million reflects the increase of \$100.0 million to the senior secured term loan due 2022 for acquisitions, offset primarily by \$50.7 million of repurchases of our outstanding common shares and \$30.1 million of dividends paid.

#### Debt

As of September 30, 2017, the principal amount of debt totaled \$1,367.0 million. Aggregate maturities of the principal amount of debt for the current year, next five years and thereafter, are as follows:

(In millions)	
2017	\$ 13.3
2018	20.8
2019	6.6
2020	6.6
2021	6.6
2022	710.1
Thereafter	603.0
Aggregate maturities	\$ 1,367.0

As of September 30, 2017, we were in compliance with all customary financial and restrictive covenants pertaining to our debt. For additional information regarding our debt please see Note 8, Financing Arrangements.



On August 15, 2017, the Company entered into a fourth amendment to its senior secured term loan. Under the terms of the amended senior secured term loan, the margin was reduced by 25 basis points to 200 basis points. At the Company's discretion, interest is based upon (i) a margin rate of 200 basis points plus the 1-, 2-, 3-, or 6-month LIBOR, subject to a floor of 75 basis points or (ii) a margin rate of 100 basis points plus a Prime Rate, subject to a floor of 175 basis points.

#### 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 nine months ended September 30, 2017, there were no material changes to these obligations as reported in our annual report on Form 10-K for the year ended December 31, 2016.

#### 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 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:

- effects on foreign operations due to currency fluctuations, tariffs and other political, economic and regulatory risks;
- changes in polymer consumption growth rates and laws and regulations regarding the disposal of plastic materials 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 acquisition and integration, working capital reductions, cost reductions and employee productivity goals;
- disruptions, uncertainty or volatility in the credit markets that may limit our access to capital;
- our ability to pay regular quarterly cash dividends and the amounts and timing of any future dividends;
- information systems failures and cyberattacks; and
- other factors described in our annual report on Form 10-K for the year ended December 31, 2016 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 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,

20

---

to consult any further disclosures we make on related subjects in our reports on Forms 10-Q, 8-K and 10-K filed with 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, 2016.

### 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 September 30, 2017 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

Information regarding certain legal proceedings can be found in Note 10, 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 shares during the period indicated.

Period	Total Number of Shares Purchased	Weighted Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program <sup>(1)</sup>
July 1 to July 31	439,640	\$ 37.08	439,640	7,046,288
August 1 to August 31	560,414	35.95	560,414	6,485,874
September 1 to September 30	—	—	—	6,485,874
Total	1,000,054	\$ —	1,000,054	

<sup>(1)</sup> On August 18, 2008, we announced that our Board of Directors approved a common shares repurchase program authorizing PolyOne to purchase up to 10.0 million of its common shares. On October 11, 2011 and October 23, 2012, we further announced that our Board of Directors had increased the common shares repurchase authorization by an additional 5.3 million and 13.2 million, respectively. On May 16, 2016, we announced that we would increase our share buyback by 7.3 million to 10.0 million. As of September 30, 2017, approximately 6.5 million shares remain available for purchase under these authorizations. Purchases of common shares 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

#### EXHIBIT INDEX

Exhibit No.	Exhibit Description
<u>10.1</u>	<u>Amendment Agreement No. 4, dated August 15, 2017, by and among PolyOne Corporation, the subsidiaries of PolyOne Corporation party thereto, Citibank, N.A., as administrative agent, and the lenders party thereto.</u>
<u>31.1</u>	<u>Certification of Robert M. Patterson, Chairman, President and Chief Executive Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification of Bradley C. Richardson, Executive Vice President, 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</u>
<u>32.1</u>	<u>Certification pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by Robert M. Patterson, Chairman, President and Chief Executive Officer</u>
<u>32.2</u>	<u>Certification pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by Bradley C. Richardson, Executive Vice President, Chief Financial Officer</u>
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

**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.

October 25, 2017 POLYONE CORPORATION

/s/ Bradley C. Richardson  
Bradley C. Richardson  
Executive Vice President,  
Chief Financial Officer