POLYONE CORP
Form 10-Q
August 02, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2010

o **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 of incorporation or organization)	*(I.R.S. Employer Identification No.)*
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.
þ Yes o 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). o Yes o 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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No
The number of outstanding common shares of the registrant, $0.01 par value, as of July 28, 2010 was 93,082,923.

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Part I Financial Information
Item 1. Financial Statements

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, Adjusted 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, Adjusted 2009
Sales	$ 692.9	$ 496.5	$ 1,323.3	$ 959.9
Cost of sales	566.2	415.6	1,093.1	828.2
Gross margin	126.7	80.9	230.2	131.7
Selling and administrative	73.0	77.1	146.9	147.3
Adjustment to impairment of goodwill				5.0
Income from equity affiliates	7.8	10.1	9.3	23.4
Operating income	61.5	13.9	92.6	2.8
Interest expense, net	(7.7)	(8.8)	(15.7)	(17.6)
Other expense, net	(1.2)	(0.7)	(1.9)	(7.3)
Income (loss) before income taxes	52.6	4.4	75.0	(22.1)
Income tax (expense) benefit	(6.9)	(6.3)	(10.9)	2.5
Net income (loss)	$ 45.7	$ (1.9)	$ 64.1	$ (19.6)
Earnings (loss) per common share:				
Basic earnings (loss)	$ 0.49	$ (0.02)	$ 0.69	$ (0.21)
Diluted earnings (loss)	$ 0.47	$ (0.02)	$ 0.67	$ (0.21)
Weighted-average shares used to compute earnings (loss) per share:				
Basic	92.8	92.4	92.7	92.3
Diluted	96.3	92.4	95.6	92.3

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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PolyOne Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(In millions)

	(Unaudited) June 30, 2010	Adjusted December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 241.1	$ 222.7
Accounts receivable, net	360.8	274.4
Inventories	226.9	183.7
Other current assets	28.7	38.0
Total current assets	857.5	718.8
Property, net	363.7	392.4
Investment in equity affiliates and nonconsolidated subsidiary	12.0	5.8
Goodwill	163.7	163.5
Other intangible assets, net	69.5	71.7
Deferred income tax assets	6.9	8.1
Other non-current assets	57.7	55.7
Total assets	$ 1,531.0	$ 1,416.0
Liabilities and Shareholders Equity		
Current liabilities:		
Current portion of long-term debt	$ 59.8	$ 19.9
Short-term debt	0.4	0.5
Accounts payable	329.8	238.3
Accrued expenses	111.7	117.0
Total current liabilities	501.7	375.7
Long-term debt	329.6	389.2
Post-retirement benefits other than pensions	20.1	21.8
Pension benefits	167.5	173.0
Other non-current liabilities	104.6	98.6
Shareholders equity	407.5	357.7
Total liabilities and shareholders equity	$ 1,531.0	$ 1,416.0

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2010	**Adjusted 2009**
Operating Activities		
Net income (loss)	$ 64.1	$ (19.6)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	27.8	34.0
Deferred income tax provision	1.9	8.8
Provision for doubtful accounts	2.4	1.5
Stock compensation expense	2.1	1.4
Adjustment to impairment of goodwill		5.0
Asset write-downs and impairment charges	0.1	1.4
Companies carried at equity:		
Income from equity affiliates	(9.3)	(23.4)
Dividends and distributions received	1.5	14.2
Change in assets and liabilities, net of acquisition:		
Increase in accounts receivable	(100.2)	(9.4)
(Increase) decrease in inventories	(49.0)	60.8
Increase in accounts payable	100.3	74.7
Decrease in sale of accounts receivable		(14.2)
Decrease in accrued expenses and other	(0.5)	(0.6)
Net cash provided by operating activities	41.2	134.6
Investing Activities		
Capital expenditures	(10.9)	(12.2)
Proceeds from sale of equity affiliate and other assets	7.8	
Net cash used by investing activities	(3.1)	(12.2)
Financing Activities		
Change in short-term debt		15.1
Repayment of long-term debt	(20.0)	
Proceeds from the exercise of stock options	1.6	
Net cash (used) provided by financing activities	(18.4)	15.1
Effect of exchange rate changes on cash	(1.3)	0.5
Increase in cash and cash equivalents	18.4	138.0
Cash and cash equivalents at beginning of period	222.7	44.3
Cash and cash equivalents at end of period	$ 241.1	$ 182.3

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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PolyOne Corporation and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Form 10-Q instructions and in the opinion of management contain all adjustments, consisting of normal recurring accruals necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in the Annual Report on Form 10-K for the year ended December 31, 2009 of PolyOne Corporation.

Operating results for the three-month and six-month periods ended June 30, 2010 are not necessarily indicative of the results that may be attained in subsequent periods or for the year ending December 31, 2010.

Note 2 Change in Accounting Principle

Effective January 1, 2010, we elected to change our method of valuing inventories for certain U.S. businesses to the first-in, first-out (FIFO) method, while in prior years, these inventories were valued using the last-in, first-out (LIFO) method. As a result of this change, all inventories are valued using the FIFO method. Inventories accounted for under the FIFO method as a percent of total consolidated inventories was 76%, with the remainder determined on a LIFO basis at December 31, 2009. We believe the FIFO method is preferable as it conforms the inventory costing methods for all of our inventories to a single method and improves comparability with our industry peers. The FIFO method also better reflects current acquisition cost of those inventories on our consolidated balance sheets. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 250, *Accounting Changes and Error Corrections*, all prior periods presented have been adjusted to apply the new method retrospectively. The effect of the change in our inventory costing method increased our inventory balance and retained earnings by $42.4 million as of January 1, 2009. There were no tax effects to retained earnings for any of the periods presented below due to the fact that we have a valuation allowance recorded against our net deferred tax assets in the United States.

We have presented the effects of the change in accounting principle for inventory costs on our consolidated financial statements for 2010 and 2009 below. We have condensed the comparative financial statements for financial statement line items that were not affected by the change in accounting principle.

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Condensed Consolidated Statements of Operations

(In millions, except per share data)	Three months ended June 30, 2010 Computed under LIFO	Change to FIFO	Reported under FIFO	Three months ended June 30, 2009 Originally Reported	Change to FIFO	Adjusted
Sales	$ 692.9	$	$ 692.9	$ 496.5	$	$ 496.5
Cost of sales	566.4	(0.2)	566.2	410.2	5.4	415.6
Gross margin	126.5	0.2	126.7	86.3	(5.4)	80.9
Selling and administrative	73.0		73.0	77.1		77.1
Income from equity affiliates	7.8		7.8	10.1		10.1
Operating income	61.3	0.2	61.5	19.3	(5.4)	13.9
Interest and other expense, net	(8.9)		(8.9)	(9.5)		(9.5)
Income before income taxes	52.4	0.2	52.6	9.8	(5.4)	4.4
Income tax expense	(6.9)		(6.9)	(6.3)		(6.3)
Net income	$ 45.5	$ 0.2	$ 45.7	$ 3.5	$ (5.4)	$ (1.9)
Earnings per common share:						
Basic earnings per common share	$ 0.49	$	$ 0.49	$ 0.04	$ (0.06)	$ (0.02)
Diluted earnings per common share	$ 0.47	$	$ 0.47	$ 0.04	$ (0.06)	$ (0.02)

(In millions, except per share data)	Six months ended June 30, 2010 Computed under LIFO	Change to FIFO	Reported under FIFO	Six months ended June 30, 2009 Originally Reported	Change to FIFO	Adjusted
Sales	$ 1,323.3	$	$ 1,323.3	$ 959.9	$	$ 959.9
Cost of sales	1,093.8	(0.7)	1,093.1	814.4	13.8	828.2
Gross margin	229.5	0.7	230.2	145.5	(13.8)	131.7
Selling and administrative	146.9		146.9	147.3		147.3
Other income, net	9.3		9.3	18.4		18.4
Operating income	91.9	0.7	92.6	16.6	(13.8)	2.8
Interest and other expense, net	(17.6)		(17.6)	(24.9)		(24.9)
Income before income taxes	74.3	0.7	75.0	(8.3)	(13.8)	(22.1)
Income tax expense	(10.9)		(10.9)	2.5		2.5
Net income	$ 63.4	$ 0.7	$ 64.1	$ (5.8)	$ (13.8)	$ (19.6)

Earnings per common share:												
Basic earnings per common share	$	0.69	$	0.01	$	0.69	$	(0.06)	$	(0.15)	$	(0.21)
Diluted earnings per common share	$	0.66	$	0.01	$	0.67	$	(0.06)	$	(0.15)	$	(0.21)

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Condensed Consolidated Balance Sheets

	June 30, 2010		
(In millions)	Computed under LIFO	Change to FIFO	Reported under FIFO
Assets			
Current assets:			
Inventories	$ 202.1	$ 24.8	$ 226.9
Other current assets	630.6		630.6
Total current assets	832.7	24.8	857.5
Other non-current assets	673.5		673.5
Total assets	$ 1,506.2	$ 24.8	$ 1,531.0
Liabilities and Shareholders Equity			
Current liabilities	$ 501.7	$	$ 501.7
Non-current liabilities	621.8		621.8
Shareholders equity	382.7	24.8	407.5
Total liabilities and shareholders equity	$ 1,506.2	$ 24.8	$ 1,531.0

	December 31, 2009		
(In millions)	Originally Reported	Change to FIFO	Adjusted
Assets			
Current assets:			
Inventories	$ 159.6	$ 24.1	$ 183.7
Other current assets	535.1		535.1
Total current assets	694.7	24.1	718.8
Other non-current assets	697.2		697.2
Total assets	$ 1,391.9	$ 24.1	$ 1,416.0
Liabilities and Shareholders Equity			
Current liabilities	$ 375.7	$	$ 375.7
Non-current liabilities	682.6		682.6
Shareholders equity	333.6	24.1	357.7
Total liabilities and shareholders equity	$ 1,391.9	$ 24.1	$ 1,416.0

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Condensed Consolidated Statement of Cash Flows

	Six months ended June 30, 2010		
(In millions)	Computed under LIFO	Change to FIFO	Reported under FIFO
Operating Activities			
Net income	$ 63.4	$ 0.7	$ 64.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Other adjustments, net	26.5		26.5
Change in assets and liabilities, net of acquisition:			
Increase in inventories	(48.3)	(0.7)	(49.0)
Decrease in other	(0.4)		(0.4)
Net cash provided by operating activities	41.2		41.2
Net cash used by investing activities	(3.1)		(3.1)
Net cash used by financing activities	(18.4)		(18.4)
Effect of exchange rate changes on cash	(1.3)		(1.3)
Increase in cash and cash equivalents	18.4		18.4
Cash and cash equivalents at beginning of period	222.7		222.7
Cash and cash equivalents at end of period	$ 241.1		$ 241.1

	Six months ended June 30, 2009		
(In millions)	Originally Reported	Change to FIFO	Adjusted
Operating Activities			
Net loss	$ (5.8)	$ (13.8)	$ (19.6)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Other adjustments, net	42.9		42.9
Change in assets and liabilities, net of acquisition:			
Decrease in inventories	47.0	13.8	60.8
Increase in other	50.5		50.5
Net cash provided by operating activities	134.6		134.6
Net cash used by investing activities	(12.2)		(12.2)
Net cash provided by financing activities	15.1		15.1
Effect of exchange rate changes on cash	0.5		0.5
Increase in cash and cash equivalents	138.0		138.0
Cash and cash equivalents at beginning of period	44.3		44.3
Cash and cash equivalents at end of period	$ 182.3		$ 182.3

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Note 3 Goodwill

Goodwill as of June 30, 2010 and December 31, 2009, by operating segment, was as follows:

(In millions)	June 30, 2010	December 31, 2009
Global Specialty Engineered Materials	$ 82.5	$ 82.4
Global Color, Additives and Inks	72.2	72.1
Performance Products and Solutions	7.4	7.4
PolyOne Distribution	1.6	1.6
Total	$ 163.7	$ 163.5

Note 4 Inventories

As discussed in Note 2, *Change in Accounting Principle*, effective January 1, 2010, we elected to change our costing method for certain inventories. We applied this change in accounting principle by adjusting all prior periods presented retrospectively. Components of inventories are as follows:

(In millions)	June 30, 2010	Adjusted December 31, 2009
At FIFO cost:		
Finished products	$ 141.0	$ 108.4
Work in process	3.5	2.4
Raw materials and supplies	82.4	72.9
	$ 226.9	$ 183.7

Note 5 Property

(In millions)	June 30, 2010	December 31, 2009
Land and land improvements	$ 41.0	$ 40.7
Buildings	280.9	277.0
Machinery and equipment	891.7	916.5
	1,213.6	1,234.2
Less accumulated depreciation and amortization	(849.9)	(841.8)
	$ 363.7	$ 392.4

Note 6 Income Taxes

Income tax expense was $6.9 million for the second quarter of 2010 compared to $6.3 million in the second quarter of 2009. For the first half of 2010, we recognized income tax expense of $10.9 million compared to a benefit of $2.5 million in the first half of 2009. We record our interim provision for income taxes based on our estimated annual effective tax rate as well as certain items discrete to the current period. Our interim provision as well as our estimated annual effective tax rate is impacted by a number of factors including our U.S. federal and state and foreign income tax loss carryforwards and our ability to use them as well as changes to our unrealized tax benefits.

We decreased existing valuation allowances against our deferred tax assets by $12.9 million and $16.5 million, respectively, in the second quarter and first half of 2010. The related non-cash benefit to income tax expense was $12.2 million and $15.1 million, respectively, and related to various U.S. federal, state, local, and foreign deferred tax assets. We were able to realize these benefits and reduce our valuation allowance primarily as a result of generating positive pretax income during the second quarter and first half of 2010.

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We increased existing valuation allowances against our deferred tax assets by $7.7 million in the first half of 2009. This non-cash charge to income tax expense related to various U.S. federal, state, local, and foreign deferred tax assets. Also, during the second quarter and first half of 2009, we recognized $7.0 million of income tax expense and $3.0 million of income tax benefit, respectively, including related interest and penalties associated with uncertain tax positions.

We recognize interest and penalties related to uncertain income tax items in the provision for income taxes.

Note 7 Investment in Equity Affiliates

The results of operations of SunBelt Chlor-Alkali Partnership (SunBelt) are included in the SunBelt Joint Venture segment. We own 50% of SunBelt.

The following table presents SunBelt s summarized financial results for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2010**	**2009**	**2010**	**2009**
Net sales	$ 41.4	$ 45.7	$ 69.0	$ 98.2
Operating income	$ 16.3	$ 20.1	$ 19.7	$ 47.6
Partnership income as reported by SunBelt	$ 14.2	$ 18.1	$ 15.8	$ 43.6
Equity affiliate earnings recorded by PolyOne	$ 7.1	$ 9.0	$ 7.9	$ 21.8

(In millions)	**June 30, 2010**	**December 31, 2009**
Current assets	$ 39.5	$ 16.1
Non-current assets	86.5	94.1
Total assets	126.0	110.2
Current liabilities	21.4	21.4
Non-current liabilities	85.3	85.3
Total liabilities	106.7	106.7
Partnership capital	$ 19.3	$ 3.5

Other investments in equity affiliates are discussed below.

We own 50% of BayOne Urethane Systems, L.L.C. (BayOne), which is included in the Global Color, Additives and Inks operating segment. Through its disposition on October 13, 2009, the former Geon Polimeros Andinos equity affiliate (owned 50%) was included in the Performance Products and Solutions operating segment. Combined summarized financial information for these equity affiliates follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2010**	**2009**	**2010**	**2009**
As reported by other equity affiliates:				
Net sales	$ 14.5	$ 22.2	$ 27.1	$ 42.4
Operating income	$ 1.4	$ 2.5	$ 2.8	$ 3.6

Partnership income	$ 1.4	$ 2.1	$ 2.8	$ 3.1
Equity affiliate earnings recorded by PolyOne	$ 0.7	$ 1.1	$ 1.4	$ 1.6

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2010	Adjusted 2009	2010	2009
Weighted-average shares outstanding basic	92.8	92.4	92.7	92.3
Weighted-average shares diluted:				
Weighted-average shares outstanding basic	92.8	92.4	92.7	92.3
Plus dilutive impact of stock options and awards	3.5		2.9	
Weighted-average shares diluted	96.3	92.4	95.6	92.3

Basic earnings per common share is computed as net income available to common shareholders divided by the weighted average basic shares outstanding. Diluted earnings per common share is computed as net income available to common shareholders divided by the weighted average diluted shares outstanding. Pursuant to FASB ASC Topic 260, *Earnings Per Share*, when a loss is reported the denominator of diluted earnings per share cannot be adjusted for the dilutive impact of stock options and awards because doing so will result in anti-dilution. Therefore, for the three-month and six-month periods ended June 30, 2009, basic weighted-average shares outstanding are used in calculating diluted earnings per share.

Outstanding stock options with exercise prices greater than the average price of the common shares and certain other awards are anti-dilutive and are not included in the computation of diluted earnings per share. For the three-month and six-month periods ended June 30, 2010, 1.0 million of these options and awards were excluded from the computation of diluted earnings per share. Since we reported a net loss for the three-month and six-month periods ended June 30, 2009, all stock options and awards, which totaled 7.8 million at June 30, 2009, were excluded from the computation of the diluted loss per share because their effect would have been anti-dilutive.

Note 9 Employee Separation and Plant Phaseout

Management has undertaken certain restructuring initiatives to improve profitability and, as a result, we incurred employee separation and plant phaseout costs. Employee separation and plant phaseout costs are reflected on the line *Corporate and eliminations* in Note 13, *Segment Information*. For further discussion of these initiatives, see Note 3, *Employee Separation and Plant Phaseout*, to the consolidated financial statements and the accompanying notes included in PolyOne s Annual Report on Form 10-K for the year ended December 31, 2009.

A summary of total employee separation and plant phaseout costs for the three-month and six-month periods ended June 30, 2010 and 2009, including where the charges are recorded in the accompanying condensed consolidated statements of operations, follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2010	2009	2010	2009
Cost of sales	$ 0.3	$ 2.9	$ 0.3	$ 12.7
Selling and administrative	0.3	0.1	0.3	0.4
Total employee separation and plant phaseout	$ 0.6	$ 3.0	$ 0.6	$ 13.1

Cash payments during the three-month periods ended June 30, 2010 and 2009 were $0.8 million and $12.5 million, respectively. Cash payments during the six-month periods ended June 30, 2010 and 2009 were $2.9 million and $20.5 million, respectively. Included in *Cost of sales* for the six-month periods ended June 30, 2010 and 2009 were charges of $0.2 million and $5.4 million, respectively, for accelerated depreciation on assets related to these restructuring initiatives, all of which were recognized during the first quarter of each respective year.

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The following table details the charges and changes to the reserves associated with these restructuring initiatives for the six-month period ended June 30, 2010:

(Dollars in millions)	Employee Separation Costs	Plant Phaseout Costs Cash Closure	Asset Write-downs	Total
Realignment of certain manufacturing plants				
Balance at January 1, 2010	$ 3.0	$ 1.7	$	$ 4.7
Charge	0.5	0.1		0.6
Utilized	(2.4)	(1.8)		(4.2)
Impact of foreign currency translation		0.1		0.1
Balance at June 30, 2010	$ 1.1	$ 0.1	$	$ 1.2

We do not expect to incur significant expenses associated with these activities in 2010.

Note 10 Employee Benefit Plans

Components of defined benefit pension plan costs are as follows:

(In millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Service cost	$ 0.4	$ 0.4	$ 0.8	$ 0.7
Interest cost	7.4	7.8	14.8	15.7
Expected return on plan assets	(6.5)	(5.4)	(13.0)	(10.8)
Amortization of unrecognized losses, transition obligation and prior service costs, including curtailment gain recognized in 2009	2.5	2.9	5.0	8.0
	$ 3.8	$ 5.7	$ 7.6	$ 13.6

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

(In millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Service cost	$	$ 0.1	$	$ 0.1
Interest cost	0.3	1.4	0.7	2.9
Expected return on plan assets				
Amortization of unrecognized losses, transition obligation and prior service cost	(4.2)	(0.9)	(8.4)	(1.8)
	$ (3.9)	$ 0.6	$ (7.7)	$ 1.2

On January 15, 2009, our Board of Directors approved and adopted changes to the Geon Pension Plan (Geon Plan), the Benefit Restoration Plan (BRP), the voluntary retirement savings plan (RSP) and the Supplemental Retirement Benefit Plan (SRP). Effective March 20, 2009, the amendments permanently froze future benefit accruals and provided that participants will not receive credit under the Geon Plan or the BRP for any eligible earnings paid on or after that date.

On September 1, 2009, we adopted changes to our post-retirement healthcare plan whereby, effective January 1, 2010, the plan, for certain eligible retirees, was discontinued, and benefits will be phased out through December 31, 2012.

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Note 11 Financing Arrangements

Short-term debt At June 30, 2010, $0.4 million of short-term notes issued by certain of our European subsidiaries were outstanding.

Long-term debt Long-term debt consisted of the following:

(Dollars in millions)	June 30, 2010[1]	December 31, 2009[1]
8.875% senior notes due May 2012	$ 279.6	$ 279.5
7.500% debentures due December 2015	50.0	50.0
Medium-term notes:		
6.52% medium-term notes due February 2010		19.9
6.58% medium-term notes due February 2011	19.8	19.7
Credit facility borrowings, facility expires March 2011	40.0	40.0
Total long-term debt	$ 389.4	$ 409.1
Less current portion	59.8	19.9
Total long-term debt, net of current portion	$ 329.6	$ 389.2

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

Current maturities of long-term debt at June 30, 2010 includes $19.8 million of our 6.58% medium-term notes due February 2011 and $40.0 million of borrowings on our credit facility. On July 7, 2010, we repaid $40 million of outstanding borrowings from Citicorp USA, Inc. and also terminated the related commitments under our $40 million unsecured revolving and letter of credit facility, which was scheduled to mature on March 20, 2011.

We are exposed to market risk from changes in interest rates on debt obligations and from changes in foreign currency exchange rates. Information about these risks and exposure management is included in Item 7A Qualitative and Quantitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no material changes in the market risk faced by PolyOne from December 31, 2009 to June 30, 2010.

Note 12 Sale of Accounts Receivable

Accounts receivable consist of the following:

(In millions)	June 30, 2010	December 31, 2009
Trade accounts receivable	$ 152.6	$ 129.2
Retained interest in securitized accounts receivable	213.9	151.1
Allowance for doubtful accounts	(5.7)	(5.9)
	$ 360.8	$ 274.4

Sale of Accounts Receivable Under the terms of our receivables sale facility, we sell accounts receivable to PolyOne Funding Corporation (PFC) and PolyOne Funding Canada Corporation (PFCC), both wholly-owned, bankruptcy-remote subsidiaries. PFC and PFCC, in turn, may sell an undivided interest in up to $175.0 million and $25.0 million of these accounts receivable, respectively, to certain investors. The receivables sale facility matures in June 2012. As of June 30, 2010 and December 31, 2009, accounts receivable totaling $213.9 million and $151.1 million, respectively, were sold by us to PFC and PFCC. The maximum proceeds that PFC and PFCC may receive under the facility is limited to the lesser of $200.0 million or 85% of the eligible domestic and Canadian accounts receivable sold. As of June 30, 2010 and December 31, 2009, neither PFC nor PFCC had sold any of their undivided interests in accounts receivable.

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The receivables sale facility also makes up to $40.0 million available for the issuance of standby letters of credit as a sub-limit within the $200.0 million limit under the facility, of which $13.7 million was used at June 30, 2010. The level of availability under the receivables sale facility is based on the prior month s total accounts receivable sold to PFC and PFCC, as reduced by outstanding letters of credit. Additionally, availability is dependent upon compliance with a fixed charge coverage ratio covenant related primarily to operating performance that is set forth in the related agreements. As of June 30, 2010, we were in compliance with these covenants. As of June 30, 2010, $153.6 million of securitized accounts receivable were available for sale.

Note 13 Segment Information

On February 4, 2010, we announced a new global organization structure that will help us better serve our global customers, drive our earnings growth, better execute our strategy, and leverage our strong geographic footprint. Our former International Color and Engineered Materials operating segment has been split and is now reported within the Global Specialty Engineered Materials operating segment and the Global Color, Additives and Inks operating segment. In addition, our former Resins and Intermediates segment is now referred to as the SunBelt Joint Venture. We now have five reportable segments: (1) Global Color, Additives and Inks; (2) Global Specialty Engineered Materials; (3) Performance Products and Solutions; (4) PolyOne Distribution; and (5) SunBelt Joint Venture.

As a result of these changes to PolyOne s segment structure, prior period segment information was reclassified to conform to the 2010 presentation. These changes did not impact total segment results.

Segment information for the three-month and six-month periods ended June 30, 2010 and 2009, adjusted to reflect our new segment reporting structure and change in accounting principle follows:

	Three Months Ended June 30, 2010			**Adjusted Three Months Ended June 30, 2009**		
(In millions)	**Sales to External Customers**	**Total Sales**	**Segment Operating Income**	**Sales to External Customers**	**Total Sales**	**Segment Operating Income (Loss)**
Global Specialty Engineered Materials	$ 119.0	$ 127.5	$ 12.1	$ 91.1	$ 96.2	$ 5.7
Global Color, Additives and Inks	136.6	137.1	11.6	117.5	118.1	6.2
Performance Products and Solutions	196.8	218.5	17.6	153.3	170.3	12.4
PolyOne Distribution	240.5	241.4	11.6	134.6	135.1	3.9
SunBelt Joint Venture			6.1			8.0
Corporate and eliminations		(31.6)	2.5		(23.2)	(22.3)
Total	$ 692.9	$ 692.9	$ 61.5	$ 496.5	$ 496.5	$ 13.9

	Six Months Ended June 30, 2010			**Adjusted Six Months Ended June 30, 2009**		
(In millions)	**Sales to External Customers**	**Total Sales**	**Segment Operating Income (Loss)**	**Sales to External Customers**	**Total Sales**	**Segment Operating Income (Loss)**

Global Specialty Engineered Materials	$ 238.0	$ 253.8	$ 24.2	$ 172.2	$ 182.8	$ 4.2
Global Color, Additives and Inks	266.6	268.0	20.5	220.7	221.8	7.6
Performance Products and Solutions	363.2	402.2	29.7	295.9	329.1	13.5
PolyOne Distribution	455.5	457.3	20.2	271.1	272.0	8.8
SunBelt Joint Venture			5.8			19.7
Corporate and eliminations		(58.0)	(7.8)		(45.8)	(51.0)
Total	$ 1,323.3	$ 1,323.3	$ 92.6	$ 959.9	$ 959.9	$ 2.8

	Total Assets	
	June 30,	Adjusted December 31,
(In millions)	2010	2009
Global Specialty Engineered Materials	$ 343.3	$ 324.1
Global Color, Additives and Inks	345.8	344.7
Performance Products and Solutions	319.5	282.6
PolyOne Distribution	200.2	152.9
SunBelt Joint Venture	10.2	2.0
Corporate and eliminations	312.0	309.7
Total	$ 1,531.0	$ 1,416.0

Note 14 Commitments and Contingencies

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

During the six-month periods ended June 30, 2010 and 2009, we recognized $6.3 million and $2.9 million, respectively, of expense related to environmental activities at all of our active and inactive sites. During the six-month period ended June 30, 2010, we received $14.4 million of proceeds from insurance recoveries. During the six-month period ended June 30, 2009, we did not receive any proceeds from insurance recoveries.

Based on estimates that were prepared by our environmental engineers and consultants, we had accrued $79.6 million at June 30, 2010 and $81.7 million at December 31, 2009 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, 2010. However, such additional costs, if any, cannot be currently estimated. Our estimate of the liability may be revised as new regulations or technologies are developed or additional information is obtained. Additional information related to environmental liabilities is in Note 12, *Commitments and Related-Party Information*, to the consolidated financial statements included in PolyOne s Annual Report on Form 10-K for the year ended December 31, 2009.

We guarantee $48.8 million of SunBelt s outstanding senior secured notes in connection with the construction of a chlor-alkali facility in McIntosh, Alabama. This debt matures in equal annual installments through 2017.

Note 15 Financial Instruments

The estimated fair values of financial instruments were principally based on market prices where such prices were available and, where unavailable, fair values were estimated based on market prices of similar instruments. Short-term foreign exchange contracts are the only asset or liability recorded at fair value on a recurring basis. These contracts are measured based on exchange rates at June 30, 2010 and classified as a level 2 fair value measurement within the fair value hierarchy.

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The following table summarizes the contractual amounts of our foreign exchange contracts as of June 30, 2010. Foreign currency amounts are translated at exchange rates as of June 30, 2010. The Buy amounts represent the U.S. dollar equivalent of commitments to purchase currencies, and the Sell amounts represent the U.S. dollar equivalent of commitments to sell currencies.

	June 30, 2010	
Currency (In millions)	**Buy**	**Sell**
U.S. Dollar	$53.7	
Euro		$49.8
British pound		$ 3.9

The carrying amounts and fair values of our financial instruments as of June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010		**December 31, 2009**	
(In millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Cash and cash equivalents	$241.1	$241.1	$222.7	$222.7
Long-term debt				
Credit facility borrowings	40.0	40.0	40.0	40.0