POLYONE CORP
Form 10-Q
October 24, 2018

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

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018

¨ 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. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ý 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	ý	Accelerated filer	¨
Non-accelerated filer	¨	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 ý No
The number of the registrant's outstanding common shares, $0.01 par value, as of September 30, 2018 was 79,820,441.

Part I — Financial Information
Item 1. Financial Statements
PolyOne Corporation
Condensed Consolidated Statements of Income (Loss) (Unaudited)
(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Sales	$883.0	$818.5	$2,699.4	$2,429.3
Cost of sales	698.1	639.0	2,119.5	1,879.7
Gross margin	184.9	179.5	579.9	549.6
Selling and administrative expense	114.4	113.8	353.2	323.9
Operating income	70.5	65.7	226.7	225.7
Interest expense, net	(15.6)	(15.5)	(47.2)	(45.3)
Debt extinguishment costs	—	—	(0.1)	(0.3)
Other income, net	0.7	1.3	2.2	2.8
Income from continuing operations before income taxes	55.6	51.5	181.6	182.9
Income tax expense	(5.4)	(11.3)	(32.2)	(44.8)
Net income from continuing operations	50.2	40.2	149.4	138.1
Loss from discontinued operations, net of income taxes	—	(1.4)	(1.1)	(233.8)
Net income (loss)	$50.2	$38.8	$148.3	$(95.7)
Net loss attributable to noncontrolling interests	—	—	0.1	—
Net income (loss) attributable to PolyOne common shareholders	$50.2	$38.8	$148.4	$(95.7)
Earnings (loss) per common share attributable to PolyOne common shareholders - Basic:				
Continuing operations	$0.63	$0.50	$1.87	$1.69
Discontinued operations	—	(0.02)	(0.02)	(2.86)
Total	$0.63	$0.48	$1.85	$(1.17)
Earnings (loss) per common share attributable to PolyOne common shareholders - Diluted:				
Continuing operations	$0.62	$0.49	$1.85	$1.68
Discontinued operations	—	(0.02)	(0.01)	(2.84)
Total	$0.62	$0.47	$1.84	$(1.16)
Weighted-average shares used to compute earnings per common share:				
Basic	79.8	81.2	80.1	81.7
Plus dilutive impact of share-based compensation	0.9	0.8	0.7	0.6
Diluted	80.7	82.0	80.8	82.3
Cash dividends declared per share of common stock	$0.175	$0.135	$0.525	$0.405

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$50.2	$38.8	$148.3	$(95.7)
Other comprehensive income (loss)				
Translation adjustments and related hedging instruments	(11.5)	16.0	(27.7)	35.4
Cash flow hedges	0.7	—	0.7	—
Other	—	—	—	(0.1)
Total comprehensive income (loss)	39.4	54.8	121.3	(60.4)
Comprehensive loss attributable to noncontrolling interests	—	—	0.1	—
Comprehensive income (loss) attributable to PolyOne common shareholders	$39.4	$54.8	$121.4	$(60.4)

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation
Condensed Consolidated Balance Sheets
(In millions)

	(Unaudited) September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 180.8	$ 243.6
Accounts receivable, net	472.4	392.4
Inventories, net	334.6	327.8
Other current assets	69.8	102.8
Total current assets	1,057.6	1,066.6
Property, net	487.7	461.6
Goodwill	650.1	610.5
Intangible assets, net	430.4	400.0
Other non-current assets	159.5	166.6
Total assets	$ 2,785.3	$ 2,705.3
Liabilities and Equity		
Current liabilities:		
Short-term and current portion of long-term debt	$ 19.4	$ 32.6
Accounts payable	419.7	388.9
Accrued expenses and other current liabilities	130.7	149.1
Total current liabilities	569.8	570.6
Non-current liabilities:		
Long-term debt	1,316.8	1,276.4
Pension and other post-retirement benefits	60.0	62.3
Other non-current liabilities	224.6	196.6
Total non-current liabilities	1,601.4	1,535.3
Equity:		
PolyOne shareholders' equity	613.3	598.5
Noncontrolling interests	0.8	0.9
Total equity	614.1	599.4
Total liabilities and equity	$ 2,785.3	$ 2,705.3

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,	
	2018	2017
Operating Activities		
Net income (loss)	$148.3	$(95.7)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Loss on sale of business, net of tax	—	228.7
Depreciation and amortization	66.4	75.7
Accelerated depreciation and fixed asset charges associated with restructuring activities	2.6	0.9
Gain from sale of closed facilities	—	(3.6)
Debt extinguishment costs	0.1	0.3
Share-based compensation expense	8.3	8.0
Change in assets and liabilities, net of the effect of acquisitions:		
Increase in accounts receivable	(70.6)	(83.6)
Increase in inventories	(0.1)	(21.7)
Increase in accounts payable	28.4	43.0
Decrease in pension and other post-retirement benefits	(7.7)	(10.4)
Decrease in accrued expenses and other assets and liabilities, net	(4.8)	(30.4)
Net cash provided by operating activities	170.9	111.2
Investing Activities		
Capital expenditures	(51.2)	(52.0)
Business acquisitions, net of cash acquired	(98.6)	(163.8)
Sale of and proceeds from other assets	3.9	123.0
Net cash used by investing activities	(145.9)	(92.8)
Financing Activities		
Borrowings under credit facilities	835.3	1,111.2
Repayments under credit facilities	(797.5)	(1,013.3)
Repayment of other debt	(16.4)	—
Purchase of common shares for treasury	(53.0)	(70.7)
Cash dividends paid	(42.1)	(33.2)
Repayment of long-term debt	(4.9)	(4.9)
Payments of withholding tax on share awards	(3.9)	(2.9)
Debt financing costs	(0.5)	(2.5)
Net cash used by financing activities	(83.0)	(16.3)
Effect of exchange rate changes on cash	(4.8)	4.7
(Decrease) increase in cash and cash equivalents	(62.8)	6.8
Cash and cash equivalents at beginning of period	243.6	226.7
Cash and cash equivalents at end of period	$180.8	$233.5

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 and 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, 2017 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, 2018 are not necessarily indicative of the results that may be attained in subsequent periods or for the year ending December 31, 2018.

Accounting Standards Adopted

On January 1, 2018, the Company adopted Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers and all related amendments (the Standard), for all contracts using the modified retrospective method. The Standard implements a five-step process for revenue recognition that focuses on transfer of control and defines a contract as "an agreement between two or more parties that creates legally enforceable rights and obligations." The adoption of the Standard did not materially impact the timing and measurement of revenue recognition. Additionally, we concluded that the methodology for which we historically estimated and recognized variable consideration (e.g., rebates) is consistent with the requirements of the Standard. As a result, we did not recognize a cumulative effect adjustment to the opening balance of retained earnings.

At contract inception, PolyOne assesses the goods and services promised to a customer and identifies a performance obligation for each promised good or service that is distinct. Our contracts, generally in the form of purchase orders or written contracts, specify the product or service that is promised to the customer. The typical contract life is less than 12 months and contains only one performance obligation, to provide conforming goods or services to the customer. Revenue is recognized at the point in time when control of the product is transferred to the customer, which typically occurs when products are shipped from our facilities with the exception of certain contract manufacturing arrangements.

The revenue streams within the Company are consistent with those disclosed for our reportable segments, within Note 9, Segment Information. For descriptions of our product offerings and segments see Note 14, Segment Information in our annual report on Form 10-K for the year ended December 31, 2017. We offer more than 35,000 polymer solutions to over 10,000 customers across the world. No customer accounts for more than 3% of our consolidated revenues and we do not have a high concentration of business in one particular end market.

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 must be presented below operating income. The Company has adopted ASU 2017-07 as of January 1, 2018.

ASU 2017-07 provides a practical expedient to utilize previously disclosed components of net periodic benefit costs as an estimate for retrospective presentation. Utilizing this practical expedient, the Company reclassified non-service components of net periodic benefit cost from Cost of sales and Selling and administrative expense into Other income, net on the Condensed Consolidated Statements of Income. The adoption of ASU 2017-07 resulted in $1.4 million and $2.0 million for the three months ended September 30, 2018 and 2017, respectively, and $4.3 million and $6.0 million for the nine months ended September 30, 2018 and 2017, respectively, of the non-service components of net periodic benefit gain presented in Other income, net. For additional 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, 2017.
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

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the sale or transfer occurs. We recognized an adjustment of $17.0 million to beginning retained earnings upon adoption of this standard on January 1, 2018 from transactions completed as of December 31, 2017.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). This amendment to the hedge accounting model better aligns an entity's risk management activities with its financial reporting by expanding an entity's ability to hedge risk components, eliminating the separate measurement and reporting of hedge ineffectiveness and reducing the complexity of applying certain aspects of hedge accounting. The Company has early adopted ASU 2017-12 as of July 1, 2018. For additional disclosure and detail on the hedge relationships entered into by the Company during July and August 2018, see Note 11, Derivatives and Hedging.

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 was issued to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about lease arrangements. ASU 2016-02 is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

We will adopt the new standard on the required effective date of January 1, 2019 using the transition option, “Comparatives Under 840 Option,” established by ASU 2018-11, Leases (Topic 842), Targeted Improvements (ASU 2018-11). This transition option was released by the FASB to reduce the cost and complexity associated with reflecting the new standard in prior periods presented. We will also elect the practical expedient package related to the identification, classification and accounting for initial direct costs whereby prior conclusions do not have to be reassessed for leases that commenced before the effective date. As we will not reassess such conclusions, the Company does not plan to adopt the practical expedient to use hindsight to determine the likelihood of whether a lease will be extended, terminated or whether a purchase option will be exercised.

A cross-functional implementation team is continuing to identify leases, determine policy elections, gather data and implement changes to business processes and controls to support recognition and disclosure under the new standard.

Note 2 — BUSINESS COMBINATIONS

On January 2, 2018, the Company acquired the outstanding shares of IQAP Masterbatch Group S.L. (IQAP) for $73.0 million, net of cash acquired. IQAP is an innovative provider of specialty colorants and additives based in Spain with customers primarily throughout Europe. IQAP results are reported in the Color, Additives and Inks segment. The preliminary purchase price allocation resulted in intangible assets of $31.9 million, goodwill of $24.5 million, property, plant and equipment of $24.1 million, other liabilities of $20.8 million and net working capital of $13.3 million. Goodwill is not deductible for tax purposes. The intangible assets that have been acquired are being amortized over a period of 13 to 20 years. IQAP's sales included in the three and nine months ended September 30, 2018 results were $14.1 million and $47.1 million, respectively.

On May 31, 2018, the Company acquired the outstanding shares of PlastiComp, Inc. (PlastiComp) for total consideration of $44.6 million, inclusive of contingent earn-out consideration that will be finalized two years from the date of acquisition. PlastiComp specializes in long-fiber reinforced thermoplastics and its results are reported in the Specialty Engineered Materials segment. The preliminary purchase price allocation resulted in intangible assets of $19.1 million and goodwill of $16.6 million. Goodwill is not deductible for tax purposes. The intangible assets that have been acquired are being amortized over a period of 15 to 24 years. PlastiComp's sales included in the three and nine months ended September 30, 2018 were $5.0 million and $7.2 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 $228.8 million that was primarily recognized during the second quarter of 2017.

The following table summarizes the discontinued operations associated with DSS for the three and nine months ended September 30, 2018 and 2017, which is reflected within the Loss from discontinued operations, net of income taxes line of the Condensed Consolidated Statements of Income.

(In millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Sales	$ —	$ 15.8	$—	$222.1
Gain (loss) on sale	$ —	$ 0.5	$(1.5)	$(295.4)
Loss from operations	—	(3.3)	—	(8.6)
Loss before taxes	—	(2.8)	(1.5)	(304.0)
Income tax benefit	—	1.4	0.4	70.2
Loss from discontinued operations, net of taxes	$ —	$ (1.4)	$(1.1)	$(233.8)

Note 4 — GOODWILL AND INTANGIBLE ASSETS

Goodwill as of September 30, 2018 and December 31, 2017 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, 2017	$ 173.2	$ 424.5	$ 11.2	$ 1.6	$610.5
Acquisition of businesses	16.6	25.1	—	—	41.7
Currency translation	(0.7)	(1.4)	—	—	(2.1)
Balance September 30, 2018	$ 189.1	$ 448.2	$ 11.2	$ 1.6	$650.1

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

(In millions)	As of September 30, 2018 Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Customer relationships	$278.4	$ (71.6)	$ (0.4)	$206.4
Patents, technology and other	188.1	(63.6)	(0.8)	123.7
Indefinite-lived trade names	100.3	—	—	100.3
Total	$566.8	$ (135.2)	$ (1.2)	$430.4

(In millions)	As of December 31, 2017 Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Customer relationships	$257.3	$ (61.5)	$ 0.1	$195.9
Patents, technology and other	158.2	(54.4)	—	103.8
Indefinite-lived trade names	100.3	—	—	100.3
Total	$515.8	$ (115.9)	$ 0.1	$400.0

Note 5 — INVENTORIES, NET

Components of Inventories, net are as follows:

(In millions)	September 30, 2018	December 31, 2017
Finished products	$ 197.4	$ 203.3
Work in process	7.2	5.1
Raw materials and supplies	130.0	119.4
Inventories, net	$ 334.6	$ 327.8

Note 6 — PROPERTY, NET

Components of Property, net are as follows:

(In millions)	September 30, 2018	December 31, 2017
Land and land improvements [(1)]	$ 48.9	$ 40.7
Buildings [(2)]	314.0	303.5
Machinery and equipment	1,068.4	1,038.0
Property, gross	1,431.3	1,382.2
Less accumulated depreciation and amortization	(943.6)	(920.6)
Property, net	$ 487.7	$ 461.6

(1) Land and land improvements include properties under capital leases of $0.1 million and $1.7 million as of September 30, 2018 and December 31, 2017, respectively.

(2) Buildings include properties under capital leases of $3.6 million and $16.5 million as of September 30, 2018 and December 31, 2017, respectively.

Note 7 — INCOME TAXES

The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. Among other things, effective in 2018, the TCJA reduces the U.S. federal corporate tax rate from 35% to 21%, exempts from U.S. federal income taxation dividends from certain foreign corporations to their U.S. shareholders, eliminates or reduces the effect of various federal tax deductions and creates new taxes on certain outbound payments and future foreign earnings generated after 2017. The TCJA also requires U.S. companies to pay a one-time transition tax on earnings of foreign corporate subsidiaries that are at least ten-percent owned by such U.S. companies and that were previously deferred from U.S. taxation.

We have not completed our accounting for the tax effects of the enactment of the TCJA; however, in compliance with the SEC's amendment to Staff Accounting Bulletin (SAB) 118 (issued December 22, 2017), we have made a reasonable estimate of the effects on our existing deferred income tax balances and the one-time transition tax, which was included as a component of income tax expense from continuing operations for the year ending December 31, 2017. An update to earnings and profits of affiliates resulted in an immaterial favorable adjustment to the one-time transition tax during the three months ended September 30, 2018. Additionally, we have made a measurement period adjustment associated with a depreciation method election resulting from the enactment of the TCJA that had a favorable impact to our rate during the respective three and nine months ended September 30, 2018. As we finalized and filed our 2017 U.S. federal income tax return, elements of the TCJA, such as the transition tax, or available elections we made impacted the return to provision.

Subsequent measurement period adjustments will occur during the fourth quarter when financial information for affiliates with a November 30 year-end is finalized. Any additional adjustments to our provisional amounts will be disclosed in our 10-K and recorded within the one-year measurement period provided by SAB 118.

We elected to recognize the resulting tax on the global intangible low-taxed income (GILTI) as a period expense in the period the tax is incurred, and we included a provisional estimate for GILTI in our estimated annual effective tax rate. Additionally, the anticipated tax effect of our foreign-derived intangible income (FDII) deduction was adjusted as a result of further analysis.

During the three months ended September 30, 2018, the Company’s effective tax rate of 9.7% was below the Company's U.S. federal statutory rate of 21.0%. This was primarily a result of foreign permanent items (5.1%), additional benefits taken on our 2017 U.S. federal income tax return associated with elements of the TCJA (4.3%), benefits from the depreciation method election mentioned above (3.2%) and a favorable adjustment to our FDII deduction (2.5%). State taxes (2.7%) and the repatriation of certain current year earnings (2.0%) partially offset this favorability.

During the nine months ended September 30, 2018, the Company's effective tax rate of 17.7% was below the Company's US federal statutory rate of 21.0%. This was primarily a result of foreign permanent items (4.1%), benefits from the depreciation method election mentioned above (2.1%), additional benefits taken on our 2017 U.S. federal income tax return associated with elements of the TCJA (1.2%), a favorable adjustment to our FDII deduction (1.1%)

and the impact from lower statutory tax rate differences on foreign earnings (1.1%). The repatriation of certain foreign earnings from prior periods and the current year (3.9%) and state taxes (2.0%) partially offset this favorability.
During the three and nine months ended September 30, 2017, the Company’s effective tax rate of 21.9% and 24.5%, respectively, were below the Company's federal statutory rate of 35.0% primarily due to favorable impact of lower statutory tax rate differences on foreign earnings.

Note 8 — FINANCING ARRANGEMENTS
Debt consists of the following instruments:

As of September 30, 2018 (In millions)	Principal Amount	Unamortized discount and debt issuance cost	Net Debt	Weighted average interest rate
Senior secured revolving credit facility due 2022	$95.3	$ —	$95.3	3.25 %
Senior secured term loan due 2022	632.6	7.7	624.9	3.71 %
5.25% senior notes due 2023	600.0	5.1	594.9	5.25 %
Other debt (1)	21.1	—	21.1	
Total debt	$1,349.0	$ 12.8	$1,336.2	
Less short-term and current portion of long-term debt	19.4	—	19.4	
Total long-term debt, net of current portion	$1,329.6	$ 12.8	$1,316.8	

As of December 31, 2017 (In millions)	Principal Amount	Unamortized discount and debt issuance cost	Net Debt	Weighted average interest rate
Senior secured revolving credit facility due 2022	$56.5	$ —	$56.5	2.77 %
Senior secured term loan due 2022	637.5	8.5	629.0	3.27 %
5.25% senior notes due 2023	600.0	6.0	594.0	5.25 %
Other debt (1)	29.5	—	29.5	
Total debt	$1,323.5	$ 14.5	$1,309.0	
Less short-term and current portion of long-term debt	32.6	—	32.6	
Total long-term debt, net of current portion	$1,290.9	$ 14.5	$1,276.4	

(1) Other debt includes capital lease obligations of $3.4 million and $17.8 million as of September 30, 2018 and December 31, 2017, respectively.

On April 11, 2018, the Company entered into a fifth 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 175 basis points. At the Company's discretion, interest is based upon (i) a margin rate of 175 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 75 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 senior 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, 2018, we were in compliance with all covenants.

The estimated fair value of PolyOne’s debt instruments at September 30, 2018 and December 31, 2017 was $1,350.3 million and $1,343.3 million, respectively, compared to carrying values of $1,336.2 million and $1,309.0 million as of September 30, 2018 and December 31, 2017, 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 (CODM) 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 CODM. 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.
Segment information for the three and nine months ended September 30, 2018 and 2017 is as follows:

(In millions)	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Sales to External Customers	Total Sales	Operating Income	Sales to External Customers	Total Sales	Operating Income
Color, Additives and Inks	$259.1	$261.0	$ 41.1	$232.6	$ 235.1	$ 36.4
Specialty Engineered Materials	152.6	166.7	18.9	143.9	156.3	17.6
Performance Products and Solutions	154.0	176.0	16.3	155.1	175.7	17.8
PolyOne Distribution	317.3	321.8	17.6	286.9	291.1	18.6
Corporate and eliminations	—	(42.5)	(23.4)	—	(39.7)	(24.7)
Total	$883.0	$883.0	$ 70.5	$818.5	$ 818.5	$ 65.7

(In millions)	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Sales to External Customers	Total Sales	Operating Income	Sales to External Customers	Total Sales	Operating Income
Color, Additives and Inks	$800.9	$805.6	$ 128.5	$657.2	$670.6	$ 110.1
Specialty Engineered Materials	455.9	495.3	60.1	436.6	474.1	60.1
Performance Products and Solutions	495.5	558.9	61.6	480.6	543.6	62.2
PolyOne Distribution	947.1	960.6	54.5	854.9	868.0	57.5
Corporate and eliminations	—	(121.0)	(78.0)	—	(127.0)	(64.2)
Total	$2,699.4	$2,699.4	$ 226.7	$2,429.3	$2,429.3	$ 225.7

(In millions)	Total Assets	
	September 30, 2018	December 31, 2017
Color, Additives and Inks	$1,240.9	$ 1,146.8
Specialty Engineered Materials	607.0	545.1
Performance Products and Solutions	277.5	275.8
PolyOne Distribution	277.0	250.9
Corporate and eliminations	382.9	486.7
Total assets	2,785.3	2,705.3

Note 10 — 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 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. We will adjust our accrual, in the future, consistent with any such future allocation of costs. Additionally, we continue to pursue available insurance coverage related to this matter and recognize gains as we receive reimbursement.

The environmental obligation at the site arose as a result of an agreement between The B.F.Goodrich Company (n/k/a Goodrich Corporation) and our predecessor, The Geon Company, at the time of the initial public offering in 1993. Under the agreement, The Geon Company agreed to indemnify Goodrich Corporation for certain environmental costs at the site. Neither PolyOne nor The Geon Company ever operated the facility.

Since 2009, PolyOne, along with respondents Westlake Vinyls, Inc., and Goodrich Corporation, have worked with the United States Environmental Protection Agency (USEPA) on the investigation of contamination at the site as well as evaluation of potential remedies to address the contamination. The USEPA issued its Record of Decision (ROD) in September 2018, selecting a remedy consistent with our accrual assumptions. In October 2018, the USEPA sent a letter to the respondents inviting negotiation of an agreement to conduct the remedial design. Our current reserve of $103.8 million is consistent with the USEPA's estimates contained in the ROD.

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 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 Study Area (the LPRSA). 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 Remedial Investigation and Feasibility Study of the LPRSA. Franklin-Burlington has not admitted to any liability or agree to bear any other costs for remediation or natural resource damage.

In 2015, the Cooperating Parties submitted to the USEPA a remedial investigation report and feasibility study for the LPRSA, and are currently engaged in technical discussions with the USEPA regarding those documents. Neither of those documents contemplates who is responsible for remediation or how such costs might be allocated to PRPs. In March 2016, the USEPA issued a ROD selecting a remedy for an eight-mile portion of the LPRSA at an estimated and discounted cost of $1.4 billion. On March 31, 2016, the USEPA sent a Notice of Potential Liability to over 100 companies, including Franklin-Burlington, and several municipalities for this eight-mile portion. 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. In September 2017, the USEPA sent a letter to over 80 companies, including Franklin-Burlington, indicating that the USEPA would engage the recipients in an allocation process for the lower eight miles of the LPRSA and has engaged a third-party allocator as part of that process. Along with other parties, Franklin-Burlington is participating in the development of this allocation process with the allocator retained by the USEPA, and this process is expected to continue into at least 2019. On June 30, 2018, OCC, independent of the USEPA, filed suit over 100 named entities, including Franklin-Burlington, seeking contribution for past and future costs associated with the remediation of the lower eight-mile portion of the LPRSA. Based on the currently available information, we have not identified evidence that Franklin-Burlington contributed any of the primary contaminants of concern to the lower Passaic River. A timeline as to when an allocation of the remedial costs may be determined is not yet known and any allocation to Franklin-Burlington has not been determined. As a result of these uncertainties, we are unable to estimate a liability related to this matter and, as of September 30, 2018, we have not accrued for costs of remediation related to the lower Passaic River.

During the three months ended September 30, 2018 and 2017, PolyOne recognized $7.5 million and $4.9 million, respectively, of expense related to environmental remediation costs. During the nine months ended September 30, 2018 and 2017, PolyOne recognized $19.3 million and $12.1 million, respectively, of expense related to environmental remediation activities. During the three months ended September 30, 2018 and 2017, PolyOne received $1.5 million and $2.5 million, respectively, of insurance recoveries for previously incurred environmental costs. During the nine months ended September 30, 2018 and 2017, PolyOne received $3.8 million and $6.3 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 Condensed Consolidated Balance Sheets include accruals totaling $115.4 million and $117.1 million as of September 30, 2018 and December 31, 2017, 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 current liabilities and Other non-current liabilities on the accompanying Condensed 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, 2018. However, such additional costs, if any, cannot be currently estimated.

Note 11 — DERIVATIVES AND HEDGING

We are exposed to market risks, such as changes in foreign currency exchange rates and interest rates. To manage the volatility related to these exposures we may enter into various derivative transactions. We formally assess, designate and document, as a hedge of an underlying exposure, the qualifying derivative instrument that will be accounted for as an accounting hedge at inception. Additionally, we assess both at inception and at least quarterly thereafter, whether the financial instruments used in the hedging transaction are effective at offsetting changes in either the fair values or cash flows of the underlying exposures. In accordance with ASU 2017-12, that ongoing assessment may be done qualitatively.

Net Investment Hedge

On July 25, 2018, as a means of mitigating the impact of currency fluctuations on our Euro investments in foreign entities, we executed three cross currency swaps, in which we will pay fixed-rate interest in Euros and receive fixed-rate interest in U.S. dollars with a combined notional amount of 125.0 million Euros and which have a maturity date of March 2023. This effectively converts a portion of our U.S. Dollar denominated fixed-rate debt to Euro denominated fixed-rate debt. That conversion resulted in a benefit of $0.7 million for the three and nine-month period ended September 30, 2018, which was recognized within Interest expense, net within the Condensed Consolidated Statements of Income.

We designated the swaps as net investment hedges of our net investment in our European operations under ASU 2017-12 and applied the spot method to these hedges. The changes in fair value of the derivative instruments that are designated and qualify as hedges of net investments in foreign operations are recognized within Accumulated Other Comprehensive Income (AOCI) to offset the changes in the values of the net investment being hedged. For the nine months ended September 30, 2018, $0.7 million of loss was recognized in AOCI, net of tax.

Derivatives Designated as Cash Flow Hedging Instruments

On August 24, 2018, we entered into two interest rate swaps with a combined notional amount of $150.0 million to manage the variability of cash flows in the interest rate payments associated with our existing LIBOR-based interest payments, effectively converting $150.0 million of our floating rate debt to a fixed rate. We began to receive floating rate interest payments based upon one month U.S. dollar LIBOR and in return are obligated to pay interest at a fixed rate of 2.732% until November 2022. We have designated these swap contracts as cash flow hedges pursuant to ASC 815, Derivatives and Hedging. The net interest payments accrued each month for these highly effective hedges are reflected in net income as adjustments of interest expense and the remaining change in the fair value of the derivatives is recorded as a component of AOCI. The amount of expense recognized within Interest expense, net in our Condensed Consolidated Statements of Income was $0.1 million for the three and nine months ended September 30, 2018. For the nine months ended September 30, 2018, $0.7 million of gain was recognized in AOCI, net of tax.

All of our derivative assets and liabilities measured at fair value are classified as Level 2 within the fair value hierarchy. We determine the fair value of our derivatives based on valuation methods, which project future cash flows and discount the future amounts present value using market based observable inputs, including interest rate curves and foreign currency rates. The fair value of derivative financial instruments recognized in the Condensed Consolidated Balance Sheets is as follows:

(In millions)	Balance Sheet Location	September 30, 2018	December 31, 2017
Assets			
Interest Rate Swap (Fair Value Hedge)	Other non-current assets	$ 1.0	$ —
Liabilities			
Cross Currency Swaps (Net Investment Hedge)	Other non-current liabilities	$ 0.9	$ —

Note 12 — EQUITY

Changes in accumulated other comprehensive loss year-to-date as of September 30, 2018 and 2017 were as follows:

(In millions)	Cumulative Translation Adjustment and Related Hedging Instruments	Pension and Other Post-Retirement Benefits	Cash Flow Hedges	Other	Total
Balance at January 1, 2018	$ (58.6)	$ 5.2	$ —	$—	$(53.4)
Translation adjustments	(27.0)	—	—	—	(27.0)
Unrealized (losses) gains	(0.7)	—	0.7	—	—
Balance at September 30, 2018	$ (86.3)	$ 5.2	$ 0.7	$—	$(80.4)
Balance at January 1, 2017	$ (99.8)	$ 5.2	$ —	$0.4	$(94.2)
Translation adjustments	35.4	—	—	—	35.4
Unrealized loss	—	—	—	(0.1)	(0.1)
Balance at September 30, 2017	$ (64.4)	$ 5.2	$ —	$0.3	$(58.9)

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, advanced composites, color and additive systems and polymer distribution. We are also a highly specialized developer and manufacturer of performance enhancing additives, liquid colorants, and fluoropolymer and silicone colorants. Headquartered in Avon Lake, Ohio, we have employees at manufacturing sites and distribution facilities in North America, South America, Europe and Asia. We provide value to our customers through our ability to link our knowledge of polymers and formulation technology with our manufacturing and supply chain capabilities to provide value-added solutions to designers, assemblers and processors of plastics (our customers). When used in this quarterly report on Form 10-Q, the terms "we," "us," "our", "PolyOne" and the "Company" mean PolyOne Corporation an its consolidated subsidiaries.

Highlights and Executive Summary

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2018	2017	2018	2017
Sales	$883.0	$818.5	$2,699.4	$2,429.3
Operating income	$70.5	$65.7	$226.7	$225.7
Net income from continuing operations	$50.2	$40.2	$149.4	$138.1
Loss from discontinued operations, net of income taxes	—	(1.4)	(1.1)	(233.8)
Net income (loss)	$50.2	$38.8	$148.3	$(95.7)
Net income (loss) attributable to PolyOne common shareholders	$50.2	$38.8	$148.4	$(95.7)

Recent Developments

On January 2, 2018, the Company completed the acquisition of IQAP Masterbatch Group S.L. (IQAP) for $73.0 million, net of cash acquired. IQAP is an innovative provider of specialty colorants and additives based in Spain with customers primarily throughout Europe. The IQAP results are reported in the Color, Additives and Inks segment.

On May 31, 2018, the Company acquired the outstanding shares of PlastiComp, Inc. (PlastiComp) for total consideration of $44.6 million, inclusive of contingent earn-out consideration that will be finalized two years from the date of acquisition. PlastiComp specializes in long-fiber reinforced thermoplastics and its results are reported in the Specialty Engineered Materials segment.

Results of Operations — The three and nine months ended September 30, 2018 compared to three and nine months ended September 30, 2017:

	Three Months Ended September 30,		Variances — Favorable (Unfavorable)		Nine Months Ended September 30,		Variances — Favorable (Unfavorable)	
(Dollars in millions, except per share data)	2018	2017	Change	% Change	2018	2017	Change	% Change
Sales	$883.0	$818.5	$64.5	7.9 %	$2,699.4	$2,429.3	$270.1	11.1 %
Cost of sales	698.1	639.0	(59.1)	(9.2)%	2,119.5	1,879.7	(239.8)	(12.8)%
Gross margin	184.9	179.5	5.4	3.0 %	579.9	549.6	30.3	5.5 %
Selling and administrative expense	114.4	113.8	(0.6)	(0.5)%	353.2	323.9	(29.3)	(9.0)%
Operating income	70.5	65.7	4.8	7.3 %	226.7	225.7	1.0	0.4 %
Interest expense, net	(15.6)	(15.5)	(0.1)	(0.6)%	(47.2)	(45.3)	(1.9)	(4.2)%
Debt extinguishment costs	—	—	—	nm	(0.1)	(0.3)	0.2	66.7 %
Other income, net	0.7	1.3	(0.6)	(46.2)%	2.2	2.8	(0.6)	(21.4)%
Income from continuing operations before income taxes	55.6	51.5	4.1	8.0 %	181.6	182.9	(1.3)	(0.7)%
Income tax expense	(5.4)	(11.3)	5.9	52.2 %	(32.2)	(44.8)	12.6	28.1 %
Net income from continuing operations	50.2	40.2	10.0	24.9 %	149.4	138.1	11.3	8.2 %
Loss from discontinued operations, net of income taxes	—	(1.4)	1.4	100.0 %	(1.1)	(233.8)	232.7	99.5 %
Net income (loss)	50.2	38.8	11.4	29.4 %	148.3	(95.7)	244.0	255.0 %
Net loss attributable to noncontrolling interests	—	—	—	nm	0.1	—	0.1	nm
Net income (loss) attributable to PolyOne common shareholders	$50.2	$38.8	$11.4	29.4 %	$148.4	$(95.7)	$244.1	255.1 %
Earnings (loss) per common share attributable to PolyOne common shareholders - Basic:								
Continuing operations	$0.63	$0.50			$1.87	$1.69		
Discontinued operations	—	(0.02)			(0.02)	(2.86)		
Total	$0.63	$0.48			$1.85	$(1.17)		
Earnings (loss) per common share attributable to PolyOne common shareholders - Diluted:								
Continuing operations	$0.62	$0.49			$1.85	$1.68		
Discontinued operations	—	(0.02)			(0.01)	(2.84)		
Total	$0.62	$0.47			$1.84	$(1.16)		

nm - not meaningful

Sales

Sales increased $64.5 million, or 7.9%, in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 driven by organic sales growth of 6.1% and an increase from acquisitions of 2.3%. Partially offsetting these increases was unfavorable foreign exchange impact of 0.5%.

Sales increased $270.1 million, or 11.1%, in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 driven by organic sales growth of 6.1%, an increase from acquisitions of 3.7% and a favorable foreign exchange impact of 1.3%.

Cost of sales

As a percent of sales, cost of sales increased from 78.1% in the three months ended September 30, 2017 to 79.1% in the three months ended September 30, 2018 and from 77.4% in the nine months ended September 30, 2017 to 78.5% in the nine months ended September 30, 2018, primarily as a result of raw material cost inflation and increased logistics costs in North America.

Selling and administrative expense

Selling and administrative expense increased $0.6 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017. This increase was primarily driven by costs associated with acquired businesses and additional investments in commercial resources, partially offset by favorable foreign exchange.

Selling and administrative expense increased by $29.3 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. This increase was driven primarily by $15.9 million associated with acquired businesses, foreign exchange of $4.5 million, a $4.3 million favorable legal settlement received in 2017 and a $3.8 million reversal of certain non-income tax reserves in 2017 due to the expiration of statute of limitations.

Income taxes

During the three months ended September 30, 2018, the Company’s effective tax rate was 9.7% compared to 21.9% for the three months ended September 30, 2017, primarily due to additional benefits taken on our 2017 U.S. federal income tax return associated with elements of the TCJA (4.3%), benefits from a depreciation method election (3.2%), a lower tax rate from the enactment of the Tax Cuts and Jobs Act (TCJA) (2.5%) and a true-up of the anticipated foreign-derived intangible income (FDII) deduction (2.5%). Partially offsetting these decreases was the foreign withholding tax from the repatriation of certain current year earnings (2.0%).

During the nine months ended September 30, 2018, the Company’s effective tax rate was 17.7% compared to the 24.5% for the nine months ended September 30, 2017, primarily due to the impact of the lower tax rate from the enactment of the TCJA (4.4%), benefits from a depreciation method election (2.1%), foreign permanent items (2.0%) and additional benefits taken on our 2017 U.S. federal income tax return associated with elements of the TCJA (1.2%). Partially offsetting these decreases was the foreign withholding tax from the repatriation of certain foreign earnings (3.2%).

SEGMENT INFORMATION

Operating income is the primary measure that is reported to our chief operating decision maker (CODM) 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 CODM. 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.

Sales and Operating Income — The three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017:

	Three Months Ended September 30,		Variances — Favorable (Unfavorable)		Nine Months Ended September 30,		Variances — Favorable (Unfavorable)	
(Dollars in millions)	2018	2017	Change	% Change	2018	2017	Change	% Change
Sales:								
Color, Additives and Inks	$261.0	$235.1	$25.9	11.0%	$805.6	$670.6	$135.0	20.1%
Specialty Engineered Materials	166.7	156.3	10.4	6.7%	495.3	474.1	21.2	4.5%
Performance Products and Solutions	176.0	175.7	0.3	0.2%	558.9	543.6	15.3	2.8%
PolyOne Distribution	321.8	291.1	30.7	10.5%	960.6	868.0	92.6	10.7%
Corporate and eliminations	(42.5)	(39.7)	(2.8)	(7.1)%	(121.0)	(127.0)	6.0	4.7%
Total Sales	$883.0	$818.5	$64.5	7.9%	$2,699.4	$2,429.3	$270.1	11.1%
Operating income:								
Color, Additives and Inks	$41.1	$36.4	$4.7	12.9%	$128.5	$110.1	$18.4	16.7%
Specialty Engineered Materials	18.9	17.6	1.3	7.4%	60.1	60.1	—	—%
Performance Products and Solutions	16.3	17.8	(1.5)	(8.4)%	61.6	62.2	(0.6)	(1.0)%
PolyOne Distribution	17.6	18.6	(1.0)	(5.4)%	54.5	57.5	(3.0)	(5.2)%
Corporate and eliminations	(23.4)	(24.7)	1.3	5.3%	(78.0)	(64.2)	(13.8)	(21.5)%
Total Operating Income	$70.5	$65.7	$4.8	7.3%	$226.7	$225.7	$1.0	0.4%
Operating income as a percentage of sales:								
Color, Additives and Inks	15.7%	15.5%	0.2	% points	16.0%	16.4%	(0.4)	% points
Specialty Engineered Materials	11.3%	11.3%	—	% points	12.1%	12.7%	(0.6)	% points
Performance Products and Solutions	9.3%	10.1%	(0.8)	% points	11.0%	11.4%	(0.4)	% points
PolyOne Distribution	5.5%	6.4%	(0.9)	% points	5.7%	6.6%	(0.9)	% points
Total	8.0%	8.0%	—	% points	8.4%	9.3%	(0.9)	% points

Color, Additives and Inks

Sales increased by $25.9 million, or 11.0%, in the three months ended September 30, 2018 compared to the three months ended September 30, 2017. Organic growth contributed 6.2% and acquisitions increased sales by 6.0%. Unfavorable foreign exchange of 1.2% partially offset these increases.

Sales increased by $135.0 million, or 20.1%, in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. Acquisitions increased sales 12.3%, organic growth contributed 5.2% and foreign exchange added 2.6%.

Operating income rose by $4.7 million in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. Higher sales and the contributions of acquisitions drove the increase, which was funded by our continued investment in commercial resources. This was partially offset by unfavorable foreign exchange.

Operating income rose by $18.4 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. Operating income growth was driven by higher sales and acquisitions.

Specialty Engineered Materials

Sales increased $10.4 million, or 6.7%, in the three months ended September 30, 2018 compared to the three months ended September 30, 2017, largely driven by organic growth of 4.3% and a 3.2% impact from acquisitions. Unfavorable foreign exchange of 0.8% partially offset these increases.

Sales increased by $21.2 million, or 4.5%, in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. Sales growth in Europe and Asia contributed 4.8%, favorable foreign exchange added 2.8% and acquisitions added 1.5%. Lower sales in North America partially offset these increases.

Operating income increased $1.3 million in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 as a result of higher sales and acquisitions, partially offset by higher raw material and freight costs.

Operating income remained flat in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 as the benefit of higher sales and acquisitions was offset by higher raw material and freight costs.

Performance Products and Solutions

Sales increased $0.3 million, or 0.2%, in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 as volume growth slightly offset weaker mix.

Sales increased $15.3 million, or 2.8%, in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to volume growth.

Operating income decreased $1.5 million in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 and $0.6 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The benefit of increased sales was more than offset by raw material inflation and higher logistics costs, as well as softened demand in certain industries in North America, such as building and construction and appliance.

PolyOne Distribution

Sales increased $30.7 million, or 10.5%, in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 and $92.6 million, or 10.7%, in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 as a result of increased volume and higher overall average selling prices associated with raw material cost inflation.

Operating income decreased $1.0 million in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 and $3.0 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 as the benefit of higher sales was more than offset by unfavorable mix and increased logistics costs.

Corporate and Eliminations

Corporate and eliminations decreased $1.3 million in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 primarily as a result of lower compensation and employee costs.

Corporate and eliminations increased $13.8 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily as a result of $9.7 million additional environmental remediation costs in 2018 and 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. 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, 2018 and December 31, 2017:

(In millions)	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 180.8	$ 243.6
Revolving credit availability	299.8	330.3
Liquidity	$ 480.6	$ 573.9

As of September 30, 2018, approximately 93% of the Company's cash and cash equivalents resided outside the United States. Repatriation of such foreign cash and cash equivalents are exempt from domestic taxation pursuant to the enactment of the TCJA, but in certain cases may be subject to foreign taxes. In contemplation of the TCJA enactment, we determined we would repatriate certain foreign earnings from prior periods in the first quarter of 2018. This repatriation of cash was subject to foreign withholding taxes that was paid upon the receipt of funds in the second quarter. As we continue to assess the impacts of the TCJA and the geopolitical environment in foreign countries, repatriation opportunities may arise and could result in a recognition of additional tax liabilities.

After considering the impact of foreign tax credit carryforwards, we anticipate that the resulting cash tax payable as a result of the one-time transition tax on previously deferred foreign earnings will be immaterial.

Cash Flows

The following describes the significant components of cash flows from operating, investing and financing activities for the nine months ended September 30, 2018 and 2017.

Operating Activities — In the nine months ended September 30, 2018, net cash provided by operating activities was $170.9 million as compared to net cash provided by operating activities of $111.2 million for the nine months ended September 30, 2017 primarily reflecting improved underlying operating results and working capital, as well as a receipt of $27.9 million of U.S. federal income tax refunds.

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 2018 increased to 10.6% compared to 10.3% for the third quarter of 2017. This working capital percentage 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, 2018 of $145.9 million primarily reflects $98.6 million of acquisitions and $51.2 million of capital expenditures.

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.

Financing Activities — Net cash used by financing activities for the nine months ended September 30, 2018 of $83.0 million primarily reflects $53.0 million of repurchases of our outstanding common shares, $42.1 million of dividends paid and repayment of debt of $21.3 million, offset by net borrowings of $37.8 million under our senior secured revolving credit facility.

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 borrowing of $97.9 million under our senior secured revolving credit facility.

Debt

As of September 30, 2018, the principal amount of debt totaled $1,349.0 million. Aggregate maturities of the principal amount of debt for the current year, next five years and thereafter, are as follows:

(In millions)	
2018	$13.1
2019	8.7
2020	8.1
2021	7.5
2022	707.5
2023	600.5
Thereafter	3.6
Aggregate maturities	$1,349.0

As of September 30, 2018, 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.

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, 2018, there were no material changes to these obligations as reported in our annual report on Form 10-K for the year ended December 31, 2017.

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:

- disruptions, uncertainty or volatility in the credit markets that could adversely impact the availability of credit already arranged and the availability and cost of credit in the future;
- the effect on foreign operations of 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 in jurisdictions where we conduct business;
- changes in global industry capacity or in the rate at which anticipated changes in industry capacity come online;
- 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;
- information systems failures and cyberattacks;
- an inability to raise or sustain prices for products or services;

- factors affecting our business beyond our control, including, without limitation, changes in the general economy, changes in interest rates and changes in the rate of inflation; and
- other factors described in our annual report on Form 10-K for the year ended December 31, 2017 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, 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, 2017.

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, 2018 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 [1]
July 1 to July 31	176,006	$ 43.74	176,006	5,236,586
August 1 to August 31	—	—	—	5,236,586
September 1 to September 30	—	—	—	5,236,586
Total	176,006	$ 43.74	176,006	

[1] 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, 2018, approximately 5.2 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
31.1	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
31.2	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
32.1	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
32.2	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
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 24, 2018	POLYONE CORPORATION
	/s/ Bradley C. Richardson Bradley C. Richardson Executive Vice President, Chief Financial Officer