POLYONE CORP
Form 10-Q
August 07, 2008

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

[x] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2008

[ ] 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.
Yes X No __
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [x]	Non-accelerated filer [ ]	Smaller reporting company [ ]

(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]
The number of outstanding shares of the registrant s common stock, $0.01 par value, as of August 4, 2008 was 93,305,018.

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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,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Sales	$748.1	$688.8	$1,461.8	$1,346.6
Cost of sales	659.6	606.3	1,288.4	1,180.0
Gross margin	88.5	82.5	173.4	166.6
Selling and administrative	75.0	68.5	147.9	132.6
Income (loss) from equity affiliates and minority interest	10.5	(1.6)	18.6	4.9
Operating income	24.0	12.4	44.1	38.9
Interest expense	(10.7)	(16.0)	(19.9)	(31.3)
Interest income	0.9	0.9	1.7	1.8
Premium on early extinguishment of long-term debt		(5.3)		(5.3)
Other expense, net	(0.7)	(1.8)	(2.7)	(2.7)
Income (loss) before income taxes	13.5	(9.8)	23.2	1.4
Income tax (expense) benefit	(4.7)	4.4	(7.9)	0.6
Net income (loss)	$ 8.8	$ (5.4)	$ 15.3	$ 2.0
Basic and diluted earnings (loss) per common share	$ 0.09	$ (0.06)	$ 0.16	$ 0.02
Weighted-average shares used to compute earnings per share:				
Basic	93.0	92.8	93.0	92.7
Diluted	93.8	92.8	93.5	93.0
Dividends declared per share of common stock	$	$	$	$

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements

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

	June 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 59.8	$ 79.4
Accounts receivable, net	423.2	340.8
Inventories	277.4	223.4
Deferred income tax assets	20.4	20.4
Other current assets	22.8	19.8
Total current assets	803.6	683.8
Property, net	467.5	449.7
Investment in equity affiliates	30.1	19.9
Goodwill	333.0	288.8
Other intangible assets, net	71.3	6.7
Deferred income tax assets	67.6	69.9
Other non-current assets	66.1	64.2
Total assets	$ 1,839.2	$ 1,583.0
Liabilities and Shareholders Equity		
Current liabilities:		
Short-term bank debt	$ 89.8	$ 6.1
Accounts payable	339.9	250.5
Accrued expenses	99.7	94.4
Current portion of long-term debt	12.9	22.6
Total current liabilities	542.3	373.6
Long-term debt	388.4	308.0
Post-retirement benefits other than pensions	79.3	81.6
Pension benefits	67.5	82.6
Other non-current liabilities	85.8	87.8
Total liabilities	1,163.3	933.6
Shareholders equity	675.9	649.4
Total liabilities and shareholders equity	$ 1,839.2	$ 1,583.0

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, 2008	2007
Operating Activities		
Net income	$ 15.3	$ 2.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31.7	28.6
Charges for environmental remediation	3.9	1.9
Cash payments for environmental remediation	(4.8)	(2.9)
Deferred income tax provision (benefit)	0.4	(5.4)
Premium on early extinguishment of long-term debt		5.3
Stock-compensation expense	1.5	2.6
Companies carried at equity and minority interest:		
Impairment of investment in equity affiliate		15.9
Income from equity affiliates and minority interest	(18.6)	(20.8)
Dividends and distributions received	8.3	9.8
Contributions to pensions and other post-retirement plans	(20.0)	(13.7)
Change in assets and liabilities:		
Accounts receivable	(77.1)	(70.8)
Inventories	(33.3)	(17.0)
Accounts payable	78.3	79.8
Increase in sale of accounts receivable	13.8	89.2
Accrued expenses and other	0.3	(3.9)
Net cash (used) provided by operating activities	(0.3)	100.6
Investing Activities		
Capital expenditures	(19.9)	(21.9)
Business acquisitions, net of cash acquired	(150.0)	
Proceeds from sale of assets		5.2
Net cash used by investing activities	(169.9)	(16.7)
Financing Activities		
Change in short-term debt	82.6	17.5
Issuance of long-term debt, net of debt issuance costs	77.8	
Repayment of long-term debt	(11.4)	(121.4)
Premium on early extinguishment of long-term debt		(5.3)
Proceeds from exercise of stock options		0.7
Net cash provided (used) by financing activities	149.0	(108.5)
Effect of exchange rate changes on cash	1.6	2.4

Decrease in cash and cash equivalents	(19.6)	(22.2)
Cash and cash equivalents at beginning of period	79.4	66.2
Cash and cash equivalents at end of period	$ 59.8	$ 44.0

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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PolyOne Corporation and Subsidiaries
Condensed Consolidated Statements of Shareholders Equity (Unaudited)
(Dollars in millions, shares in thousands)

	Common Shares Outstanding	Common Shares Held in Treasury	Total	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)
Balance January 1, 2007	122,192	29,384	$581.7	$ 1.2	$1,065.7	$(59.9)	$(326.2)	$ (99.1)
Comprehensive income:								
Net income			7.4			7.4		
Amortization of unrecognized losses, transition obligation and prior service costs, net of tax of $0.5			1.0					1.0
Translation adjustment			3.0					3.0
Total comprehensive income			11.4					
Stock-based compensation and benefits		(70)	0.5		(0.3)		0.8	
Balance March 31, 2007	122,192	29,314	$593.6	$ 1.2	$1,065.4	$(52.5)	$(325.4)	$ (95.1)
Comprehensive income:								
Net loss			(5.4)			(5.4)		
Amortization of unrecognized losses, transition obligation and prior service costs, net of tax of $0.5			1.0					1.0
Translation adjustment			9.0					9.0

Total comprehensive income			4.6					
Stock-based compensation and benefits		(113)	3.2		1.9		1.3	
Balance June 30, 2007	122,192	29,201	$601.4	$ 1.2	$1,067.3	$(57.9)	$(324.1)	$ (85.1)
Balance January 1, 2008	122,192	29,059	$649.4	$ 1.2	$1,065.0	$(48.5)	$(319.7)	$ (48.6)
Comprehensive income:								
Net income			6.5			6.5		
Amortization of unrecognized losses, transition obligation and prior service credit, net of tax of $0.3			0.6					0.6
Translation adjustment			5.0					5.0
Unrecognized loss on available-for-sale securities			(0.1)					(0.1)
Total comprehensive income			12.0					
Stock-based compensation and benefits		(114)	0.9		(0.5)		1.4	
Balance March 31, 2008	122,192	28,945	$662.3	$ 1.2	$1,064.5	$(42.0)	$(318.3)	$ (43.1)
Comprehensive income:								
Net income			8.8			8.8		
Amortization of unrecognized losses, transition obligation and prior service credit, net of tax of $0.3			0.6					0.6
Translation adjustment			3.7					3.7
			(0.3)					(0.3)

Unrecognized loss on available-for-sale securities								
Total comprehensive income			12.8					
Stock-based compensation and benefits		(28)	0.8		0.5		0.3	
Balance June 30, 2008	122,192	28,917	$675.9	$ 1.2	$1,065.0	$(33.2)	$(318.0)	$ (39.1)

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

Note A 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, 2007 of PolyOne Corporation.

In January 2008, the Company acquired 100% of the outstanding capital stock of GLS Corporation (GLS), a global provider of specialty thermoplastic elastomer (TPE) compounds for consumer, packaging and medical applications. Identifiable intangible assets of $66.0 million and goodwill of $43.8 million were recorded pertaining to this acquisition. For more information on the GLS acquisition, see Note P.

On July 1, 2008, PolyOne announced that, in June 2008, Producer Services, formerly included in All Other, was combined with Geon Performance Polymers to form the Performance Products and Solutions operating segment. In addition, North American Color and Additives and Specialty Inks and Polymer Systems, both formerly included in All Other, were combined to form a new operating segment named Specialty Color, Additives and Inks. Prior period segment information has been reclassified to conform to the 2008 presentation.

On March 20, 2008, PolyOne announced the Specialty Engineered Materials segment. This segment includes PolyOne s TPE compounds product line in Europe and Asia (historically included in International Color and Engineered Materials), North American Engineered Materials (historically included in All Other) and GLS. Prior period segment information has been reclassified to conform to the 2008 presentation.

Operating results for the three-month and six-month periods ended June 30, 2008 are not necessarily indicative of the results that may be attained in subsequent periods or for the year ending December 31, 2008.

Reclassification Certain amounts for 2007 have been reclassified to conform to the 2008 presentation.

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Note B Accounting Policies

New Accounting Pronouncements

SFAS No. 157 In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurement, which defines fair value, establishes the framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157, that delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. The Company adopted the non-deferred portion of SFAS No. 157 on January 1, 2008, and such adoption did not have a material impact on the Company s financial statements. The Company is evaluating the effect that adoption of the deferred portion of SFAS No. 157 will have on its financial statements in 2009, specifically in the areas of measuring fair value in business combinations and goodwill impairment tests. See Note Q Fair Value for information on the Company s fair value assets and liabilities.

SFAS No. 159 In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which allows entities to voluntarily choose, at specified election dates, to measure many financial assets and liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. SFAS No. 159 was effective January 1, 2008. The adoption of SFAS No. 159 had no impact on the Company s financial statements.

SFAS No. 141 (revised 2007) In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, which establishes principles over the method entities use to recognize and measure assets acquired and liabilities assumed in a business combination and enhances disclosures on business combinations. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

SFAS No. 161 In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008.

Use of Estimates The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make extensive use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during these periods. Significant estimates in the Condensed Consolidated Financial Statements include, but are not limited to, sales discounts and rebates, allowances for doubtful accounts, estimates of future cash flows associated with assets, asset impairments, useful lives for depreciation and amortization, loss contingencies, net realizable value of inventories, environmental-related liabilities, income taxes and tax valuation reserves, assumptions used for goodwill impairment analyses and the determination of discount and other rate assumptions used to determine pension and post-retirement employee benefit expenses. Actual results could differ from these estimates.

Note C Goodwill and Other Intangible Assets

In accordance with SFAS No. 141, Business Combinations, purchase accounting requires that the total purchase price of acquisitions be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding the fair values being recorded as goodwill. As such, the acquisition of GLS resulted in the addition of \$43.8 million of goodwill and \$66.0 million in identifiable intangibles as of January 2, 2008. See Note P for more information on the GLS acquisition.

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Goodwill as of June 30, 2008 and December 31, 2007, by operating segment, was as follows:

(In millions)	June 30, 2008	December 31, 2007
International Color and Engineered Materials	$ 72.0	$ 72.0
Specialty Engineered Materials	43.8	
Specialty Color, Additives and Inks	33.8	33.8
Performance Products and Solutions	181.8	181.4
PolyOne Distribution	1.6	1.6
Total	$ 333.0	$ 288.8

For the six-month period ended June 30, 2008, there were no indicators of impairment for goodwill. The annual impairment testing for goodwill will be performed as of July 1, 2008. Carrying values of reporting units are compared with fair values of reporting units, and when the carrying value of a reporting unit exceeds its fair value, an impairment loss would be recognized.

As a result of the reorganization of the Company s segments on October 1, 2007, PolyOne had four reporting units that had a significant amount of goodwill: Geon Compounds; Specialty Coatings; International Color and Engineered Materials; and Specialty Inks and Polymer Systems. PolyOne performed an interim assessment of goodwill on the two new reporting units Specialty Coatings and Specialty Inks and Polymer Systems. The average fair values of the market approach and income approach exceeded the carrying value of Specialty Coatings and Specialty Inks and Polymer Systems as of October 1, 2007.

Reorganization of the Company s operating segments during 2008 (described in Note N to the Condensed Consolidated Financial Statements) did not have an impact on the reporting units.

Information regarding PolyOne s finite-lived other intangible assets follows:

	As of June 30, 2008			
(In millions)	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Non-contractual customer relationships	$ 37.0	$ (7.9)	$	$ 29.1
Sales contract	11.4	(10.1)		1.3
Patents, technology and other	9.1	(2.9)	1.5	7.7
Total	$ 57.5	$ (20.9)	$ 1.5	$ 38.1

	As of December 31, 2007			
(In millions)	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Non-contractual customer relationships	$ 8.6	$ (6.7)	$	$ 1.9
Sales contract	11.4	(10.0)		1.4
Patents, technology and other	4.7	(2.7)	1.4	3.4

Total	$ 24.7	$ (19.4)	$ 1.4	$ 6.7

Amortization of finite-lived other intangible assets was $0.7 million and $1.1 million for the three-month periods ended June 30, 2008 and 2007, respectively, and $1.5 million for both six-mo