SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarterly Period Ended June 30, 2005.

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

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No___

As of July 26, 2005, there were 91,882,053 common shares outstanding.

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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,	
	2005	2004	2005	2004
Sales	$ 583.4	$ 557.8	$ 1,160.1	$ 1,093.4
Operating costs and expenses:				
Cost of sales	512.9	459.6	1,017.5	908.2
Selling and administrative	47.3	54.8	94.0	112.6
Depreciation and amortization	12.4	13.5	24.9	27.1
Employee separation and plant phaseout	0.4	(1.0)	0.6	(1.2)
Environmental remediation at inactive sites	—	0.9	—	1.3
Loss on sale of assets	—	5.7	—	5.7
Income from equity affiliates and minority interest	(32.1)	(16.7)	(58.1)	(25.9)
Operating income	42.5	41.0	81.2	65.6
Interest expense	(17.0)	(18.3)	(33.3)	(36.7)
Other expense, net	(0.5)	(3.1)	(1.3)	(6.0)
Income before income taxes and discontinued operations	25.0	19.6	46.6	22.9
Income tax expense	(2.4)	(0.4)	(4.9)	(5.3)
Income before discontinued operations	22.6	19.2	41.7	17.6
Discontinued operations:				
Income from operations, net of income taxes	8.7	2.3	3.0	7.9
Net income	$ 31.3	$ 21.5	$ 44.7	$ 25.5
Earnings per common share:				
Basic and diluted earnings:				
Before discontinued operations	$ 0.25	$ 0.21	$ 0.46	$ 0.19
Discontinued operations	0.09	0.03	0.03	0.09
Basic and diluted earnings per share	$ 0.34	$ 0.24	$ 0.49	$ 0.28
Weighted average shares used to compute earnings per share:				
Basic	91.8	91.5	91.8	91.5
Diluted	92.1	91.8	92.1	91.7
Dividends paid 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, except per share data)

	June 30, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 34.7	$ 38.6
Accounts receivable, net	314.1	309.7
Inventories	201.5	196.0
Deferred income tax assets	19.9	20.1
Other current assets	16.7	17.7
Discontinued operations	33.5	34.6
Total current assets	620.4	616.7
Property, net	414.3	441.2
Investment in equity affiliates	302.1	263.3
Goodwill, net	322.0	321.0
Other intangible assets, net	9.9	10.1
Other non-current assets	59.1	59.6
Discontinued operations	48.3	59.9
Total assets	$ 1,776.1	$ 1,771.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term bank debt	$ 3.3	$ 2.3
Accounts payable	220.1	210.7
Accrued expenses	83.1	102.4
Current portion of long-term debt	47.5	49.3
Discontinued operations	27.0	26.3
Total current liabilities	381.0	391.0
Long-term debt	640.7	640.5
Deferred income tax liabilities	10.0	14.4
Post-retirement benefits other than pensions	111.2	114.0
Other non-current liabilities, including pensions	213.8	224.6
Minority interest in consolidated subsidiaries	5.4	6.8
Discontinued operations	0.1	0.1
Total liabilities	1,362.2	1,391.4
Shareholders' equity:		
Preferred stock, 40.0 shares authorized, no shares issued	—	—
Common stock, $.01 par, 400.0 shares authorized, 122.2 shares issued at June 30, 2005 and December 31, 2004	1.2	1.2
Other shareholders' equity	412.7	379.2
Total shareholders' equity	413.9	380.4
Total liabilities and shareholders' equity	$ 1,776.1	$ 1,771.8

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, 2005	Six Months Ended June 30, 2004
Operating Activities		
Net income	$ 44.7	$ 25.5
Income from discontinued operations	3.0	7.9
Income from continuing operations	41.7	17.6
Adjustments to reconcile income from continuing operations to net cash used by operating activities of continuing operations:		
Employee separation and plant phaseout charges	0.6	(1.2)
Cash payments on employee separation and plant phaseout	(1.9)	(14.7)
Charges on environmental remediation at inactive sites	—	1.3
Cash payments for environmental remediation at inactive sites	(9.9)	(0.8)
Depreciation and amortization	24.9	27.1
Loss on sale of assets	—	5.7
Companies carried at equity and minority interest:		
Income from equity affiliates and minority interest	(58.1)	(25.9)
Dividends and distributions received	19.2	2.8
Deferred income taxes	0.9	1.1
Change in assets and liabilities:		
Accounts receivable	(51.5)	(62.5)
FIFO inventories	(6.1)	(19.9)
Accounts payable	15.2	59.9
Increase (decrease) in sale of accounts receivable	38.6	(51.6)
Accrued expenses and other	(20.8)	17.4
Net cash used by operating activities of continuing operations	(7.2)	(43.7)
Investing Activities		
Capital expenditures	(17.5)	(9.3)
Return of cash from equity affiliates	—	13.6
Business acquired, net of cash received	(2.7)	(5.1)
Proceeds from sale of assets	8.4	26.3
Net cash provided (used) by investing activities of continuing operations	(11.8)	25.5
Financing Activities		
Change in short-term debt	1.0	(0.2)
Change in long-term debt	(1.5)	(3.4)
Proceeds from exercise of stock options	0.3	—
Net cash used by financing activities of continuing operations	(0.2)	(3.6)
Net cash provided by discontinued operations	17.1	26.6
Effect of exchange rate on changes on cash	(1.8)	(0.8)
Increase (decrease) in cash and cash equivalents	(3.9)	4.0
Cash and cash equivalents at beginning of period	38.6	48.7
Cash and cash equivalents at end of period	$ 34.7	$ 52.7

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	Common Shares Held in Treasury	Total	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Common Stock Held in Treasury	Share Ownership Trust	Accumulated Other Non-Owner Equity Changes
Balance January 1, 2004	122,192	30,425	$ 366.8	$ 1.2	$1,068.7	$(232.4)	$(339.8)	$ (1.3)	$ (129.6)
Comprehensive income:									
Net income			4.0			4.0			
Translation adjustment			0.2			—			0.2
Total comprehensive income			4.2			4.0			0.2
Stock-based compensation and benefits		141	(0.9)		(0.1)		(0.8)		
Balance March 31, 2004	122,192	30,566	$ 370.1	$ 1.2	$1,068.6	$(228.4)	$(340.6)	$ (1.3)	$ (129.4)
Comprehensive income:									
Net income			21.5			21.5			—
Translation adjustment			(12.5)			—			(12.5)
Total comprehensive income			9.0			21.5			(12.5)
Stock-based compensation and benefits		(4)	—		0.1			(0.1)	
Balance June 30, 2004	122,192	30,562	$ 379.1	$ 1.2	$1,068.7	$(206.9)	$(340.6)	$ (1.4)	$ (141.9)
Balance January 1, 2005	122,192	30,480	$ 380.4	$ 1.2	$1,069.8	$(208.9)	$(339.0)	$ —	$ (142.7)
Comprehensive income:									
Net income			13.4			13.4			—
Translation adjustment			(5.3)			—			(5.3)
Total comprehensive income			8.1			13.4			(5.3)
Stock-based compensation and benefits		(98)	1.0		(0.2)		0.9		0.3
Balance March 31, 2005	122,192	30,382	$ 389.5	$ 1.2	$1,069.6	$(195.5)	$(338.1)	$ —	$ (147.7)
Comprehensive income:									
Net income			31.3			31.3			—
Translation adjustment			(6.0)			—			(6.0)
Total comprehensive income			25.3			31.3			(6.0)
Stock-based compensation and benefits		(36)	(0.9)		(0.2)		0.2		(0.9)
Balance June 30, 2005	122,192	30,346	$ 413.9	$ 1.2	$1,069.4	$(164.2)	$(337.9)	$ —	$ (154.6)

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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 accounting principles generally accepted in the United States 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. This report includes information condensed from the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. These interim statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Operating results for the three-month and six-month periods ended June 30, 2005 are not necessarily indicative of the results expected in subsequent quarters or for the year ending December 31, 2005.

Costs related to employee separation and plant phaseout and environmental remediation at inactive sites in the Condensed Consolidated Statements of Operations are presented separately. Employee separation and plant phaseout costs are discussed in Note H below. Environmental remediation at inactive sites represents environmental remediation costs for manufacturing facilities that are no longer owned or that were closed in prior years.

PolyOne's Specialty Resins and Engineered Films businesses qualified for accounting treatment as discontinued operations as of June 30, 2005. These two businesses are expected to be sold in 2005 and, as a result, all historical financial information of these businesses (sales, costs and expenses, assets and liabilities and cash flows) is reported separately as "discontinued operations". These businesses were previously included in PolyOne's Performance Plastics business segment. The carrying amounts of the major classes of assets and liabilities of these businesses as of June 30, 2005 are reflected in "Discontinued operations" in the Condensed Consolidated Balance Sheets. The net carrying value of these businesses at June 30, 2005 was $54.7 million. A first quarter 2005 impairment charge of $10.9 million is reflected in discontinued operations to adjust the carrying value of the Engineered Films business to its net realizable value based upon current estimates.

The Elastomers and Performance Additives business was sold in August 2004. Accordingly, all historical financial information of this business (sales, costs and expenses, assets and liabilities and cash flows) was reported separately as discontinued operations in 2004. Elastomers and Performance Additives was previously reported as a separate business segment.

Note B — Accounting Policies

Stock-Based Compensation — As provided under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock Based Compensation," PolyOne has elected to account for stock-based compensation under the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Compensation cost for stock options is measured as the excess, if any, of the quoted market price of the PolyOne stock at the date of the grant over the amount an employee must pay to acquire the stock. Compensation cost for stock appreciation rights (SARs) is recognized upon vesting in the amount by which the quoted market value of the shares of PolyOne stock covered by the grant exceeds the appreciation rights' specified value. At June 30, 2005, approximately 1.6 million SARs were issued and outstanding, of which 0.7 million were vested and exercisable at share prices ranging from $6.00 to $12.22. For the three-month and six-month periods ended June 30, 2005, a benefit of $1.5 million and $1.6 million, respectively, was included in compensation expense in the condensed consolidated statements of operations to reflect the decline in stock prices during 2005.

The following table illustrates the effect on net income and income per share if PolyOne had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation, using the fair value estimate as computed using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was developed to estimate the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models use highly subjective assumptions, including expected share price volatility. Because PolyOne's stock options have characteristics significantly different from traded options, and because changes in the subjective assumptions used can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of PolyOne stock options.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share data)	2005	2004	2005	2004
Net income, as reported	$ 31.3	$ 21.5	$ 44.7	$ 25.5
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	—	0.6	0.6	1.3
Pro forma net income	$ 31.3	$ 20.9	$ 44.1	$ 24.2
Net income per share:				
Basic and diluted — as reported	$ 0.34	$ 0.24	$ 0.49	$ 0.28
Basic and diluted — pro forma	$ 0.34	$ 0.23	$ 0.48	$ 0.26

New Accounting Pronouncements — On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS Statement No. 123 (revised 2004), "Share-Based Payment," a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." The approach in SFAS No. 123(R) is generally similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as an expense in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative.

SFAS No. 123(R) must be adopted no later than January 1, 2006 as the result of an extension granted by the Securities and Exchange Commission on April 14, 2005. PolyOne expects to adopt SFAS No. 123(R) using the modified-prospective method. The modified-prospective method requires recognition of compensation costs beginning with the effective date for all share-based payments granted after the effective date and for all awards granted to employees prior to the effective date that remain unvested on the effective date.

As permitted by SFAS No. 123, PolyOne currently accounts for share-based payments to employees using APB Opinion No. 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have an impact on the results of operations, although it will have no impact on the overall financial position of PolyOne. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend upon levels of share-based payments granted in the future. However, had PolyOne adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of the fair value recognition provisions of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share shown previously in this Note B to the Condensed Consolidated Financial Statements. SFAS No. 123(R) also requires that the benefits of tax deductions in excess of recognized compensation be reported as a financing cash flow, rather than as an operating cash flow as required under current accounting guidance. This requirement will reduce net operating cash flows and increase net financing cash flows in the periods after adoption. However, because PolyOne is in a net operating loss carryforward position for income taxes, there would be no impact on its cash flow statements for the six-month periods ended June 30, 2005 and 2004. PolyOne expects to adopt SFAS No. 123(R) effective January 1, 2006.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs." SFAS No. 151 amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing," to clarify accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151 requires that these items to be recognized as current-period charges and requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The adoption of SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. PolyOne has not yet determined the impact of SFAS No. 151's adoption on its consolidated financial position or results of operations.

Reclassification — Certain amounts for 2004 have been reclassified to conform to the 2005 presentation.

Note C — Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the six months ended June 30, 2005 by segment are as follows:

(In millions)	Performance Plastics	Distribution	Total
December 31, 2004	$ 319.4	$ 1.6	$ 321.0
Business acquisition	1.0	—	1.0
June 30, 2005	$ 320.4	$ 1.6	$ 322.0

Information regarding PolyOne's other intangible assets is as follows:

	As of December 31, 2004:			
(In millions)	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Non-contractual customer relationships	$ 8.6	$ (4.4)	$ —	$ 4.2
Sales contract	9.6	(7.7)	—	1.9
Patents, technology and other	4.1	(1.1)	1.0	4.0
Total	$ 22.3	$ (13.2)	$ 1.0	$ 10.1

	As of June 30, 2005:			
(In millions)	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Non-contractual customer relationships	$ 9.7	$ (5.0)	$ —	$ 4.7
Sales contract	9.6	(8.0)	—	1.6
Patents, technology and other	4.2	(1.5)	0.9	3.6
Total	$ 23.5	$ (14.5)	$ 0.9	$ 9.9

Amortization of other intangible assets was $0.6 million and $1.0 million for the three-month periods ended June 30, 2005 and 2004 and $1.3 million and $2.1 million for the six-month periods ended June 30, 2005 and 2004.

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The carrying values of intangible assets and other investments are adjusted to the present value of estimated net future cash flows based upon an evaluation done each year-end, or more often when indicators of impairment exist. For the three-month and six-month periods ended June 30, 2005, there were no indicators of impairment for either goodwill or intangible assets as recorded.

Note D — Inventories

Components of inventories are as follows:

(In millions)	June 30, 2005	December 31, 2004
Finished products and in-process inventories	$ 153.9	$ 140.6
Raw materials and supplies	84.8	91.4
	238.7	232.0
LIFO reserve	(37.2)	(36.0)
Total inventories	$ 201.5	$ 196.0

Note E — Income Taxes

For the three-month and six-month periods ended June 30, 2005 and 2004, a domestic tax provision was not applied against income before taxes as a result of the deferred tax valuation allowance recorded in previous periods in accordance with SFAS 109, "Accounting for Income Taxes," due to the uncertainty regarding full utilization of PolyOne's deferred income taxes. PolyOne intends to maintain the valuation allowance until additional realization events occur, including generating future sustainable taxable income, which would support reversal of all or a portion of the allowance. Tax expense of $2.4 million and $4.9 million was recorded in the three-month and six-month periods ended June 30, 2005 primarily represents foreign taxes.

Note F — Investment in Equity Affiliates

PolyOne owns 24% of Oxy Vinyls LP (OxyVinyls), a manufacturer and marketer of PVC resins. OxyVinyls is a leading producer of PVC resins in North America. The following table presents OxyVinyls' summarized results of operations for the three months and six months ended June 30, 2005 and 2004, and summarized balance sheet information as of June 30, 2005 and December 31, 2004.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2005	2004	2005	2004
Net sales	$ 621.4	$ 570.8	$ 1,236.9	$ 1,084.7
Operating income	97.6	75.4	181.7	116.7
Partnership income as reported by OxyVinyls	82.3	55.8	144.6	85.7
PolyOne's ownership of OxyVinyls	24%	24%	24%	24%
PolyOne's proportionate share of OxyVinyls' earnings	19.8	13.4	34.7	20.6
Amortization of the difference between PolyOne's investment and its underlying share of OxyVinyls' equity	0.1	0.2	0.3	0.3
Earnings of equity affiliate recorded by PolyOne	$ 19.9	$ 13.6	$ 35.0	$ 20.9

(In millions)	June 30, 2005	December 31, 2004
Current assets	$ 464.1	$ 391.5
Non-current assets	1,341.6	1,396.9
Total assets	1,805.7	1,788.4
Current liabilities	170.5	244.3
Non-current liabilities	487.9	511.4
Total liabilities	658.4	755.7
Partnership capital	$ 1,147.3	$ 1,032.7

PolyOne's Resin and Intermediates segment also includes the SunBelt Chlor-Alkali Partnership (SunBelt), which is 50% owned by PolyOne. The following table presents SunBelt's summarized financial results:

(In millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net sales	$ 43.0	$ 24.0	$ 81.5	$ 45.9
Operating income	23.4	6.4	44.4	11.5
Partnership income as reported by SunBelt	20.7	3.3	38.9	5.3
PolyOne's ownership of SunBelt	50%	50%	50%	50%
Earnings of equity affiliate recorded by PolyOne	$ 10.4	$ 1.7	$ 19.5	$ 2.7

(In millions)	June 30, 2005	December 31, 2004
Current assets	$ 44.2	$ 18.9
Non-current assets	125.6	125.5
Total assets	169.8	144.4
Current liabilities	21.5	18.0
Non-current liabilities	146.3	146.3
Total liabilities	167.8	164.3
Partnership capital (deficit)	$ 2.0	$ (19.9)

The Performance Plastics segment includes DH Compounding Company (owned 50%), BayOne Urethane Systems, L.L.C (owned 50%) and Geon/Polimeros Andinos (owned 50%) equity affiliates. Combined summarized financial information for these equity affiliates is presented below.

(In millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net sales	$ 33.2	$ 29.5	$ 64.0	$ 57.5
Operating income	$ 3.7	$ 3.0	$ 7.5	$ 6.5
Net income	$ 3.5	$ 2.6	$ 6.9	$ 5.9

Note G — Earnings Per Share Computation

Weighted average shares outstanding are computed as follows:

(In millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Weighted average shares — basic:				
Weighted average shares outstanding	91.8	91.5	91.8	91.5
Weighted average shares — diluted:				
Weighted average shares outstanding — basic	92.1	91.5	92.1	91.5
Plus unearned portion of restricted stock awards included in outstanding shares plus dilutive impact of stock options and stock awards	—	0.3	—	0.2
	92.1	91.8	92.1	91.7

Basic earnings per common share is computed as net income available to common shareholders divided by weighted average basic shares outstanding. Diluted earnings per common share is computed as net income available to common shareholders divided by weighted average diluted shares outstanding.

Outstanding stock options with exercise prices greater than the average price of the common shares have not been included in the computation of dilutive earnings per share.

Note H — Employee Separation and Plant Phaseout

Since PolyOne was formed in 2000, management has undertaken several restructuring initiatives to improve profitability and, as a result, PolyOne has incurred various employee separation and plant phaseout costs. For more information about these initiatives, please refer to Note F to the Consolidated Financial Statements included in PolyOne's Annual Report on Form 10-K for the year ended December 31, 2004.

2005 Charges — Operating income for the three-month and six-month periods ended June 30, 2005 includes charges of $0.4 million and $0.6 million, respectively, related to employee separation and plant phaseout cost as a result of adjusting remaining reserves associated with restructuring initiatives announced in prior years to reflect current expectations.

All employees who were affected by the restructuring initiatives announced in prior years were terminated as of December 31, 2004. The remaining employee separation costs accrued at June 30, 2005 totaling $0.6 million are expected to be paid out through the third quarter of 2005. The remaining plant phaseout cash closing costs accrued at June 30, 2005 totaling $0.8 million are expected to be paid out through the first quarter of 2007. For information about 2004 activity, please refer to Note F to the Consolidated Financial Statements included in PolyOne's Annual Report on Form 10-K for the year ended December 31, 2004.

PolyOne will retain the liabilities for employee separation and plant phaseout costs for the businesses reported as discontinued operations upon the sale of these businesses and, as a result, they are included in this discussion.

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The following tables summarize the provisions, payments and remaining reserves associated with the phaseout initiatives remaining to be completed from December 31, 2004 through June 30, 2005:

(In millions)	Employee Separation Costs	Plant Phaseout Costs: Cash Closure	Plant Phaseout Costs: Asset Write-Downs	Total
Closure and exit of Engineered Films manufacturing plants				
Balance at December 31, 2004	$ 1.0	$ 0.8	$ —	$ 1.8
Utilized	(0.7)	(0.6)	—	(1.3)
Balance at June 30, 2005	$ 0.3	$ 0.2	$ —	$ 0.5
Mexico & North America administrative staff reductions				
Balance at December 31, 2004	$ 0.8	$ 0.7	$ —	$ 1.5
Continuing operations charge	—	—	0.6	0.6
Utilized	(0.5)	(0.1)	(0.6)	(1.2)
Balance at June 30, 2005	$ 0.3	$ 0.6	$ —	$ 0.9
Total				
Balance at December 31, 2004	$ 1.8	$ 1.5	$ —	$ 3.3
Continuing operations charge	—	—	0.6	0.6
Utilized	(1.2)	(0.7)	(0.6)	(2.5)
Balance at June 30, 2005	$ 0.6	$ 0.8	$ —	$ 1.4

Note I — Employee Benefit Plans

Components of defined benefit pension plan costs are as follows:

(In millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Service cost	$ 0.2	$ 0.3	$ 0.4	$ 0.6
Interest cost	7.1	7.5	14.2	15.0
Expected return on plan assets	(7.8)	(8.1)	(15.5)	(13.8)
Amortization of unrecognized losses, transition obligation and prior service cost	3.4	3.9	6.8	7.8
	$ 2.9	$ 3.6	$ 5.9	$ 9.6

No minimum pension funding payment is expected to be required in 2005 as a result of the $65.0 million voluntary payment made in 2004.

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

(In millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Service cost	$ 0.2	$ 0.2	$ 0.3	$ 0.4
Interest cost	1.5	2.6	3.1	5.2
Expected return on plan assets	—	—	—	—
Amortization of unrecognized losses, transition obligation and prior service cost	(0.7)	0.3	(1.3)	0.6
	$ 1.0	$ 3.1	$ 2.1	$ 6.2

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Note J — Financing Arrangements

PolyOne is exposed to market risk from changes in interest rates on debt obligations and from changes in foreign currency exchange rates. Information related to these risks and management of exposure is included in Item 7A "Qualitative and Quantitative Information about Market Risk" in PolyOne's Annual Report on Form 10-K for the year ended December 31, 2004. PolyOne periodically enters into interest rate swap agreements that convert fixed-rate obligations to floating rates. PolyOne maintained interest rate swap agreements on seven of its fixed-rate obligations in the aggregate amount of $120.0 million at January 1, 2004. These exchange agreements are "perfectly effective" as defined by SFAS No. 133, "Accounting for Derivative Financial Instruments and Hedging Activities." During September 2004, PolyOne terminated one of the seven interest rate swap agreements at a cash cost of $0.3 million. At June 30, 2005, the six remaining agreements totaling $100.0 million had a net fair value obligation of negative $3.9 million. The weighted-average interest rate for these six agreements was 7.2%. There have been no material changes in the market risk faced by PolyOne from December 31, 2004 to June 30, 2005.

Note K — Sale of Accounts Receivable

Accounts receivable consist of the following:

(In millions)	June 30, 2005	December 31, 2004
Trade accounts receivable	$ 172.3	$ 158.5
Retained interest in securitized accounts receivable	148.5	158.7
Allowance for doubtful accounts	(6.7)	(7.5)
	$ 314.1	$ 309.7

Under the terms of its receivables sale facility, PolyOne sells its accounts receivable to PolyOne Funding Corporation (PFC), a wholly owned, bankruptcy-remote subsidiary. At June 30, 2005, accounts receivable totaling $187.1 million were sold by PolyOne to PFC and, as a result, are reflected as a reduction of accounts receivable on the Condensed Consolidated Balance Sheets. PFC in turn sells an undivided interest in these accounts receivable to certain investors and may realize proceeds of up to $175 million. The maximum amount of proceeds that PFC may receive under the facility is limited to 85% of the then-current amount of the accounts receivable sold to PFC. At June 30, 2005, PFC had sold $38.6 million of its undivided interests in accounts receivable. PolyOne retains an interest in the $148.5 million difference between the amount of trade receivables sold by PolyOne to PFC and the undivided interests sold by PFC. As a result, this interest retained by PolyOne is included in accounts receivable on the Condensed Consolidated Balance Sheet at June 30, 2005.

The receivables sale facility also makes up to $40 million available for the issuance of standby letters of credit as a sub-limit within the $175 million facility. Continued availability of the securitization program depends upon compliance with covenants related primarily to operating performance as set forth in the related agreements, including an interest coverage ratio covenant. On June 29, 2005, the purchasers under the receivables sale facility prospectively waived compliance by PolyOne with the interest coverage ratio covenant for the quarter ended June 30, 2005.

On July 26, 2005, PolyOne amended the receivables sale facility. For further information, please see Note N to these Condensed Consolidated Financial Statements.

Note L — Segment Information

PolyOne operates in three segments: Performance Plastics, Distribution, and Resin and Intermediates. The Elastomers and Performance Additives business that was sold in August 2004 was previously reported as a separate segment and the Specialty Resins and Engineered Films businesses now included in discontinued operations were previously included in the Performance Plastics segment. The accounting policies of each segment are consistent with those described in the "Summary of Significant Accounting Policies" included in Note C to the Consolidated Financial Statements included in PolyOne's Annual Report on Form 10-K for the year ended December 31, 2004. Segment assets consist primarily of customer receivables, inventories, net property and goodwill. Intersegment sales are accounted for at prices that generally approximate those for similar transactions with unaffiliated customers. The Other segment includes intersegment sales eliminations, certain unallocated corporate expenses, including corporate expenses previously allocated to discontinued operations, cash, sales of accounts receivable, retained assets and liabilities of discontinued operations, and certain other unallocated corporate assets and liabilities.

Performance Plastics **—** PolyOne's Performance Plastics segment manufactures polymer related products in the following product groups:

- Vinyl Compounds
- Colors and Additives
- Engineered Materials
- Polymer Coating Systems (formerly referred to as Formulators)

Distribution **—** The Company's Distribution segment is a distributor to the North American market of approximately 3,500 grades of engineering materials and commodity grade resins, plastic compounds and color masterbatches, including vinyl compounds and engineered materials produced by the Performance Plastics segment.

Resin and Intermediates **—** The Resin and Intermediates segment consists of two joint ventures that are accounted for and reported on the equity basis as well as certain retained corporate costs associated with heritage PVC resin operations. OxyVinyls is a 24% owned producer of PVC resin, vinyl chloride monomer (VCM), chlorine and caustic soda, and SunBelt is a 50% owned producer of chlorine and caustic soda. OxyVinyls is PolyOne's principal supplier of PVC resin.

Six months ended June 30, 2005 (in millions)	**Total**	**Performance Plastics**	**Distribution**	**Resin and Intermediates**	**Other**
Sales to external customers	$ 1,160.1	$ 826.3	$ 333.8	$ —	$ —
Intersegment eliminations	—	71.5	3.9	—	(75.4)
	$ 1,160.1	$ 897.8	$ 337.7	$ —	$ (75.4)
Operating income (loss)	$ 81.2	$ 26.4	$ 9.4	$ 51.4	$ (6.0)
Expenses included in operating income:					
Employee separation and plant phaseout costs	$ 0.6	$ 0.6	$ —	$ —	$ —
Depreciation and amortization	$ 24.9	$ 23.2	$ 0.7	$ 0.1	$ 0.9
Total assets	$ 1,776.1	$ 1,122.9	$ 166.3	$ 293.4	$ 193.5
Capital expenditures	$ 17.5	$ 13.2	$ 0.2	$ —	$ 4.1

Six months ended June 30, 2004 (in millions)	Total	Performance Plastics	Distribution	Resin and Intermediates	Other
Sales to external customers	$ 1,093.4	$ 796.7	$ 296.7	$ —	$ —
Intersegment eliminations	—	71.2	2.9	—	(74.1)
	$ 1,093.4	$ 867.9	$ 299.6	$ —	$ (74.1)
Operating income (loss)	$ 65.6	$ 46.1	$ 9.6	$ 18.9	$ (9.0)
Expenses (benefits) included in operating income:					
Employee separation and plant phaseout costs	$ (1.2)	$ (1.1)	$ —	$ —	$ (0.1)
Environmental remediation costs at inactive sites	1.3	—	—	—	1.3
Loss on sale of assets	5.7	5.7	—	—	—
Depreciation and amortization	$ 27.1	$ 26.0	$ 0.7	$ 0.1	$ 0.3
Total assets	$ 1,975.0	$ 1,168.7	$ 154.9	$ 249.9	$ 401.5
Capital expenditures	$ 9.3	$ 9.0	$ —	$ —	$ 0.3

Three months ended June 30, 2005 (in millions)	Total	Performance Plastics	Distribution	Resin and Intermediates	Other
Sales to external customers	$ 583.4	$ 415.0	$ 168.4	$ —	$ —
Intersegment eliminations	—	33.6	1.8	—	(35.4)
	$ 583.4	$ 448.6	$ 170.2	$ —	$ (35.4)
Operating income (loss)	$ 42.5	$ 15.1	$ 4.0	$ 28.5	$ (5.1)
Expenses included in operating income:					
Employee separation and plant phaseout costs	$ 0.4	$ 0.4	$ —	$ —	$ —
Depreciation and amortization	$ 12.4	$ 11.6	$ 0.4	$ —	$ 0.4
Capital expenditures	$ 8.6	$ 6.2	$ —	$ —	$ 2.4

Three months ended June 30, 2004 (in millions)	Total	Performance Plastics	Distribution	Resin and Intermediates	Other
Sales to external customers	$ 557.8	$ 405.3	$ 152.5	$ —	$ —
Intersegment eliminations	—	34.6	1.3	—	(35.9)
	$ 557.8	$ 439.9	$ 153.8	$	$ (35.9)
Operating income (loss)	$ 41.0	$ 25.5	$ 4.8	$ 12.9	$ (2.2)
Expenses (benefits) included in operating income:					
Employee separation and plant phaseout costs	$ (1.0)	$ (0.9)	$ —	$ —	$ (0.1)
Environmental remediation costs at inactive sites	0.9	—	—	—	0.9
Loss on sale of assets	5.7	5.7	—	—	—
Depreciation and amortization	$ 13.5	$ 12.8	$ 0.4	$ 0.1	$ 0.2
Capital expenditures	$ 5.6	$ 5.5	$ —	$ —	$ 0.1

A breakdown of the Performance Plastics segment's sales for the three-month and six-month periods ended June 30, 2005 and changes versus the same periods in 2004, by product group, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 Sales $ % of Total	2005 Sales $ % Change vs. 2004	2005 Sales $ % of Total	2005 Sales $ % Change vs. 2004
Vinyl Compounds	41%	(3)%	41%	2%
North American Colors and Additives	14%	12%	14%	12%
North American Engineered Materials	6%	(4)%	7%	1%
International Colors and Engineered Materials	28%	3%	28%	6%
Polymer Coating Systems	11%	6%	10%	5%
Total Performance Plastics	100%	2%	100%	3%

Note M — Commitments and Contingencies

Environmental — PolyOne has been notified by federal and state environmental agencies and by private parties that it may be a potentially responsible party (PRP) in connection with several environmental sites. While government agencies frequently claim PRPs are jointly and severally liable at these sites, in PolyOne's experience, interim and final allocations of liability costs are generally made based on the relative contribution of waste. PolyOne believes that its potential continuing liability with respect to such sites will not have a material adverse effect on its consolidated financial position, results of operations or cash flows. In addition, PolyOne initiates corrective and preventive environmental projects of its own to ensure safe and lawful activities at its operations. PolyOne believes that compliance with current governmental regulations at all levels will not have a material adverse effect on its financial condition. Based on estimates prepared by its environmental engineers and consultants, PolyOne had accruals totaling $54.0 million at June 30, 2005 to cover probable future environmental expenditures relating to previously contaminated sites. The accrual represents PolyOne's best estimate, net of estimated insurance recoveries, for the remaining probable remediation costs, based upon information and technology currently available and PolyOne's 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 PolyOne could incur additional costs in excess of the amount accrued at June 30, 2005. However, such additional costs, if any, cannot be currently estimated. PolyOne's 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 included in Note O to the Consolidated Financial Statements included in PolyOne's Annual Report on Form 10-K for the year ended December 31, 2004.

Guarantees — PolyOne guarantees $79.2 million of SunBelt's outstanding senior secured notes in connection with the construction of a chlor-alkali facility in Macintosh, Alabama. This debt and the related guarantee mature in 2017.

Note N — Subsequent Events

On July 26, 2005, PolyOne amended its revolving credit facility to modify the financial covenants. For the third quarter of 2005, the amended minimum Interest Coverage Ratio is 2.00 and the amended Maximum Borrowed Debt-to-Adjusted EBITDA Ratio is 4.75. For the fourth quarter of 2005, the amended minimum Interest Coverage Ratio is 2.00 and the amended maximum Borrowed Debt-to-Adjusted EBITDA Ratio is 4.65.

In addition on July 26, 2005, PolyOne amended its receivables sale facility to extend the expiration date to July 2010, reduce the cost of utilizing the facility and modify a financial covenant. PolyOne's receivables sale facility previously required PolyOne to maintain a certain Interest Coverage Ratio, which was defined in the agreement governing the facility. The receivables sale facility, as amended, now requires PolyOne to maintain a minimum Fixed Charge Coverage Ratio, which is defined in the amended agreement, of at least 1 to 1 when unused drawing availability under the facility is $40 million or less.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

PolyOne is an international polymer services company with continuing operations in thermoplastic compounds, polymer coating systems, color and additives systems, and thermoplastic resin distribution. Headquartered in Avon Lake, Ohio, we have employees at manufacturing sites in North America, Europe and Asia, and joint ventures in North America and South America. We provide value to our customers through our ability to link polymer technology and formulations with our manufacturing and supply chain processes.

Discontinued Operations — As of June 30, 2005, our Specialty Resins and Engineered Films businesses qualified for accounting treatment as discontinued operations. We expect to sell these business operations in 2005. As a result, all historical financial information of these businesses (sales, costs and expenses, assets and liabilities, and cash flows) has been reported separately as discontinued operations. Our Elastomers and Performance Additives business was sold in August 2004 and was previously reported as a separate business segment. Specialty Resins and Engineered Films were previously included in our Performance Plastics business segment. The following table summarizes the results for the businesses reported as discontinued operations:

(In millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Sales:				
Elastomers and Performance Additives	$ —	$ 94.9	$ —	$ 189.9
Specialty Resins and Engineered Films	68.1	59.7	133.1	120.6
Total sales	$ 68.1	$ 154.6	$ 133.1	$ 310.5
Pre-tax income from operations:				
Elastomers and Performance Additives	$ —	$ 9.2	$ —	$ 14.2
Specialty Resins and Engineered Films	8.7	3.4	14.7	4.5
	8.7	12.6	14.7	18.7
Pre-tax loss on disposition of business:				
Elastomers and Performance Additives	—	(9.9)	(0.7)	(9.9)
Specialty Resins and Engineered Films	—	—	(10.9)	—
	—	(9.9)	(11.6)	(9.9)
Income tax expense (net of valuation allowance)	—	(0.4)	(0.1)	(0.9)
Income from discontinued operations	$ 8.7	$ 2.3	$ 3.0	$ 7.9

Outlook — We believe that our customers have concluded destocking inventories and will begin to increase their product purchases in the third quarter of 2005. Consequently, we anticipate at least a modest improvement in demand for our products in the third quarter of 2005 compared with the second quarter of 2005. Our focus in the second half of 2005 will be growing sales, gaining new business and restoring selling price spreads over the cost of raw materials.

Entering the third quarter of 2005, inventory level corrections should be largely complete, and we expect sales volumes to better reflect underlying market demand. Leading economic trend indicators for North America remain neutral to positive for growth prospects. Consequently, we expect that sales volumes for North American business operations should increase by 1% to 3% compared with the second quarter of

2005, factoring in typical July demand softening. This level would result in volumes below third quarter 2004 levels.

We project that International sales volumes will decline slightly from the second quarter of 2005 primarily due to continuing weakness in Europe compounded by the August holiday period. We anticipate continued strong volume growth in our Asian operations.

For continuing operations, we expect sales revenue increases in the third quarter of 2005 to follow the volume improvements discussed above. Average compound product pricing is anticipated to be largely unchanged compared with the second quarter of 2005. Public industry sources indicate, however, that commodity spot and export prices are beginning to increase, and that contract price increases for polyolefin and PVC resins have been announced for later in the third quarter of 2005. Even though increasing commodity resin price trends pressure the spread of selling prices over the cost of raw materials in our compounding businesses, these spreads should remain constant compared with the second quarter of 2005 due to raw material cost reductions that we realized during the second quarter of 2005. We anticipate that, taken together, volume and margin expectations should result in a sequential earnings improvement for our Performance Plastics and Distribution segments.

The Resin and Intermediates segment should benefit in the third quarter of 2005 from continuing strong earnings associated with chlor-alkali products. We anticipate that caustic soda and chlorine pricing will approximate second quarter 2005 levels. We expect lower OxyVinyls earnings, however, due primarily to decreased spreads of selling prices over raw material costs combined with higher energy costs that would adversely affect PVC resin, vinyl chloride monomer and chlor-alkali production costs. As a result of these factors, we anticipate that third quarter 2005 Resin and Intermediates segment earnings should be between $5 million and $7 million lower than in the second quarter of 2005.

As a result of this combination of factors, we anticipate that operating income from continuing operations should be approximately $3 million to $6 million lower in the third quarter of 2005 compared with the second quarter of 2005.

We expect that our discontinued operations, Specialty Resins and Engineered Films, should experience seasonal volume softening and reduced demand for automotive applications in the third quarter of 2005. In addition, we foresee modest erosion in selling price spreads over the cost of raw materials associated with pricing pressure corresponding to lower demand levels and higher energy-based conversion costs. Consequently, we project that our discontinued operations’ net income should decline in the third quarter of 2005 by between $1 million and $3 million compared with the second quarter of 2005.

We will continue to maintain a full valuation allowance associated with U.S. federal taxes. Consequently, our reported net income will reflect only foreign tax liabilities. We expect the effective foreign tax rate to remain at approximately 30%.

Results of Operations

Consolidated Results

(In millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Sales:				
Performance Plastics segment	$ 448.6	$ 439.9	$ 897.8	$ 867.9
Distribution segment	170.2	153.8	337.7	299.6
Intersegment eliminations	(35.4)	(35.9)	(75.4)	(74.1)
Total sales	$ 583.4	$ 557.8	$ 1,160.1	$ 1,093.4
Net income (loss):				
Performance Plastics segment	$ 15.1	$ 25.5	$ 26.4	$ 46.1
Distribution segment	4.0	4.8	9.4	9.6
Resin and Intermediates segment	28.5	12.9	51.4	18.9
Other segment	(5.1)	(2.2)	(6.0)	(9.0)
Operating income	42.5	41.0	81.2	65.6
Interest expense	(17.0)	(18.3)	(33.3)	(36.7)
Other expense, net	(0.5)	(3.1)	(1.3)	(6.0)
Income before income taxes and discontinued operations	25.0	19.6	46.6	22.9
Income tax expense	(2.4)	(0.4)	(4.9)	(5.3)
Income from continuing operations	22.6	19.2	41.7	17.6
Income from discontinued operations, net of taxes	8.7	2.3	3.0	7.9
Net income	$ 31.3	$ 21.5	$ 44.7	$ 25.5

Period to period changes in sales and operating income (loss) are discussed within the "Business Segment Information" section that follows.

Interest expense — For the second quarter and year-to-date 2005, interest expense was lower than the same periods in 2004, primarily due to a lower level of borrowings. Long-term debt decreased from $779.3 million at June 30, 2004 to $688.2 million at June 30, 2005.

Other expense, net — Other expense, net, includes finance costs associated with the receivables sale facility, foreign currency gains and losses, interest income and other miscellaneous expenses. The following table summarizes the major components of Other expense, net for 2005 and 2004.

(In millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Currency exchange gain (loss), net of foreign exchange contracts	$ 2.0	$ (0.8)	$ 2.6	$ (1.6)
Discount on sale of trade receivables	(2.3)	(1.8)	(3.5)	(3.5)
Retained post-employment benefit cost related to previously discontinued business operations	(0.3)	(0.9)	(0.6)	(1.7)
Other income, net	0.1	0.4	0.2	0.8
	$ (0.5)	$ (3.1)	$ (1.3)	$ (6.0)

Income taxes — A tax provision was not applied against income before taxes for the three-month and six-month periods ended June 30, 2005 and 2004 for domestic taxes as a result of the deferred tax valuation allowance recorded in previous periods in accordance with SFAS No. 109, “Accounting for Income Taxes,” due to uncertainty regarding full utilization of the deferred income tax assets. Tax expense recorded for the three-month and six-month periods ended June 30, 2005 and 2004 primarily represents foreign income taxes.

Income from discontinued operations, net of income taxes — Included in income of $3.0 million for the six months ended June 30, 2005 was a first quarter impairment charge of $10.9 million to write down the Engineered Films business to its net realizable value.

Business Segment Information

2005 Compared with 2004:

(In millions)	Three Months Ended June 30, 2005	2004	$ Change	% Change	Six Months Ended June 30, 2005	2004	$ Change	% Change
Sales:								
Performance Plastics segment	$ 448.6	$ 439.9	$ 8.7	2%	$ 897.8	$ 867.9	$ 29.9	3%
Distribution segment	170.2	153.8	16.4	11%	337.7	299.6	38.1	13%
Intersegment eliminations	(35.4)	(35.9)	0.5	1%	(75.4)	(74.1)	(1.3)	(2)%
	$ 583.4	$ 557.8	$ 25.6	5%	$ 1,160.1	$ 1,093.4	$ 66.7	6%
Operating income (loss):								
Performance Plastics segment	$ 15.1	$ 25.5	$ (10.4)	(41)%	$ 26.4	$ 46.1	$ (19.7)	(43)%
Distribution segment	4.0	4.8	(0.8)	(17)%	9.4	9.6	(0.2)	(2)%
Resin and Intermediates segment	28.5	12.9	15.6	121%	51.4	18.9	32.5	172%
Other segment	(5.1)	(2.2)	(2.9)	(132)%	(6.0)	(9.0)	3.0	33%
	$ 42.5	$ 41.0	$ (1.5)	(4)%	$ 81.2	$ 65.6	$ 15.6	24%

Performance Plastics’ sales were up 2% in the second quarter and 3% for the year to date compared with the same periods last year. A breakdown of second quarter and year-to-date 2005 Performance Plastics segment sales by product group is as follows:

	Three Months Ended June 30, 2005 Sales $ % of Total	2005 Sales $ % Change vs. 2004	2005 Shipment Lbs. % Change vs. 2004	Six Months Ended June 30, 2005 Sales $ % of Total	2005 Sales $ % Change vs. 2004	2005 Shipment Lbs. % Change vs. 2004
Vinyl Compounds	41%	(3)%	(13)%	41%	2%	(8)%
North American Colors and Additives	14%	12%	2%	14%	12%	5%
North American Engineered Materials	6%	(4)%	(20)%	7%	1%	(11)%
International Colors and Engineered Materials	28%	3%	(19)%	28%	6%	(19)%
Polymer Coating Systems	11%	6%	(4)%	10%	5%	(4)%
Total Performance Plastics	100%	2%	(13)%	100%	3%	(9)%

Vinyl Compounds’ volume declined 13% in the second quarter and 8% for the year to date compared with the same periods in 2004 primarily due to softening demand in the electronics and packaging markets, causing customers with in-house compounding capabilities to reduce their purchases to better utilize internal capacity. Higher average selling prices, resulting from efforts to recapture increases in the cost of resin and non-resin raw materials, helped to hold the second quarter sales decline to 3% and increase year-to-date sales by 2% compared with the same periods in 2004.

North American Colors and Additives' volume improved by 2% in the second quarter and 5% for the year to date compared with the same periods in 2004, primarily from new business in construction, wire and cable applications. Higher average selling prices resulting from efforts to recapture raw material cost increases, combined with new business captured in 2005, helped drive 12% improvements in second quarter and year-to-date sales levels compared with the same periods in 2004.

North American Engineered Materials' volume fell 20% in the second quarter and 11% for the year to date compared with the same periods in 2004, primarily from reduced demand for certain general purpose automotive applications compounded by the general slowing in automotive production levels early in the second quarter of 2005. Higher average selling prices from efforts to recapture raw material cost increases coupled with a more value-added mix of products helped to hold the second quarter sales decline to 4% and increase year-to-date sales by 1% compared with the same periods in 2004.

International Colors and Engineered Materials' volume decreased primarily as a result of the May 31, 2004 sale of the Melos rubber granules business, which accounted for the majority of the 19% volume decline for the second quarter and year-to-date compared with the same periods in 2004. The remaining decline in second quarter and year-to-date volume was due to general weakness in European plastics markets, especially as related to engineered materials applications, which decline was partially offset by increased volume in Asia resulting from our new manufacturing facility in Shenzhen, China that began operations in the second quarter of 2005. This plant is manufacturing engineered material compounds, color compounds and inks. Higher average selling prices from efforts to recapture raw material cost increases, combined with favorable Euro to U.S. dollar currency exchange rates, contributed to a sales increase of 3% in the second quarter and 6% for the year to date compared with the same periods in 2004.

Polymer Coating Systems' volume declined 4% for the second quarter and year to date compared with the same periods in 2004 due to general softening across most markets, but in particular, from a decline in automotive demand caused primarily by reduced production schedules and platform build-outs. Higher average selling prices, resulting from efforts to recapture raw material cost increases, helped drive a sales increase of 6% in the second quarter and 5% for the year to date compared with the same periods in 2004.

Performance Plastics' operating income, as a percentage of sales, decreased in the second quarter to 3.4% from 5.8% in the second quarter of 2004, and for the year-to-date to 2.9% from 5.3% in the same period of 2004. The main drivers of these decreases were lower volumes and increased raw material costs across virtually all product lines. Selling price increases have only partially offset the impact of rising raw material costs. Continuing selling and administrative expense reduction efforts have also helped to partially offset the negative impact of rising raw material costs. Also included in 2004 operating income was a $5.7 million loss on the sale of assets during the second quarter.

Distribution's sales increased by 11% in the second quarter and 13% for the year to date compared with the same periods last year. Volume, however, declined by 5% in the second quarter and 2% for the year to date from the same periods in 2004 consistent with the general softening across the North American plastics industry experienced by our Performance Plastics Segment. The sales increase was primarily driven by selling price increases passed through from the supplier base.

Distribution's operating income as a percentage of sales decreased in the second quarter to 2.4% from 3.1% in the second quarter of 2005, and for the year-to-date to 2.8% from 3.2% in the same period of 2004, primarily as the result of the aforementioned decline in volume.

Resin and Intermediates' operating income increased $15.6 million in the second quarter and $32.5 million for the year to date from the same periods in 2004. OxyVinyls' equity earnings contribution increased by $6.3 million in the second quarter and $14.1 million for the year to date from the same periods last year, primarily driven by higher industry average PVC resin and vinyl chloride monomer (VCM) selling price spreads over the cost of raw materials that resulted from favorable supply/demand dynamics and improved chlor-alkali profitability. SunBelt's equity earnings contribution increased by $8.6 million in the second quarter and $16.7 million for the year to date from the same periods last year largely from higher selling prices for chlorine and caustic soda.

"Other" consists primarily of corporate general and administrative costs not allocated to business segments and inter-segment sales and profit eliminations. The loss, or net expense, for the second quarter was $2.9 million higher than the same period in 2004. Included in the second quarter of 2005 was a $1.5 million benefit resulting from the settlement of legal issues and associated reserves, while the second quarter of 2004 included a $1.2 million gain on the sale of corporate-held assets and $1.9 million of life insurance proceeds. Net expense for the year to date was $3.0 million lower than the same period in 2004. Included in the first half of 2005 was a $5.2 million benefit resulting from the settlement of legal issues and associated reserves, while the first half of 2004 included a $1.2 million gain on the sale of corporate-held assets and $1.9 million of life insurance proceeds.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, judgments and assumptions in certain circumstances that affect amounts reported in the accompanying Condensed Consolidated Financial Statements. Management evaluates accounting policies and estimates used to prepare financial statements on an ongoing basis. Management bases its estimates on historical experience and assumptions believed to be reasonable under certain facts and circumstances. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements related to the accounting policies and estimates described in the text that follows. The application of these critical accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. A description of critical accounting policies is set forth in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2004. For additional information regarding our accounting policies, see Note C to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2004.

Asbestos-Related Claims — We have been named in various lawsuits involving multiple claimants and defendants for alleged asbestos exposure in the past by, among others, workers and contractors and their families at plants owned by us or our predecessors or onboard ships owned or operated by us or our predecessors. We have reserves totaling approximately $2 million as of June 30, 2005 for asbestos-related claims that are probable and estimable. We believe the probability is remote that losses in excess of the amounts we have accrued could be material to our financial condition, results of operations or cash flows. This belief is based upon our ongoing assessment of the strengths and weaknesses of the specific claims and our defenses and insurance coverages available with respect to these claims, as well as the probability and expected magnitude of reasonably anticipated future asbestos-related claims. Our assessment includes: whether the pleadings allege exposure to asbestos, asbestos-containing products or premises exposure; the severity of the plaintiffs' alleged injuries from exposure to asbestos or asbestos-containing products and the length and certainty of exposure on our premises, to the extent disclosed in the pleadings or identified through discovery; whether the named defendant related to us manufactured or sold asbestos-containing products; the outcomes of cases recently resolved; and the historical pattern of the number of claims. If the underlying facts and circumstances change in the future, we will modify our reserves, as appropriate.

Goodwill — As of June 30, 2005, we had $322.0 million of goodwill resulting from the acquisition of businesses. SFAS No. 142, "Goodwill and Other Intangible Assets," requires an annual assessment for potential impairment of goodwill, or more often than annually if an event or circumstance indicates that an impairment, or decline in value, may have occurred. In making these impairment assessments, we compare the fair value of each of our reporting units with that reporting unit's carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. We have selected July 1 as our annual impairment testing date.

We determined that goodwill was not impaired as of the annual assessment performed as of July 1, 2004. As of June 30, 2005, no potential indicator of impairment exists. We will perform our 2005 annual impairment tests during the third quarter of 2005.

Cash Flows

Individual line items that comprise cash flows from operating, investing and financing activities are set forth in the Condensed Consolidated Statement of Cash Flows. The discussion below focuses on the main drivers of material changes in cash flows from operating, investing and financing activities from the end of the preceding fiscal year (December 31, 2004) to the date of the most recent interim balance sheet (June 30, 2005).

Operating activities — Cash used by operating activities in the first six months of 2005 was $7.2 million. Income from continuing operations of $41.7 million included $24.9 million of non-cash depreciation and amortization expense and $58.1 million of non-cash income from equity affiliates. Dividends and distributions received from equity affiliates totaled $19.2 million. Cash payments for environmental remediation that had previously been accrued for inactive sites totaled $9.9 million, while cash payments for previously accrued employee separation and plant phaseout costs totaled $1.9 million. Accounts receivable increased $51.5 million, of which $38.6 million were sold to PolyOne Funding Corporation. The remaining increase was due to the impact of higher seasonal sales levels at the end of the second quarter, partially offset by improved average collection periods. FIFO inventories increased $6.1 million. The impact of higher seasonal sales and production levels at the end of the second quarter was nearly offset by improved inventory turnover efficiencies. Accounts payable increased $15.2 million primarily due to higher seasonal production and purchasing levels. Accrued expenses and other declined $20.8 million primarily from the payment of employee incentive plan awards that had been accrued at December 31, 2004.

Investing activities — Cash used for investing activities in the first six months of 2005 was $11.8 million, primarily driven by capital expenditures in support of manufacturing operations totaling $17.5 million. We also acquired the remaining 16% of Star Color, a Thailand-based color and additives business, for $1.6 million in the first quarter of 2005, and certain assets of Novatec Plastics Corporation during the second quarter of 2005 for $1.1 million. Star Color is now 100% owned and is included in the International Color and Engineered Materials product group. We received proceeds of $8.4 million from the sale of previously closed facilities during the six months ended June 30, 2005.

Financing activities — Cash used by financing activities in the first six months of 2005 totaling $0.2 million was comprised of short-term bank borrowings of $1.0 million, $1.5 million of long-term debt payments and $0.3 million of proceeds from the exercise of stock options.

Discontinued operations — Cash provided by discontinued operations in the first six months of 2005 was $17.1 million, primarily driven by earnings. First quarter earnings included a $10.9 million asset impairment charge associated with the Engineered Films business.

Capital Resources and Liquidity

As of June 30, 2005, we had existing facilities to access available capital resources (receivables sale facility, secured revolving credit facility, uncommitted short-term credit lines and senior unsecured notes and debentures) totaling $846.4 million. As of June 30, 2005, we had utilized $730.1 million of these facilities and $116.3 million was available to be drawn. The following table summarizes available and outstanding facilities at June 30, 2005:

(In millions)	Outstanding	Available
Long-term debt	$ 688.2	$ —
Revolving credit facility	—	0.8
Receivables sale facility	38.6	115.5
Short-term bank debt	3.3	—
	$ 730.1	$ 116.3

Long-term Debt — At June 30, 2005, we had long-term debt totaling $688.2 million, with maturities ranging from 2005 to 2015. Current maturities of long-term debt (due within the next twelve months) at June 30, 2005 were $47.5 million.

Revolving Credit Facility — On July 26, 2005 we amended our revolving credit facility to modify the financial covenants. The revolving credit facility has a three-year term expiring May 2006 and provides up to $30.0 million in borrowings and for the issuance of standby letters of credit. In anticipation of the maturity of this facility, we expect that we will begin negotiations in the near future to either refinance or extend the maturity date of this facility. Obligations under the revolving credit facility are secured by substantially all of our domestic intellectual property and inventory, and some of our domestic real property. As of June 30, 2005, we had not drawn on the revolving credit facility, although the facility served as a back-up facility for $16.3 million of outstanding letters of credit and for $2.9 million of loan guarantees.

Our revolving credit facility requires us to maintain certain Interest Coverage and Borrowed Debt-to-Adjusted EBITDA ratios, which are defined in the agreement governing the facility. Further, the revolving credit facility limits payments for purposes such as capital expenditures, acquisitions and dividends. For the quarter ended June 30, 2005, the lenders under the revolving credit facility prospectively waived our compliance with these covenants. As of June 30, 2005, our Interest Coverage Ratio was 2.32 and our Borrowed Debt-to-Adjusted EBITDA Ratio was 4.45. For the third quarter of 2005, the amended minimum Interest Coverage Ratio is 2.00 and the amended maximum Borrowed Debt-to-Adjusted EBITDA Ratio is 4.75. For the fourth quarter of 2005, the amended minimum Interest Coverage Ratio is 2.00 and the amended maximum Borrowed Debt-to-Adjusted EBITDA Ratio is 4.65.

Based upon projected operating results and current economic trends, we expect to be in compliance with the amended Interest Coverage and Borrowed Debt-to-Adjusted EBITDA Ratios throughout 2005.

Receivables Sale Facility — On July 26, 2005, we amended our receivables sale facility to extend the expiration date to July 2010, reduce the cost of utilizing the facility and modify a financial covenant. Under the terms of our receivables sale facility, we are allowed to sell accounts receivable and realize proceeds of up to $175.0 million. The maximum amount of proceeds that may be received is limited to 85% of eligible domestic accounts receivable sold. The receivables sale facility also makes up to $40.0 million available for issuance of standby letters of credit, of which $6.0 million was used at June 30, 2005.

Our receivables sale facility previously required us to maintain a certain Interest Coverage Ratio, which was defined in the agreement governing the facility. The purchasers under the receivables sale facility prospectively waived our compliance with this covenant for the quarter ended June 30, 2005. As of June 30, 2005, our Interest Coverage Ratio was 2.32. The receivables sale facility, as amended, now requires us to maintain a minimum Fixed Charge Coverage Ratio, which is defined in the amended agreement, of at least 1 to 1 when availability under the facility is $40 million or less. As of June 30, 2005, the Fixed Charge Coverage Ratio, as defined in the amended agreement, was 1.22 to 1 and availability under the facility was $115.5 million.

The amount of eligible receivables available to be sold under the receivables sale facility will be affected upon divestment of any of the businesses currently held for sale because each of the businesses currently sells its accounts receivable under the facility. The average amount of receivables through June 30, 2005 for businesses currently held for sale was $34.5 million, split approximately 48% and 52% between Specialty Resins and Engineered Films.

Of the capital resource facilities available to us as of June 30, 2005, the portion of the receivables sale facility that was actually sold provided security in connection with the transfer of ownership of these receivables. Each indenture governing our senior unsecured notes and debentures and our guarantee of the SunBelt notes allows for a specific level of secured debt, above which security must be provided on each such indenture and the guarantee of the SunBelt notes. The receivables sale facility does not constitute debt under the covenants associated with the senior unsecured notes and debentures and the guarantee of the SunBelt notes. As of June 30, 2005, we had sold accounts receivable of $38.6 million and had guaranteed unconsolidated equity affiliate debt of $79.2 million of SunBelt.

Profitable operations in 2005 are expected to enable us to maintain the existing levels of available capital resources. Expected sources of cash in 2005 include net income, working capital, borrowings under existing loan agreements and proceeds from the expected sale of the discontinued operations. Expected uses of cash in 2005 include the repayment of approximately $47.5 million of long-term debt that matures during the year, interest expense and discounts on the sale of accounts receivable, cash taxes, spending for previously announced restructuring initiatives and capital expenditures. Capital expenditures for 2005 are currently estimated between $35 and $40 million primarily for equipment and support of current manufacturing operations.

Based on current projections, we believe that we should be able to continue to manage and control working capital, discretionary spending and capital expenditures and that cash flow generated from operations, along with available borrowing capacity under the revolving credit facility and receivables sale facility, should be adequate to fund operations and meet debt service and minimum pension funding requirements for the next twelve months.

Cautionary Note on Forward-Looking Statements

In this 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 our current expectations or forecasts of future events, and are not guarantees of future performance. They are based upon management’s expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective changes in raw material costs or product pricing or product demand, future performance, including, without limitation, meeting cash flow goals, receiving expected cash distributions from equity affiliates and achieving working capital targets; results of current and anticipated market conditions and market strategies, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results. Among the factors that could cause actual results to differ materially are the following:

- the effect on foreign operations of currency fluctuations, tariffs, nationalization, exchange controls, limitations on foreign investment in local businesses and other political, economic and regulatory risks;
- changes in U.S., regional or world polymer consumption growth rates affecting PolyOne's markets;
- failure of customer demand to recover in the third quarter 2005 as anticipated resulting in an inability to meet earnings improvement expectations;
- changes in global industry capacity or in the rate at which anticipated changes in industry capacity come online in the polyvinyl chloride (PVC), chlor-alkali, vinyl chloride monomer (VCM) or other industries in which PolyOne participates;
- fluctuations in raw material prices, quality and supply and in energy prices and supply, in particular fluctuations outside the normal range of industry cycles;
- production outages or material costs associated with scheduled or unscheduled maintenance programs;
- costs or difficulties and delays related to the operation of joint venture entities;
- lack of day-to-day operating control, including procurement of raw materials, of equity or joint venture affiliates;
- partial control over investment decisions and dividend distribution policy of the OxyVinyls partnership and other minority equity holdings of PolyOne;
- an inability to launch new products and/or services within PolyOne's various businesses;
- the possibility of further goodwill impairment;
- an inability to maintain any required licenses or permits;
- an inability to comply with any environmental laws and regulations;
- the cost of compliance with environmental laws and regulations, including any increased cost of complying with new or revised laws and regulations;
- unanticipated developments that could occur with respect to contingencies such as litigation and environmental matters, including any developments that would require any increase in our costs and/or reserves for such contingencies;

- an inability to achieve or delays in achieving or achievement of less than the anticipated financial benefit from initiatives related to cost reductions and employee productivity goals;
- a delay or inability to achieve targeted debt level reductions through divestitures and/or other means;
- an inability to access the revolving credit facility and/or the receivables sale facility as a result of breaching covenants due to not achieving anticipated earnings performance or for any other reason;
- any poor performance of our pension plan assets and any obligation on our part to fund PolyOne's pension plan;
- any delay and/or inability to bring the North American Colors and Additives Masterbatch and the Engineered Materials product platforms to profitability;
- an inability to raise prices or sustain price increases for products;
- an inability or delay beyond December 31, 2005 in finding buyers of discontinued operations or other non-core assets for reasonable and acceptable terms;
- an inability to achieve anticipated earnings performance due to the divestment of a non-core business;
- an inability to complete the sale of discontinued businesses due to problems or delays associated with legal proceedings, regulatory approvals and/or buyers receiving financing for the transaction or any other reasons;
- the ability to maintain appropriate relations with unions and employees in certain locations in order to avoid disruptions of business; and
- other factors affecting our business beyond our control, including, without limitations, changes in the general economy, changes in interest rates and changes in the rate of inflation.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our reports on Form 10-Q, 8-K and 10-K to the Securities and Exchange Commission. 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

PolyOne is exposed to market risk from changes in interest rates on debt obligations and from changes in foreign currency exchange rates. Information related to these risks and our management of the exposure is included in Item 7A "Qualitative and Quantitative Information about Market Risk" in PolyOne's Annual Report on Form 10-K for the year ended December 31, 2004. PolyOne periodically enters into interest rate swap agreements that convert fixed-rate obligations to floating rates. PolyOne maintained interest rate swap agreements on seven of its fixed-rate obligations in the aggregate amount of $120.0 million at January 1, 2004. These exchange agreements are "perfectly effective" as defined by SFAS No. 133, "Accounting for Derivative Financial Instruments and Hedging Activities." During September 2004, PolyOne terminated one of the seven interest rate swap agreements at a cash cost of $0.3 million. At June 30, 2005, the six remaining agreements totaling $100.0 million had a net fair value obligation of a negative $3.9 million. The weighted-average interest rate for these six agreements was 7.2%. There have been no material changes in the market risk faced by the Company from December 31, 2004 to June 30, 2005. We have updated the disclosure concerning our financing arrangements, which is included in Note J to the Condensed Consolidated Financial Statements included in this Quarterly Report.

Item 4. Controls and Procedures

Under the supervision of and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Quarterly Report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, PolyOne's disclosure controls and procedures were effective in timely alerting them to the material information relating to PolyOne (or PolyOne's consolidated subsidiaries) required to be included in PolyOne's periodic SEC filings.

There were no changes made in our internal control over financial reporting during the period covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II — Other Information

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet Be Purchased Under the Plan
April 2005	944(1)	$ 9.25	—	n/a
May 2005	—	—	—	n/a
June 2005	—	—	—	n/a
Total	944		—	—

(1) Represents shares surrendered or deemed surrendered to our company to satisfy the tax withholding obligations in connection with the vesting of restricted stock.

Item 4. Submission of Matters to a Vote of Security Holders

PolyOne held its Annual Meeting of Stockholders on May 19, 2005. As described in the Proxy Statement for the Annual Meeting, the following actions were taken:

a) The ten nominees for directors were elected by the following vote:

	Number of Shares Voted For	Number of Shares Withheld
J. Douglas Campbell	83,185,134	5,147,681
Carol A. Cartwright	82,885,667	5,447,148
Gale Duff-Bloom	82,889,258	5,443,557
Wayne R. Embry	82,805,225	5,527,590
Richard H. Fearon	83,076,977	5,255,838
Robert A. Garda	83,225,888	5,106,927
Gordon D. Harnett	66,265,160	22,067,655
William F. Patient	81,879,234	6,453,581
Thomas A. Waltermire	82,557,449	5,775,366
Farah M. Walters	83,176,990	5,155,825

(b) The PolyOne Corporation Senior Executive Annual Incentive Plan was approved by the following vote:

For	Against	Abstain	Broker Non-Votes
81,818,421	6,021,095	493,299	—

(c) The PolyOne Corporation 2005 Equity and Performance Incentive Plan was approved by the following vote:

For	Against	Abstain	Broker Non-Votes
41,742,048	39,343,886	427,821	6,819,060

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Item 6. Exhibits

Exhibit No. Under Reg. S-K Item 601	Form 10-Q Exhibit No.	Description of Exhibit
(10)	10.1	Waiver, dated June 29, 2005, to the Receivables Purchase Agreement, dated as of May 6, 2003, as amended
(10)	10.2	Letter waiver, dated June 29, 2005, to the Amended and Restated Credit Agreement, dated as of May 6, 2003, as amended
(10)	10.3	PolyOne Corporation Senior Executive Annual Incentive Plan (incorporated by reference to Exhibit 10.1 filed with PolyOne's Form 8-K filed on May 24, 2005, SEC file No. 1-16091)
(10)	10.4	PolyOne Corporation 2005 Equity and Performance Incentive Plan (Amended and Restated by the Board as of July 21, 2005)
(31)	31.1	Certification of Thomas A. Waltermire, President and Chief Executive Officer, pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
(31)	31.2	Certification of W. David Wilson, Vice President and Chief Financial Officer, pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
(32)	32.1	Certification of Thomas A. Waltermire, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
(32)	32.2	Certification of W. David Wilson, Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

July 28, 2005	POLYONE CORPORATION
	/s/ W. David Wilson W. David Wilson Vice President and Chief Financial Officer (Authorized Officer and Principal Financial Officer)
	/s/ Michael J. Meier Michael J. Meier Corporate Controller (Authorized Officer and Principal Accounting Officer)

PolyOne Corporation
Index to Exhibits

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EXHIBIT 10.1

WAIVER NO. 1

WAIVER NO. 1, dated as of June 29, 2005 (this "WAIVER"), to the Receivables Purchase Agreement, dated as of May 6, 2003 (as amended by that certain Amendment No. 1 dated as of September 25, 2003, that certain Amendment No. 2 dated as of August 5, 2004 and as otherwise amended, supplemented or modified to the date hereof, the "RECEIVABLES PURCHASE AGREEMENT"), among PolyOne Funding Corporation, a Delaware corporation (the "SELLER"), PolyOne Corporation, an Ohio corporation ("POLYONE"), as the Servicer (as therein defined), the Purchasers (as therein defined), Citicorp USA, Inc., a Delaware corporation, as administrative agent (in such capacity, the "AGENT") for the Purchasers and the other Owners (as therein defined), Citibank, N.A., a national association, as issuing bank (the "ISSUING BANK"), and National City Business Credit, Inc., an Ohio corporation, as the syndication agent. Capitalized terms used herein but not defined herein are used as defined in the Receivables Purchase Agreement.

WITNESSETH:

WHEREAS, the Seller, the Servicer, the Purchasers, the Issuing Bank and the Agent are party to the Receivables Purchase Agreement and the undersigned Purchasers (the "Consenting Purchasers") constitute the Required Purchasers;

WHEREAS, the Servicer has notified the Agent that although the Servicer's fiscal quarter ending June 30, 2005 is not yet complete, the Servicer believes that, upon the completion of such fiscal quarter, it may be determined that the Servicer will be unable to comply with the covenant contained in Section 5.07(a) (Interest Coverage Ratio) (the "Specified Financial Covenant") of the Receivables Purchase Agreement for such fiscal quarter (the "Specified Period");

WHEREAS, the Seller and the Servicer have requested that the Agent and the Purchasers constituting the Required Purchasers waive compliance with the Specified Financial Covenant; and

WHEREAS, pursuant to Section 11.01 (Amendments, Etc.) of the Receivables Purchase Agreement, the consent of the Required Purchasers is required to waive the provisions of the Receivables Purchase Agreement as set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants and obligations contained herein the parties hereto agree as follows:

SECTION 1. WAIVER. Effective as of the Waiver Effective Date (as defined below) and subject to the satisfaction (or due waiver) of the conditions set forth in Section 2 (Conditions Precedent to Effectiveness) hereof, the Consenting Purchasers, constituting the Required Purchasers, and the Agent hereby waive compliance by the Servicer during the Specified Period with the Specified Financial Covenant for all purposes under the Receivables Purchase Agreement and the other Transaction Documents.

SECTION 2. CONDITIONS PRECEDENT TO EFFECTIVENESS. This Waiver shall become effective as of the date first written above when, and only when, each of the following conditions precedent shall have been satisfied (the "WAIVER EFFECTIVE DATE") or duly waived by the Agent:

(a) CERTAIN DOCUMENTS. The Agent shall have received each of the following, each dated the Waiver Effective Date (unless otherwise agreed by the Agent), in form and substance satisfactory to the Agent and in sufficient copies for each Purchaser:

(i) this Waiver, duly executed by the Seller, the Servicer, the Agent and Purchasers constituting Required Purchasers; and

(ii) such customary additional documentation as the Agent may reasonably require.

(b) FEES AND EXPENSES PAID. The Seller shall have paid to the Agent all obligations of the Seller due and payable under the Transaction Documents as of the date hereof, after giving effect to this Waiver, on or before the later of the date hereof and the Waiver Effective Date and, as set forth in Section 4 (Costs and Expenses) hereof, all costs and expenses of the Agent in connection with the preparation, reproduction, execution and delivery of this Waiver and all other Transaction Documents entered into in connection herewith (other than the reasonable fees and out-of-pocket expenses of counsel for the Agent in connection with this Waiver and the other Transaction Documents, in respect of which fees and out-of-pocket expenses the Agent shall present an invoice to the Seller and the Seller shall pay promptly (and in any event within five Business Days) after the Waiver Effective Date).

SECTION 3. REPRESENTATIONS AND WARRANTIES. On and as of the date hereof and as of the Waiver Effective Date, after giving effect to this Waiver, each of the Seller (as to itself) and the Servicer (as to itself) hereby represents and warrants to the Agent and each Purchaser as follows:

(a) this Waiver has been duly authorized, executed and delivered by the Seller and the Servicer and constitutes a legal, valid and binding obligation of the Seller and the Servicer, enforceable against the Seller and the Servicer in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally and to general equitable principles, and the Receivables Purchase Agreement, as modified by this Waiver, constitutes the legal, valid and binding obligation of the Seller and the Servicer, enforceable against the Seller and the Servicer in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally and to general equitable principles;

(b) each of the representations and warranties made by the Seller or the Servicer, as the case may be, contained in Article IV (Representations and Warranties) of the Receivables Purchase Agreement, the other Transaction Documents or in any certificate, document or financial or other statement furnished at any time under or in connection therewith by or on behalf of such Person is true and correct in all material respects on and as of the date hereof, as if made on and as of the date hereof and except to the extent that such representations and warranties specifically relate to a specific date, in which case such representations and warranties shall be true and correct in all material respects as of such specific date; provided, however, that references therein to the "Receivables Purchase Agreement" shall be deemed to refer to the Receivables Purchase Agreement as modified by the waiver set forth herein; and

(c) after giving effect to this Waiver, no Potential Event of Termination or Event of Termination (except for those that may have been duly waived) shall have occurred and be continuing, either on the date hereof or on the Waiver Effective Date.

SECTION 4. COSTS AND EXPENSES

The Seller hereby agrees to pay upon receipt of a written invoice therefor in accordance with the terms of Section 11.04 (Costs and Expenses) of the Receivables Purchase Agreement all costs and expenses of the Agent in connection with the preparation, reproduction, execution and delivery of this Waiver and all other Transaction Documents entered into in connection herewith (including, without limitation, the reasonable fees and out-of-pocked expenses of counsel for the Agent with respect thereto and all other Transaction Documents).

SECTION 5. REFERENCE TO THE EFFECT ON THE TRANSACTION DOCUMENTS

As of the Waiver Effective Date, each reference in the Receivables Purchase Agreement to "this Agreement," "hereunder," "hereof," "herein," or words of like import, and each reference in the other Transaction Documents to the Receivables Purchase Agreement (including, without limitation, by means of words like "thereunder," "thereof" and words of like import), shall mean and be a reference to the Receivables Purchase Agreement as amended or otherwise modified hereby, and this Waiver and the Receivables Purchase Agreement shall be read together and construed as a single instrument.

(a) Except as expressly modified hereby or specifically waived above, all of the terms and provisions of the Receivables Purchase Agreement and all other Transaction Documents are and shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Waiver shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Purchasers, Issuing Bank or the Agent under any of the Transaction Documents, nor constitute a waiver or amendment of any other provision of any of the Transaction Documents or for any purpose except as expressly set forth herein.

(c) This Waiver is a Transaction Document.

SECTION 6. EXECUTION IN COUNTERPARTS

This Waiver may be executed in any number of counterparts and by different parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are attached to the same document. Delivery of an executed counterpart by telecopy or email shall be effective as delivery of a manually executed counterpart of this Waiver.

SECTION 7. GOVERNING LAW

This Waiver shall be governed by and construed in accordance with the law of the State of New York.

SECTION 8. SECTION TITLES

The section titles contained in this Waiver are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto, except when used to reference a section.

SECTION 9. NOTICES

All communications and notices hereunder shall be given as provided in the Transaction Documents.

SECTION 10. SEVERABILITY

The fact that any term or provision of this Agreement is held invalid, illegal or unenforceable as to any person in any situation in any jurisdiction shall not affect the validity, enforceability or legality of the remaining terms or provisions hereof or the validity, enforceability or legality of such offending term or provision in any other situation or jurisdiction or as applied to any person

SECTION 11. SUCCESSORS

The terms of this Waiver shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors and assigns.

SECTION 12. WAIVER OF JURY TRIAL

EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING WITH RESPECT TO THIS WAIVER OR ANY OTHER TRANSACTION DOCUMENT.

(SIGNATURE PAGES FOLLOW)

IN WITNESS WHEREOF, the parties hereto have caused this Waiver and Waiver to be executed by their respective officers thereunto duly authorized, as of the date first above written.

POLYONE FUNDING CORPORATION,
as Seller

By: ______________________________
Name:
Title:

POLYONE CORPORATION,
as Servicer

By: ______________________________
Name:
Title:

CITICORP USA, INC.,
as Agent and Purchaser

By: ______________________________
Name:
Title:

NATIONAL CITY BUSINESS CREDIT, INC.,
as Syndication Agent and
Purchaser

By: ______________________________
Name:
Title:

THE CIT GROUP/BUSINESS CREDIT, INC.,
as a Purchaser

By: ______________________________
Name:
Title:

FLEET CAPITAL CORPORATION,
as a Purchaser

By: ______________________________
Name:
Title:

GMAC COMMERCIAL FINANCE LLC,
as a Purchaser

By: ______________________________
Name:
Title:

MERRILL LYNCH CAPITAL,
a division of Merrill Lynch
Business Financial Services,
Inc.,
as an Initial Purchaser

By: ______________________________
Name:
Title:

LASALLE BUSINESS CREDIT, LLC,
as an Initial Purchaser

By: ______________________________
Name:
Title:

PNC BANK, N.A.,
as an Initial Purchaser

By: ______________________________
Name:
Title:

ORIX FINANCIAL SERVICES, INC.,
as an Initial Purchaser

By: ______________________________
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION,
as an Initial Purchaser

By: ______________________________
Name:
Title:

WEBSTER BUSINESS CREDIT CORPORATION,
as an Initial Purchaser

By: ______________________________
Name:
Title:

EXHIBIT 10.2

LETTER WAIVER

Dated as of June 29, 2005

To the banks, financial institutions
and other institutional lenders
(collectively, the "Lenders")
parties to the Credit Agreement referred to below
and to Citicorp USA, Inc., as agent
(the "Administrative Agent") for the Lenders

Ladies and Gentlemen:

We refer to the Amended and Restated Credit Agreement dated as of May 6, 2003, as amended by Amendment No. 1 dated as of August 27, 2003, Amendment No. 2 dated as of September 25, 2003 and Amendment No. 3 and Waiver dated as of August 5, 2004 (such Amended and Restated Credit Agreement, as so amended, the "Credit Agreement") among the undersigned and you. Capitalized terms not otherwise defined in this Letter Waiver have the same meanings as specified in the Credit Agreement.

The Borrower has requested, and subject to the terms and conditions hereinafter set forth, the Required Lenders hereby agree, to waive the requirements under (i) Section 5.03(a) of the Credit Agreement that the Borrower maintain an Interest Coverage Ratio of not less than 2.50:1 and (ii) Section 5.03(b) of the Credit Agreement that the Borrower maintain a Borrowed Debt/Adjusted EBITDA Ratio of not more than 4.50:1, in each case solely in respect of the fiscal quarter commencing on April 1, 2005 through June 30, 2005 and in each case for all purposes under the Credit Agreement and the other Loan Documents.

This Letter Waiver shall become effective as of the date first above written when, and only when, the Administrative Agent shall have received counterparts of this Letter Waiver executed by us and the Required Lenders or, as to any of the Lenders, advice satisfactory to the Administrative Agent that such Lender has executed this Letter Waiver. This Letter Waiver is subject to the provisions of Section 8.01 of the Credit Agreement.

The Credit Agreement and each of the other Loan Documents, except to the extent of the waiver specifically provided herein, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed. The execution, delivery and effectiveness of this Letter Waiver shall not operate as a waiver of any right, power or remedy of any Lender or the Administrative Agent under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents, except, in each case, to the extent expressly provided herein.

If you agree to the terms and provisions of this Letter Waiver, please evidence such agreement by executing and returning two counterparts of this Letter Waiver to Shearman & Sterling LLP, 599 Lexington Avenue, New York, NY 10022 Attention: Asher Richelli (Fax: 212-848-8165).

This Letter Waiver may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Letter Waiver by telecopier shall be effective as delivery of a manually executed counterpart of this Letter Waiver.

This Letter Waiver shall be governed by, and construed in accordance with, the laws of the State of New York.

Very truly yours,

POLYONE CORPORATION

By ____________________________
Title:

Agreed as of the date first above written:

CITICORP USA, INC.,
as Administrative Agent and as Lender

By ____
Title:

NATIONAL CITY BANK,
as Issuing Bank and as Lender

By ____
Title:

NATIONAL CITY BUSINESS CREDIT, INC.,
as Lender

By ____
Title:

KEYBANK NATIONAL ASSOCIATION, as Lender

By ____
Title:

EXHIBIT 10.4

POLYONE CORPORATION

2005 EQUITY AND PERFORMANCE INCENTIVE PLAN

1. PURPOSE. The purpose of the 2005 Equity and Performance Incentive Plan is to attract and retain directors, officers and other employees of PolyOne Corporation, an Ohio corporation, and its Subsidiaries and to provide to such persons incentives and rewards for superior performance.

2. DEFINITIONS. As used in this Plan,

(a) "Appreciation Right" means a right granted pursuant to Section 5 or Section 9 of this Plan, and will include both Tandem Appreciation Rights and Free-Standing Appreciation Rights.

(b) "Base Price" means the price to be used as the basis for determining the Spread upon the exercise of a Free-Standing Appreciation Right and a Tandem Appreciation Right.

(c) "Board" means the Board of Directors of the Company and, to the extent of any delegation by the Board to a committee (or subcommittee thereof) pursuant to Section 16 of this Plan, such committee (or subcommittee).

(d) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(e) "Common Shares" means the shares of common stock, par value $0.01 per share, of the Company or any security into which such Common Shares may be changed by reason of any transaction or event of the type referred to in Section 12 of this Plan.

(f) "Company" means PolyOne Corporation, an Ohio corporation.

(g) "Covered Employee" means a Participant who is, or is determined by the Board to be likely to become, a "covered employee" within the meaning of Section 162(m) of the Code (or any successor provision).

(h) "Date of Grant" means the date specified by the Board on which a grant of Option Rights, Appreciation Rights, Performance Shares, Performance Units or other awards contemplated by Section 10 of this Plan, or a grant or sale of Restricted Stock, Restricted Stock Units, or other awards contemplated by Section 10 of this Plan will become effective (which date will not be earlier than the date on which the Board takes action with respect thereto).

(i) "Detrimental Activity" means:

(i) Engaging in any activity, as an employee, principal, agent, or consultant for another entity that competes with the Company in any actual, researched, or prospective product, service, system, or business activity for which the Participant has had any direct responsibility during the last two years of his or her employment with the Company or a Subsidiary, in any territory in which the Company or a Subsidiary manufactures, sells, markets, services, or installs such product, service, or system, or engages in such business activity.

(ii) Soliciting any employee of the Company or a Subsidiary to terminate his or her employment with the Company or a Subsidiary.

(iii) The disclosure to anyone outside the Company or a Subsidiary, or the use in other than the Company's or a Subsidiary's business, without prior written authorization from the Company, of any confidential, proprietary or trade secret information or material relating to the business of the Company and its Subsidiaries, acquired by the Participant during his or her employment with the Company or its Subsidiaries or while acting as a consultant for the Company or its Subsidiaries thereafter.

(iv) The failure or refusal to disclose promptly and to assign to the Company upon request all right, title and interest in any invention or idea, patentable or not, made or conceived by the Participant during employment by the Company and any Subsidiary, relating in any manner to the actual or anticipated business, research or development work of the Company or any Subsidiary or the failure or refusal to do anything reasonably necessary to enable the Company or any Subsidiary to secure a patent where appropriate in the United States and in other countries.

(v) Activity that results in Termination for Cause. For the purposes of this Section, "Termination for Cause" shall mean a termination:

(A) due to the Participant's willful and continuous gross neglect of his or her duties for which he or she is employed, or

(B) due to an act of dishonesty on the part of the Participant constituting a felony resulting or intended to result, directly or indirectly, in his or her gain for personal enrichment at the expense of the Company or a Subsidiary.

(vi) Any other conduct or act determined to be injurious, detrimental or prejudicial to any significant interest of the Company or any Subsidiary unless the Participant acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company.

(j) "Director" means a member of the Board of Directors of the Company.

(k) "Evidence of Award" means an agreement, certificate, resolution or other type or form of writing or other evidence approved by the Board that sets forth the terms and conditions of the awards granted. An Evidence of Award may be in an electronic medium, may be limited to notation on the books and records of the Company and, with the approval of the Board, need not be signed by a representative of the Company or a Participant.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, as such law, rules and regulations may be amended from time to time.

(m) "Free-Standing Appreciation Right" means an Appreciation Right granted pursuant to Section 5 or Section 9 of this Plan that is not granted in tandem with an Option Right.

(n) "Incentive Stock Options" means Option Rights that are intended to qualify as "incentive stock options" under Section 422 of the Code or any successor provision.

(o) "Management Objectives" means the measurable performance objective or objectives established pursuant to this Plan for Participants who have received grants of Performance Shares or Performance Units or, when so determined by the Board, Option Rights, Appreciation Rights, Restricted Stock, Restricted Stock Units, dividend credits and other awards pursuant to this Plan. Management Objectives may be described in terms of Company-wide objectives or objectives that are related to the performance of the individual Participant or of the Subsidiary, division, department, region or function within the Company or Subsidiary in which the Participant is employed. The Management Objectives may be made relative to the performance of other companies. The Management Objectives applicable to any award to a Covered Employee will be based on specified levels of or growth in one or more of the following criteria:

(i) PROFITS (e.g., operating income, EBIT, EBT, net income, earnings per share, residual or economic earnings -- these profitability metrics could be measured before special items and/or subject to GAAP definition);

(ii) CASH FLOW (e.g., EBITDA, operating cash flow, total cash flow, cash flow in excess of cost of capital or residual cash flow or cash flow return on investment);

(iii) RETURNS (e.g., profits or cash flow returns on: assets, invested capital, net capital employed, and equity);

(iv) WORKING CAPITAL (e.g., working capital divided by sales, days' sales outstanding, days' sales inventory, and days' sales in payables);

(v) PROFIT MARGINS (e.g., profits divided by revenues, gross margins and material margins divided by revenues, and material margin divided by sales pounds);

(vi) LIQUIDITY MEASURES (e.g., debt-to-capital, debt-to-EBITDA, total debt ratio);

(vii) SALES GROWTH, COST INITIATIVE AND STOCK PRICE METRICS (e.g., revenues, revenue growth, stock price appreciation, total return to shareholders, sales and administrative costs divided by sales, and sales and administrative costs divided by profits); and

(viii) STRATEGIC INITIATIVE KEY DELIVERABLE METRICS consisting of one or more of the following: product development, strategic partnering, research and development, market penetration, geographic business expansion goals, cost targets, customer satisfaction, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates and joint ventures.

If the Board determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the Management Objectives unsuitable, the Board may in its discretion modify such Management Objectives or the related minimum acceptable level of achievement, in whole or in part, as the Board deems appropriate and equitable, except in the case of a Covered Employee where such action would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Code. In such case, the Board will not make any modification of the Management Objectives or minimum acceptable level of achievement with respect to such Covered Employee.

(p) "Market Value per Share" means, as of any particular date, the fair market value of the Common Shares as determined by the Board.

(q) "Non-Employee Director" means a person who is a "non-employee director" of the Company within the meaning of Rule 16b-3 of the Securities and Exchange Commission promulgated under the Exchange Act.

(r) "Optionee" means the optionee named in an Evidence of Award evidencing an outstanding Option Right.

(s) "Option Price" means the purchase price payable on exercise of an Option Right.

(t) "Option Right" means the right to purchase Common Shares upon exercise of an option granted pursuant to Section 4 or Section 9 of this Plan.

(u) "Participant" means a person who is selected by the Board to receive benefits under this Plan and who is at the time an officer, or other key employee of the Company or any one or more of its Subsidiaries, or who has agreed to commence serving in any of such capacities within 90 days of the Date of Grant, and will also include each Non-Employee Director who receives Common Shares or an award of Option Rights, Appreciation Rights, Restricted Stock, Restricted Stock Units or other awards under this Plan. The term "Participant" shall also include any person who provides services to the Company or a Subsidiary that are equivalent to those typically provided by an employee.

(v) "Performance Period" means, in respect of a Performance Share or Performance Unit, a period of time established pursuant to Section 8 of this Plan within which the Management Objectives relating to such Performance Share or Performance Unit are to be achieved.

(w) "Performance Share" means a bookkeeping entry that records the equivalent of one Common Share awarded pursuant to Section 8 of this Plan.

(x) "Performance Unit" means a bookkeeping entry awarded pursuant to Section 8 of this Plan that records a unit equivalent to $1.00 or such other value as is determined by the Board.

(y) "Plan" means this PolyOne Corporation 2005 Equity and Performance Incentive Plan (As Amended and Restated on July 21, 2005).

(z) "Restricted Stock" means Common Shares granted or sold pursuant to Section 6 or Section 9 of this Plan as to which neither the substantial risk of forfeiture nor the prohibition on transfers has expired.

(aa) "Restriction Period" means the period of time during which Restricted Stock Units are subject to restrictions, as provided in Section 7 or Section 9 of this Plan.

(bb) "Restricted Stock Unit" means an award made pursuant to Section 7 or Section 9 of this Plan of the right to receive Common Shares or cash at the end of a specified period.

(cc) "Spread" means the excess of the Market Value per Share on the date when an Appreciation Right is exercised, or on the date when Option Rights are surrendered in payment of the Option Price of other Option Rights, over the Option Price or Base Price provided for in the related Option Right or Free-Standing Appreciation Right, respectively.

(dd) "Subsidiary" means a corporation, company or other entity (i) more than 50 percent of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, or (ii) which does not have outstanding shares or securities (as may be the case in a partnership, joint venture or unincorporated association), but more than 50 percent of whose ownership interest representing the right generally to make decisions for such other entity is, now or hereafter, owned or controlled, directly or indirectly, by the Company except that for purposes of determining whether any person may be a Participant for purposes of any grant of Incentive Stock Options, "Subsidiary" means any corporation in which at the time the Company owns or controls, directly or indirectly, more than 50 percent of the total combined voting power represented by all classes of stock issued by such corporation.

(ee) "Tandem Appreciation Right" means an Appreciation Right granted pursuant to Section 5 or Section 9 of this Plan that is granted in tandem with an Option Right.

3. SHARES AVAILABLE UNDER THE PLAN.

(a) Subject to adjustment as provided in Section 12 of this Plan, the number of Common Shares that may be issued or transferred (i) upon the exercise of Option Rights or

Appreciation Rights, (ii) as Restricted Stock and released from substantial risks of forfeiture thereof, (iii) as Restricted Stock Units, (iv) in payment of Performance Shares or Performance Units that have been earned, (v) as awards to Non-Employee Directors, (vi) as awards contemplated by Section 10 of this Plan, or (vii) in payment of dividend equivalents paid with respect to awards made under the Plan will not exceed in the aggregate 5,000,000 Common Shares, plus any shares relating to awards that expire or are forfeited or are cancelled. Common Shares covered by an award granted under the Plan shall not be counted as used unless and until they are actually issued and delivered to a Participant. Without limiting the generality of the foregoing, upon payment in cash of the benefit provided by any award granted under the Plan, any Common Shares that were covered by that award will be available for issue or transfer hereunder. Notwithstanding anything to the contrary contained herein: (A) shares tendered in payment of the Option Price of a Option Right shall not be added to the aggregate plan limit described above; (B) shares withheld by the Company to satisfy the tax withholding obligation shall not be added to the aggregate plan limit described above; (C) shares that are repurchased by the Company with Option Right proceeds shall not be added to the aggregate plan limit described above; and (D) all shares covered by an Appreciation Right, to the extent that it is exercised and settled in Common Shares, and whether or not shares are actually issued to the participant upon exercise of the right, shall be considered issued or transferred pursuant to the Plan. Such shares may be shares of original issuance or treasury shares or a combination of the foregoing.

(b) If, under this Plan, a Participant has elected to give up the right to receive compensation in exchange for Common Shares based on fair market value, such Common Shares will not count against the number of shares available in Section 3(a) above.

(c) Notwithstanding anything in this Section 3, or elsewhere in this Plan, to the contrary and subject to adjustment as provided in Section 12 of this Plan: (i) the aggregate number of Common Shares actually issued or transferred by the Company upon the exercise of Incentive Stock Options will not exceed 3,000,000 Common Shares; (ii) no Participant will be granted Option Rights or Appreciation Rights, in the aggregate, for more than 500,000 Common Shares during any calendar year; (iii) no Participant will be granted Restricted Stock or Restricted Stock Units that specify Management Objectives, Performance Shares or other awards under Section 10 of this Plan, in the aggregate, for more than 400,000 Common Shares during any calendar year; (iv) the number of shares issued as Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units and other awards under Section 10 of this Plan (after taking into account any forfeitures and cancellations) will not during the life of the Plan in the aggregate exceed 1,500,000 Common Shares; and (v) awards will not be granted under Section 9 or Section 10 of the Plan to the extent they would involve the issuance of more than 500,000 shares in the aggregate.

(d) Notwithstanding any other provision of this Plan to the contrary, in no event will any Participant in any calendar year receive an award of Performance Units having an aggregate maximum value as of their respective Dates of Grant in excess of $3,000,000.

4. OPTION RIGHTS. The Board may, from time to time and upon such terms and conditions as it may determine, authorize the granting to Participants of options to purchase

Common Shares. Each such grant may utilize any or all of the authorizations, and will be subject to all of the requirements contained in the following provisions:

(a) Each grant will specify the number of Common Shares to which it pertains subject to the limitations set forth in Section 3 of this Plan.

(b) Each grant will specify an Option Price per share, which may not be less than the Market Value per Share on the day immediately preceding the Date of Grant.

(c) Each grant will specify whether the Option Price will be payable (i) in cash or by check acceptable to the Company or by wire transfer of immediately available funds, (ii) by the actual or constructive transfer to the Company of Common Shares owned by the Optionee for at least 6 months (or other consideration authorized pursuant to Section 4(d)) having a value at the time of exercise equal to the total Option Price, (iii) by a combination of such methods of payment, or (iv) by such other methods as may be approved by the Board.

(d) To the extent permitted by law, any grant may provide for deferred payment of the Option Price from the proceeds of sale through a bank or broker on a date satisfactory to the Company of some or all of the shares to which such exercise relates.

(e) Successive grants may be made to the same Participant whether or not any Option Rights previously granted to such Participant remain unexercised.

(f) Each grant will specify the period or periods of continuous service by the Optionee with the Company or any Subsidiary that is necessary before the Option Rights or installments thereof will become exercisable; provided, however, that Option Rights may not become exercisable by the passage of time sooner than one-third per year over three years. A grant of Option Rights may provide for the earlier exercise of such Option Rights in the event of a change of control, as may be defined in an Evidence of Award.

(g) Any grant of Option Rights may specify Management Objectives that must be achieved as a condition to the exercise of such rights; provided, however, that Option Rights that become exercisable upon the achievement of Management Objectives may not become exercisable sooner than one year from the Date of Grant.

(h) Option Rights granted under this Plan may be (i) options, including, without limitation, Incentive Stock Options, that are intended to qualify under particular provisions of the Code, (ii) options that are not intended so to qualify, or (iii) combinations of the foregoing. Incentive Stock Options may only be granted to Participants who meet the definition of "employees" under Section 3401(c) of the Code.

(i) The Board may at the Date of Grant of any Option Rights (other than Incentive Stock Options), provide for the payment of dividend equivalents to the Optionee on either a current or deferred or contingent basis, either in cash or in additional Common Shares.

(j) The exercise of an Option Right will result in the cancellation on a share- for-share basis of any Tandem Appreciation Right authorized under Section 5 of this Plan.

(k) No Option Right will be exercisable more than 10 years from the Date of Grant.

(l) The Board reserves the discretion at or after the Date of Grant to provide for (i) the payment of a cash bonus at the time of exercise; (ii) the availability of a loan at exercise; and (iii) the right to tender in satisfaction of the Option Price nonforfeitable, unrestricted Common Shares, which are already owned by the Optionee and have a value at the time of exercise that is equal to the Option Price.

(m) The Board may substitute, without receiving Participant permission, Appreciation Rights paid only in Common Shares (or Appreciation Rights paid in Common Shares or cash at the Board's discretion) for outstanding Options; provided, however, that the terms of the substituted Appreciation Rights are the same as the terms for the Options and the difference between the Market Value Per Share of the underlying Common Shares and the Base Price of the Appreciation Rights is equivalent to the difference between the Market Value Per Share of the underlying Common Shares and the Option Price of the Options. If, in the opinion of the Company's auditors, this provision creates adverse accounting consequences for the Company, it shall be considered null and void.

(n) Each grant of Option Rights will be evidenced by an Evidence of Award. Each Evidence of Award shall be subject to the Plan and shall contain such terms and provisions as the Board may approve.

5. APPRECIATION RIGHTS.

(a) The Board may authorize the granting (i) to any Optionee, of Tandem Appreciation Rights in respect of Option Rights granted hereunder, and (ii) to any Participant, of Free-Standing Appreciation Rights. A Tandem Appreciation Right will be a right of the Optionee, exercisable by surrender of the related Option Right, to receive from the Company an amount determined by the Board, which will be expressed as a percentage of the Spread (not exceeding 100 percent) at the time of exercise. Tandem Appreciation Rights may be granted at any time prior to the exercise or termination of the related Option Rights; provided, however, that a Tandem Appreciation Right awarded in relation to an Incentive Stock Option must be granted concurrently with such Incentive Stock Option. A Free-Standing Appreciation Right will be a right of the Participant to receive from the Company an amount determined by the Board, which will be expressed as a percentage of the Spread (not exceeding 100 percent) at the time of exercise.

(b) Each grant of Appreciation Rights may utilize any or all of the authorizations, and will be subject to all of the requirements, contained in the following provisions:

(i) Any grant may specify that the amount payable on exercise of an Appreciation Right may be paid by the Company in cash, in Common Shares or in any combination thereof and may either grant to the Participant or retain in the Board the right to elect among those alternatives.

(ii) Any grant may specify that the amount payable on exercise of an Appreciation Right may not exceed a maximum specified by the Board at the Date of Grant.

(iii) Any grant may specify waiting periods before exercise and permissible exercise dates or periods; provided, however, that Appreciation Rights may not become exercisable by the passage of time sooner than one-third per year over three years.

(iv) Any grant may specify that such Appreciation Right may be exercised only in the event of, or earlier in the event of, a change of control, as may be defined in an Evidence of Award.

(v) Any grant may provide for the payment to the Participant of dividend equivalents thereon in cash or Common Shares on a current, deferred or contingent basis.

(vi) Any grant of Appreciation Rights may specify Management Objectives that must be achieved as a condition of the exercise of such Appreciation Rights; provided, however, that Option Rights that become exercisable upon the achievement of Management Objectives may not become exercisable sooner than one year from the Date of Grant.

(vii) Each grant of Appreciation Rights will be evidenced by an Evidence of Award, which Evidence of Award will describe such Appreciation Rights, identify the related Option Rights (if applicable), and contain such other terms and provisions, consistent with this Plan, as the Board may approve.

(c) Any grant of Tandem Appreciation Rights will provide that such Tandem Appreciation Rights may be exercised only at a time when the related Option Right is also exercisable and at a time when the Spread is positive, and by surrender of the related Option Right for cancellation.

(d) Regarding Free-Standing Appreciation Rights only:

(i) Each grant will specify in respect of each Free-Standing Appreciation Right a Base Price, which will be equal to or greater than the Market Value per Share on the day immediately preceding the Date of Grant;

(ii) Successive grants may be made to the same Participant regardless of whether any Free-Standing Appreciation Rights previously granted to the Participant remain unexercised; and

(iii) No Free-Standing Appreciation Right granted under this Plan may be exercised more than 10 years from the Date of Grant.

6. RESTRICTED STOCK. The Board may also authorize the grant or sale of Restricted Stock to Participants. Each such grant or sale may utilize any or all of the authorizations, and will be subject to all of the requirements, contained in the following provisions:

(a) Each such grant or sale will constitute an immediate transfer of the ownership of Common Shares to the Participant in consideration of the performance of services, entitling such Participant to voting, dividend and other ownership rights, but subject to the substantial risk of forfeiture and restrictions on transfer hereinafter referred to.

(b) Each such grant or sale may be made without additional consideration or in consideration of a payment by such Participant that is less than the Market Value per Share at the Date of Grant.

(c) Each such grant or sale will provide that the Restricted Stock covered by such grant or sale that vests upon the passage of time will be subject to a "substantial risk of forfeiture" within the meaning of Section 83 of the Code for a period of not less than three years to be determined by the Board at the Date of Grant and may provide for the earlier lapse of such substantial risk of forfeiture in the event of a change of control, as may be defined in an Evidence of Award.

(d) Each such grant or sale will provide that during the period for which such substantial risk of forfeiture is to continue, the transferability of the Restricted Stock will be prohibited or restricted in the manner and to the extent prescribed by the Board at the Date of Grant (which restrictions may include, without limitation, rights of repurchase or first refusal in the Company or provisions subjecting the Restricted Stock to a continuing substantial risk of forfeiture in the hands of any transferee).

(e) Any grant of Restricted Stock may specify Management Objectives that, if achieved, will result in termination or early termination of the restrictions applicable to such Restricted Stock; provided, however, that restrictions relating to Restricted Stock that vests upon the achievement of Management Objectives may not terminate sooner than one year from the Date of Grant. Each grant may specify in respect of such Management Objectives a minimum acceptable level of achievement and may set forth a formula for determining the number of shares of Restricted Stock on which restrictions will terminate if performance is at or above the minimum level, but falls short of full achievement of the specified Management Objectives.

(f) Any such grant or sale of Restricted Stock may require that any or all dividends or other distributions paid thereon during the period of such restrictions be automatically deferred and reinvested in additional shares of Restricted Stock, which may be subject to the same restrictions as the underlying award.

(g) Each grant or sale of Restricted Stock will be evidenced by an Evidence of Award and will contain such terms and provisions, consistent with this Plan, as the Board may approve. Unless otherwise directed by the Board, all certificates representing shares of Restricted Stock will be held in custody by the Company until all restrictions thereon will have lapsed, together with a stock power or powers executed by the Participant in whose name such certificates are registered, endorsed in blank and covering such Shares.

7. RESTRICTED STOCK UNITS. The Board may also authorize the granting or sale of Restricted Stock Units to Participants. Each such grant or sale may utilize any or all of the authorizations, and will be subject to all of the requirements contained in the following provisions:

(a) Each such grant or sale will constitute the agreement by the Company to deliver Common Shares or cash to the Participant in the future in consideration of the performance of services, but subject to the fulfillment of such conditions (which may include the achievement of Management Objectives) during the Restriction Period as the Board may specify. If a grant of Restricted Stock Units specifies that the Restriction Period will terminate only upon the achievement of Management Objectives, such Restriction Period may not terminate sooner than one year from the Date of Grant. Each grant may specify in respect of such Management Objectives a minimum acceptable level of achievement and may set forth a formula for determining the number of shares of Restricted Stock on which restrictions will terminate if performance is at or above the minimum level, but falls short of full achievement of the specified Management Objectives.

(b) Each such grant or sale may be made without additional consideration or in consideration of a payment by such Participant that is less than the Market Value per Share at the Date of Grant.

(c) If the Restriction Period lapses by the passage of time, each such grant or sale will be subject to a Restriction Period of not less than three years, as determined by the Board at the Date of Grant, and may provide for the earlier lapse or other modification of such Restriction Period in the event of a change of control, as may be defined in an Evidence of Award.

(d) During the Restriction Period, the Participant will have no right to transfer any rights under his or her award and will have no rights of ownership in the Restricted Stock Units and will have no right to vote them, but the Board may at the Date of Grant, authorize the payment of dividend equivalents on such Restricted Stock Units on either a current or deferred or contingent basis, either in cash or in additional Common Shares.

(e) Each grant or sale of Restricted Stock Units will be evidenced by an Evidence of Award and will contain such terms and provisions, consistent with this Plan, as the Board may approve.

8. PERFORMANCE SHARES AND PERFORMANCE UNITS. The Board may also authorize the granting of Performance Shares and Performance Units that will become payable to a Participant upon achievement of specified Management Objectives during the Performance Period. Each such grant may utilize any or all of the authorizations, and will be subject to all of the requirements, contained in the following provisions:

(a) Each grant will specify the number of Performance Shares or Performance Units to which it pertains, which number may be subject to adjustment to reflect changes in compensation or other factors; provided, however, that no such adjustment will be made in the case of a Covered Employee where such action would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Code.

(b) The Performance Period with respect to each Performance Share or Performance Unit will be such period of time (not less than three years), commencing with the Date of Grant as will be determined by the Board at the time of grant which may be subject to earlier lapse or other modification in the event of a change of control, as may be defined in an Evidence of Award.

(c) Any grant of Performance Shares or Performance Units will specify Management Objectives which, if achieved, will result in payment or early payment of the award, and each grant may specify in respect of such specified Management Objectives a minimum acceptable level of achievement and will set forth a formula for determining the number of Performance Shares or Performance Units that will be earned if performance is at or above the minimum level, but falls short of full achievement of the specified Management Objectives. The grant of Performance Shares or Performance Units will specify that, before the Performance Shares or Performance Units will be earned and paid, the Board must certify that the Management Objectives have been satisfied.

(d) Each grant will specify the time and manner of payment of Performance Shares or Performance Units that have been earned. Any grant may specify that the amount payable with respect thereto may be paid by the Company in cash, in Common Shares or in any combination thereof and may either grant to the Participant or retain in the Board the right to elect among those alternatives.

(e) Any grant of Performance Shares may specify that the amount payable with respect thereto may not exceed a maximum specified by the Board at the Date of Grant. Any grant of Performance Units may specify that the amount payable or the number of Common Shares issued with respect thereto may not exceed maximums specified by the Board at the Date of Grant.

(f) The Board may at the Date of Grant of Performance Shares, provide for the payment of dividend equivalents to the holder thereof on either a current or deferred or contingent basis, either in cash or in additional Common Shares.

(g) Each grant of Performance Shares or Performance Units will be evidenced by an Evidence of Award and will contain such other terms and provisions, consistent with this Plan, as the Board may approve.

9. AWARDS TO NON-EMPLOYEE DIRECTORS. The Board may, from time to time and upon such terms and conditions as it may determine, authorize the granting to Non-Employee Directors Option Rights, Appreciation Rights or other awards contemplated by Section 10 of this Plan and may also authorize the grant or sale of Common Shares, Restricted Stock or Restricted Stock Units to Non-Employee Directors.

(a) Each grant of Option Rights awarded pursuant to this Section 9 will be upon terms and conditions consistent with Section 4 of this Plan and will be evidenced by an Evidence of Award in such form as will be approved by the Board. Each grant will specify an

Option Price per share, which will not be less than the Market Value per Share on the day immediately preceding the Date of Grant. Each such Option Right granted under the Plan will expire not more than 10 years from the Date of Grant and will be subject to earlier termination as hereinafter provided. Unless otherwise determined by the Board, such Option Rights will be subject to the following additional terms and conditions:

(i) Each grant will specify the number of Common Shares to which it pertains subject to the limitations set forth in Section 3 of this Plan.

(ii) If a Non-Employee Director subsequently becomes an employee of the Company or a Subsidiary while remaining a member of the Board, any Option Rights held under the Plan by such individual at the time of such commencement of employment will not be affected thereby.

(iii) Option Rights may be exercised by a Non-Employee Director only upon payment to the Company in full of the Option Price of the Common Shares to be delivered. Such payment will be made in cash or in Common Shares then owned by the optionee for at least six months, or in a combination of cash and such Common Shares.

(b) Non-Employee Directors, pursuant to this Section 9, may be awarded, or may be permitted to elect to receive, pursuant to procedures established by the Board, all or any portion of their annual retainer, meeting fees or other fees in Common Shares in lieu of cash.

(c) Each grant or sale of Appreciation Rights pursuant to this Section 9 will be upon terms and conditions consistent with Section 5 of this Plan.

(d) Each grant or sale of Restricted Stock pursuant to this Section 9 will be upon terms and conditions consistent with Section 6 of this Plan.

(e) Each grant or sale of Restricted Stock Units pursuant to this Section 9 will be upon terms and conditions consistent with Section 7 of this Plan.

(f) Non-Employee Directors may be granted, sold, or awarded other awards as contemplated by Section 10 of this Plan.

10. OTHER AWARDS.

(a) The Board may, subject to limitations under applicable law, grant to any Participant such other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Common Shares or factors that may influence the value of such shares, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Common Shares, purchase rights for Common Shares, awards with value and payment contingent upon performance of the Company or specified Subsidiaries, affiliates or other business units thereof or any other factors designated by the Board, and awards valued by reference to the book value of Common Shares or the value of securities of, or the performance of specified Subsidiaries or affiliates or other business units of the Company. The Board shall determine the terms and conditions of such awards. Common Shares delivered pursuant to an award in the nature of a purchase right granted under this Section 10 shall be purchased for such consideration, paid for at such time, by such methods, and in such forms, including, without limitation, cash, Common Shares, other awards, notes or other property, as the Board shall determine.

(b) Cash awards, as an element of or supplement to any other award granted under this Plan, may also be granted pursuant to this Section 10 of this Plan.

(c) The Board may grant Common Shares as a bonus, or may grant other awards in lieu of obligations of the Company or a Subsidiary to pay cash or deliver other property under this Plan or under other plans or compensatory arrangements, subject to such terms as shall be determined by the Board.

11. TRANSFERABILITY.

(a) Except as otherwise determined by the Board, no Option Right, Appreciation Right or other derivative security granted under the Plan shall be transferable by the Participant except by will or the laws of descent and distribution. Except as otherwise determined by the Board, Option Rights and Appreciation Rights will be exercisable during the Participant's lifetime only by him or her or, in the event of the Participant's legal incapacity to do so, by his or her guardian or legal representative acting on behalf of the Participant in a fiduciary capacity under state law and/or court supervision.

(b) The Board may specify at the Date of Grant that part or all of the Common Shares that are (i) to be issued or transferred by the Company upon the exercise of Option Rights or Appreciation Rights, upon the termination of the Restriction Period applicable to Restricted Stock Units or upon payment under any grant of Performance Shares or Performance Units or (ii) no longer subject to the substantial risk of forfeiture and restrictions on transfer referred to in Section 6 of this Plan, will be subject to further restrictions on transfer.

12. ADJUSTMENTS. The Board may make or provide for such adjustments in the numbers of Common Shares covered by outstanding Option Rights, Appreciation Rights, Restricted Stock Units, Performance Shares and Performance Units granted hereunder and, if applicable, in the number of Common Shares covered by other awards granted pursuant to Section 10 hereof, in the Option Price and Base Price provided in outstanding Appreciation Rights, and in the kind of shares covered thereby, as the Board, in its sole discretion, exercised in good faith, may determine is equitably required to prevent dilution or enlargement of the rights of Participants or Optionees that otherwise would result from (a) any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, or (b) any merger, consolidation, spin-off, split- off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Board, in its discretion, may provide in substitution for any or all outstanding awards under this Plan such alternative consideration (including cash), if any, as it, in good faith, may determine to be equitable in the circumstances and may require in connection therewith the surrender of all awards so replaced. The Board may also make or provide for such adjustments in the numbers of shares specified in

Section 3 of this Plan as the Board in its sole discretion, exercised in good faith, may determine is appropriate to reflect any transaction or event described in this Section 12; provided, however, that any such adjustment to the number specified in Section 3(c)(i) will be made only if and to the extent that such adjustment would not cause any option intended to qualify as an Incentive Stock Option to fail so to qualify.

13. FRACTIONAL SHARES. The Company will not be required to issue any fractional Common Shares pursuant to this Plan. The Board may provide for the elimination of fractions or for the settlement of fractions in cash.

14. WITHHOLDING TAXES. To the extent that the Company is required to withhold federal, state, local or foreign taxes in connection with any payment made or benefit realized by a Participant or other person under this Plan, and the amounts available to the Company for such withholding are insufficient, it will be a condition to the receipt of such payment or the realization of such benefit that the Participant or such other person make arrangements satisfactory to the Company for payment of the balance of such taxes required to be withheld, which arrangements (in the discretion of the Board) may include relinquishment of a portion of such benefit.

15. FOREIGN EMPLOYEES. In order to facilitate the making of any grant or combination of grants under this Plan, the Board may provide for such special terms for awards to Participants who are foreign nationals or who are employed by the Company or any Subsidiary outside of the United States of America or who provide services to the Company under an agreement with a foreign nation or agency, as the Board may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Board may approve such supplements to or amendments, restatements or alternative versions of this Plan as it may consider necessary or appropriate for such purposes, without thereby affecting the terms of this Plan as in effect for any other purpose, and the Secretary or other appropriate officer of the Company may certify any such document as having been approved and adopted in the same manner as this Plan. No such special terms, supplements, amendments or restatements, however, will include any provisions that are inconsistent with the terms of this Plan as then in effect unless this Plan could have been amended to eliminate such inconsistency without further approval by the shareholders of the Company.

16. ADMINISTRATION OF THE PLAN.

(a) This Plan will be administered by the Board, which may from time to time delegate all or any part of its authority under this Plan to the Compensation and Governance Committee of the Board (or a subcommittee thereof), as constituted from time to time. To the extent of any such delegation, references in this Plan to the Board will be deemed to be references to such committee or subcommittee. A majority of the committee (or subcommittee) will constitute a quorum, and the action of the members of the committee (or subcommittee) present at any meeting at which a quorum is present, or acts unanimously approved in writing, will be the acts of the committee (or subcommittee).

(b) The interpretation and construction by the Board of any provision of this Plan or of any agreement, notification or document evidencing the grant of Option Rights, Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units or other awards pursuant to Section 10 of this Plan and any determination by the Board pursuant to any provision of this Plan or of any such agreement, notification or document will be final and conclusive. No member of the Board will be liable for any such action or determination made in good faith.

(c) The Board or, to the extent of any delegation as provided in Section 16(a), the committee, may delegate to one or more of its members or to one or more officers of the Company, or to one or more agents or advisors, such administrative duties or powers as it may deem advisable, and the Board, the committee, or any person to whom duties or powers have been delegated as aforesaid, may employ one or more persons to render advice with respect to any responsibility the Board, the committee or such person may have under the Plan. The Board or the committee may, by resolution, authorize one or more officers of the Company to do one or both of the following on the same basis as the Board or the committee: (i) designate employees to be recipients of awards under this Plan; (ii) determine the size of any such awards; provided, however, that (A) the Board or the Committee shall not delegate such responsibilities to any such officer for awards granted to an employee who is an officer, Director, or more than 10% beneficial owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, as determined by the Board in accordance with Section 16 of the Exchange Act; (B) the resolution providing for such authorization sets forth the total number of Common Shares such officer(s) may grant; and (iii) the officer(s) shall report periodically to the Board or the committee, as the case may be, regarding the nature and scope of the awards granted pursuant to the authority delegated.

17. AMENDMENTS, ETC.

(a) The Board may at any time and from time to time amend the Plan in whole or in part; provided, however, that if an amendment to the Plan (i) would materially increase the benefits accruing to participants under the Plan, (ii) would materially increase the number of securities which may be issued under the Plan, (iii) would materially modify the requirements for participation in the Plan or (iv) must otherwise be approved by the shareholders of the Company in order to comply with applicable law or the rules of the New York Stock Exchange or, if the Common Shares are not traded on the New York Stock Exchange, the principal national securities exchange upon which the Common Shares are traded or quoted, then, such amendment will be subject to shareholder approval and will not be effective unless and until such approval has been obtained.

(b) The Board will not, without the further approval of the shareholders of the Company, authorize the amendment of any outstanding Option Right to reduce the Option Price. Furthermore, no Option Right will be cancelled and replaced with awards having a lower Option Price without further approval of the shareholders of the Company. This Section 17(b) is intended to prohibit the repricing of "underwater" Option Rights and will not be construed to prohibit the adjustments provided for in Section 12 of this Plan.

(c) The Board may condition the grant of any award or combination of awards authorized under this Plan on the surrender or deferral by the Participant of his or her right to receive a cash bonus or other compensation otherwise payable by the Company or a Subsidiary to the Participant.

(d) If permitted by Section 409A of the Code, in case of termination of employment by reason of death, disability or normal or early retirement, or in the case of unforeseeable emergency or other special circumstances, of a Participant who holds an Option Right or Appreciation Right not immediately exercisable in full, or any shares of Restricted Stock as to which the substantial risk of forfeiture or the prohibition or restriction on transfer has not lapsed, or any Restricted Stock Units as to which the Restriction Period has not been completed, or any Performance Shares or Performance Units which have not been fully earned, or any other awards made pursuant to Section 10 subject to any vesting schedule or transfer restriction, or who holds Common Shares subject to any transfer restriction imposed pursuant to Section 11(b) of this Plan, the Board may, in its sole discretion, accelerate the time at which such Option Right, Appreciation Right or other award may be exercised or the time at which such substantial risk of forfeiture or prohibition or restriction on transfer will lapse or the time when such Restriction Period will end or the time at which such Performance Shares or Performance Units will be deemed to have been fully earned or the time when such transfer restriction will terminate or may waive any other limitation or requirement under any such award.

(e) This Plan will not confer upon any Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate such Participant's employment or other service at any time.

(f) To the extent that any provision of this Plan would prevent any Option Right that was intended to qualify as an Incentive Stock Option from qualifying as such, that provision will be null and void with respect to such Option Right. Such provision, however, will remain in effect for other Option Rights and there will be no further effect on any provision of this Plan.

(g) The Board may amend the terms of any award theretofore granted under this Plan prospectively or retroactively, but subject to Section 12 above, no such amendment shall impair the rights of any Participant without his or her consent. The Board may, in its discretion, terminate this Plan at any time. Termination of this Plan will not affect the rights of Participants or their successors under any awards outstanding hereunder and not exercised in full on the date of termination.

18. DETRIMENTAL ACTIVITY. Any Evidence of Award may provide that if a Participant, either during employment by the Company or a Subsidiary or within a specified period after termination of such employment, shall engage in any Detrimental Activity, and the Board shall so find, forthwith upon notice of such finding, the Participant shall:

(a) Forfeit any award granted under the Plan then held by the Participant;

(b) Return to the Company, in exchange for payment by the Company of any amount actually paid therefor by the Participant, all Common Shares that the Participant has not disposed of that were offered pursuant to this Plan within a specified period prior to the date of the commencement of such Detrimental Activity, and

(c) With respect to any Common Shares so acquired that the Participant has disposed of, pay to the Company in cash the difference between:

(i) Any amount actually paid therefor by the Participant pursuant to this Plan, and

(ii) The Market Value per Share of the Common Shares on the date of such acquisition.

To the extent that such amounts are not paid to the Company, the Company may set off the amounts so payable to it against any amounts that may be owing from time to time by the Company or a Subsidiary to the Participant, whether as wages, deferred compensation or vacation pay or in the form of any other benefit or for any other reason.

19. COMPLIANCE WITH SECTION 409A OF THE CODE. To the extent applicable, it is intended that this Plan and any grants made hereunder comply with the provisions of Section 409A of the Code. The Plan and any grants made hereunder shall be administrated in a manner consistent with this intent, and any provision that would cause the Plan or any grant made hereunder to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of Participants). Any reference in this Plan to Section 409A of the Code will also include any proposed, temporary or final regulations, or any other guidance, promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

20. GOVERNING LAW. The Plan and all grants and awards and actions taken thereunder shall be governed by and construed in accordance with the internal substantive laws of the State of Ohio.

21. TERMINATION. No grant will be made under this Plan more than 10 years after the date on which this Plan is first approved by the shareholders of the Company, but all grants made on or prior to such date will continue in effect thereafter subject to the terms thereof and of this Plan.

22. GENERAL PROVISIONS.

(a) No award under this Plan may be exercised by the holder thereof if such exercise, and the receipt of cash or stock thereunder, would be, in the opinion of counsel selected by the Board, contrary to law or the regulations of any duly constituted authority having jurisdiction over this Plan.

(b) Absence on leave approved by a duly constituted officer of the Company or any of its Subsidiaries shall not be considered interruption or termination of service of any employee for any purposes of this Plan or awards granted hereunder, except that no awards may be granted to an employee while he or she is absent on leave.

(c) No Participant shall have any rights as a stockholder with respect to any shares subject to awards granted to him or her under this Plan prior to the date as of which he or she is actually recorded as the holder of such shares upon the stock records of the Company.

(d) If any provision of the Plan is or becomes invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any award under any law deemed applicable by the Board, such provision shall be construed or deemed amended or limited in scope to conform to applicable laws or, in the discretion of the Board, it shall be stricken and the remainder of the Plan shall remain in full force and effect.|Heading 2|ZZMPTAG|

Approved by Shareholders - May 19, 2005
Amended and Restated by the Board - July 21, 2005

Exhibit 31.1

CERTIFICATION

I, Thomas A. Waltermire, President and Chief Executive Officer of PolyOne Corporation ("registrant"), certify that:

1. I have reviewed this report on Form 10-Q of PolyOne Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 28, 2005

/s/ Thomas A. Waltermire
Thomas A. Waltermire
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, W. David Wilson, Vice President and Chief Financial Officer of PolyOne Corporation (“registrant”), certify that:

1. I have reviewed this report on Form 10-Q of PolyOne Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

July 28, 2005

/s/ W. David Wilson

W. David Wilson
Vice President and Chief Financial
Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of PolyOne Corporation (the “Company”) for the period ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Thomas A. Waltermire, President and Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Thomas A. Waltermire
Thomas A. Waltermire
President and Chief Executive Officer
July 28, 2005

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of PolyOne Corporation (the “Company”) for the period ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, W. David Wilson, Vice President and Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ W. David Wilson
W. David Wilson
Vice President and Chief Financial Officer

July 28, 2005

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.