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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): February 13, 2006

PolyOne Corporation

(Exact Name of Registrant as Specified in Charter)

Ohio

(State or Other
Jurisdiction
of Incorporation)

1-16091

(Commission File No.)

34-1730488

(I.R.S. Employer
Identification No.)

**PolyOne Center, 33587 Walker Rd.
Avon Lake, Ohio 44012**

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code:
(440) 930-1000

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

1. Letter Agreement; Equity and Incentive Grants.

On February 13, 2006, PolyOne Corporation (“PolyOne”) entered into a letter agreement (the “Letter Agreement”) with Stephen D. Newlin, pursuant to which Mr. Newlin agreed to serve as PolyOne’s Chairman, President and Chief Executive Officer, with a start date on or before February 21, 2006 (the “Effective Date”). The Letter Agreement (attached as Exhibit 10.1 of this Current Report and incorporated herein by reference) provides for the following:

- An initial base salary of \$700,000 per year and a \$600,000 signing bonus payable within 30 calendar days of the Effective Date;
- Participation in the 2006 Senior Executive Annual Incentive Plan based on the achievement of performance goals established by the Compensation and Governance Committee of the Board of Directors of PolyOne (the “Board”);
- Reimbursement of relocation expenses;
- Participation in PolyOne’s other standard benefit programs;
- Reimbursement for reasonable expenses relating to lodging, meals and travel between Mr. Newlin’s residence and work locations during the 90-day period following the Effective Date; and
- A grant, upon the Effective Date, of 200,000 shares of restricted stock, which will fully vest on the third anniversary of the date of grant.

Mr. Newlin is also entitled to participate in PolyOne’s 2006-2008 Long-Term Incentive Plan, which consists of awards, under PolyOne’s 2005 Equity and Performance Incentive Plan, of Stock Appreciation Rights (“SARs”) and Performance Units. Upon the Effective Date, Mr. Newlin will receive a grant of 174,900 SARs and 1,030,500 target cash-settled Performance Units. The SARs have a term of seven years and a base price equal to the fair market value of PolyOne’s Common Shares on the date of the award. The SARs vest in 1/3 increments when the market price per share of PolyOne’s Common Shares for three consecutive days following the date of grant reaches \$7.50, \$8.50 and \$10.00, respectively, provided that they will not vest earlier than one year after the date of grant. Upon exercise, the SARs will be settled in PolyOne Common Shares. The Performance Units are earned based upon the achievement, over a three-year period, of equally-weighted performance goals relating to cash flow, return on invested capital and debt/EBITDA ratio. The Performance Units are denominated, and pay out, solely in cash. PolyOne will enter into its standard award agreements with Mr. Newlin with respect to the SARs and Performance Units.

Mr. Newlin is also entitled to participate in a two-year cash incentive program for the period of January 1, 2006 through December 31, 2007 (the “Performance Period”). The incentive plan provides for a grant to Mr. Newlin on the Effective Date of 87,000 phantom units, with each unit being equal in value to one share of PolyOne’s common stock. Any earned units entitle Mr. Newlin to a cash payment at the end of the Performance Period equal to the number

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of earned units multiplied by the high-low average of PolyOne's common stock on the day immediately preceding approval of payment. Payment is contingent on the attainment of equally-weighted performance goals relating to PolyOne's cash flow, return on invested capital and debt/EBITDA ratio and Mr. Newlin remaining in the continuous employ of PolyOne or a subsidiary through the end of the Performance Period. Upon a change in control, Mr. Newlin will be entitled to payment of 100% of the units awarded.

Further, if (i) Mr. Newlin's employment is terminated by PolyOne without Serious Cause, (ii) such termination is not following a change in control of PolyOne entitling Mr. Newlin to benefits under the Continuity Agreement (as defined below) and (iii) Mr. Newlin agrees to standard non-compete and non-solicitation covenants for a period of 36 months following the date of termination, Mr. Newlin will be entitled to:

- 36 months of salary continuation, car allowance and financial planning/tax preparation allowance;
- A pro-rated annual incentive amount as earned for the year in which the termination of employment occurs; and
- 18 months of continuation in PolyOne's medical and dental plans (but not life insurance, short-term disability or long-term disability) and an amount equal to the financial equivalent of six additional months of continuation in such medical and dental plans.

If Mr. Newlin's employment is involuntarily terminated without Serious Cause prior to the three year anniversary of the Effective Date, Mr. Newlin is entitled to an additional cash payment as set forth in the Letter Agreement, which payment increases each year during the three-year period. If Mr. Newlin is terminated on or following the three year anniversary of the Effective Date, there is no additional cash payment.

Further, in connection with his entry into the Letter Agreement, Mr. Newlin will enter into PolyOne's standard Management Continuity Agreement (as described below) (the "Continuity Agreement"). Mr. Newlin will also execute and be bound by the terms of PolyOne's standard Confidential Information, Invention and Non-Solicitation Agreement, the PolyOne Code of Conduct and the PolyOne Code of Ethics for Senior Officers.

2. Management Continuity Agreement.

Upon the Effective Date, PolyOne will enter into the Continuity Agreement with Mr. Newlin. The Continuity Agreement provides for a severance payment and other benefits if Mr. Newlin's employment is terminated by PolyOne for any reason other than for cause or by Mr. Newlin with good reason within 36 months after a change in control of PolyOne, as set forth in more detail in the Continuity Agreement, the form of which was filed as Exhibit 10.11 to PolyOne's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference.

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

On February 13, 2006, PolyOne's Board of Directors appointed Stephen D. Newlin to the following positions, effective as of February 21, 2006:

- Chairman, President and Chief Executive Officer, replacing William F. Patient, who served as Chairman, President and Chief Executive Officer of PolyOne on an interim basis until a successor was elected. Mr. Patient will remain on PolyOne's Board, and was appointed to serve as Lead Director, for the remainder of his term.
- Member of the Board of Directors, to serve until PolyOne's next Annual Meeting of Shareholders and until his successor is elected and qualified. Mr. Newlin's Letter Agreement provides that, so long as Mr. Newlin serves as Chairman, President and Chief Executive Officer, the Board of Directors will nominate Mr. Newlin to stand for election as a member of PolyOne's Board of Directors.
- Member of the Environmental, Health and Safety Committee and of the Financial Policy Committee of the Board.

Mr. Newlin previously served as President — Industrial Sector of Ecolab, Inc., a global developer and marketer of cleaning, sanitizing and maintenance services and products, from 2003 to 2006. Mr. Newlin served as President and a Director of Nalco Chemical Company, a manufacturer of specialty chemicals, services and systems, from 1998 to 2001 and was Chief Operating Officer and Vice Chairman from 2000 to 2001. Mr. Newlin serves on the Board of Directors of Black Hills Corporation. Mr. Newlin is 53 years old.

See the disclosure under Item 1.01 above for the material terms of Mr. Newlin's Letter Agreement and the other material terms of his employment with PolyOne.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|---|
| 10.1 | Letter Agreement by and between PolyOne and Stephen D. Newlin, effective as of February 13, 2006. |

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 hereunto duly authorized.

Date: February 17, 2006

POLYONE CORPORATION

By: /s/ Wendy C. Shiba

Name: Wendy C. Shiba

Title: Vice President, Chief Legal Officer and Secretary

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|---|
| 10.1 | Letter Agreement by and between PolyOne and Stephen D. Newlin, effective as of February 13, 2006. |

January 30, 2006

Delivered via E-Mail and Overnight Courier

Mr. Stephen D. Newlin
355 Calomus Circle
Medina, MN 55340

Dear Steve:

PolyOne Corporation ("PolyOne") is pleased to confirm its verbal offer of employment to you, with a start date (the "Effective Date") on or before February 21, 2006. This letter agreement sets forth the terms of your employment and the rights and obligations of the parties relating to such employment.

1. Position and Duties.

You will have the title of Chairman, President and Chief Executive Officer, reporting to PolyOne's Board of Directors (the "Board") and will have the normal duties, responsibilities and authority of an executive serving in such position. During the term of employment, you will devote your best efforts and your full business time and attention (except for permitted vacation periods and reasonable periods of illness or other incapacity) to the business and affairs of PolyOne. You will perform your duties and responsibilities to the best of your abilities in a diligent, trustworthy, businesslike and efficient manner. You will perform your duties and responsibilities principally in the metropolitan area of PolyOne's headquarters.

You will be appointed by the Board, upon the Effective Date, as a member of the Board, and so long as you serve as Chairman, President and Chief Executive Officer, the Board will nominate you to stand for election as a member of the Board at PolyOne's annual meeting of shareholders.

2. Compensation.

- (a) **Salary.** Your initial base salary during the Employment Period (as defined below) will be equal to \$700,000 per year and will be subject to annual review by the Board or the Compensation and Governance Committee of the Board (the "Committee").
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(b) **Bonus/Annual Incentive.**

- (i) You will be entitled to a signing bonus of \$600,000, payable within 30 calendar days of the Effective Date.
- (ii) In addition, during the Employment Period, you will be eligible for an annual incentive award based on achievement of specified performance goals (as determined by the Committee). For 2006, you will be eligible to participate in the 2006 Senior Executive Annual Incentive Plan, with a target attainment equal to 100% of your base salary.

(c) **Equity/Long-Term Incentive Awards.**

- (i) You will be entitled to receive a grant, effective upon the Effective Date, of 200,000 shares of restricted stock (the "Restricted Shares") under the PolyOne Corporation 2005 Equity and Performance Incentive Plan (the "Plan") and upon the following terms:
 - (A) The Restricted Shares will be subject to a risk of forfeiture until the third anniversary of the date of grant.
 - (B) The Restricted Shares will be forfeited if your employment is terminated for any reason prior to their becoming nonforfeitable, except that if your employment terminates by reason of death or your permanent and total disability (as defined under the relevant disability plan or program of PolyOne in which you then participate) ("Disability") or if a change in control (as defined in PolyOne's standard award agreements) (a "Change in Control") of PolyOne shall occur, all restrictions with respect to the Restricted Shares will lapse.
 - (C) The Restricted Shares will not be transferable by you, except by will or the laws of descent and distribution, until the shares become nonforfeitable as provided herein.
 - (D) You will be entitled to all rights as a shareholder with respect to the Restricted Shares granted (including the right to vote and receive dividends thereon).
 - (E) Any additional shares or other securities that you may be entitled to receive under the terms of the Plan pursuant to a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, separation or reorganization or any other change in the capital structure of the Company (a "Change in Capitalization") will be subject to the same restrictions as the Restricted Shares granted.
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- (F) Any tax withholding obligation of the Company in connection with the Restricted Shares will be satisfied by PolyOne withholding shares otherwise deliverable pursuant to the award of Restricted Shares in order to satisfy the minimum withholding amount permissible under the method that results in the least amount withheld.
 - (ii) You will also be entitled to participate in PolyOne's 2006-2008 Long-Term Incentive Plan, consisting of awards of SARs and cash-settled performance units, granted under the Plan. The total award value for the 2006-2008 award will be equal in value to \$1,505,000, provided that in no event will the number of SARs granted exceed 250,000, and the grant of such 2006-2008 award will be made on the Effective Date.
 - (iii) You will also be entitled to participate in a two-year cash incentive plan for the period January 1, 2006 through December 31, 2007 (the "Performance Period") upon the following terms:
 - (A) Such cash incentive plan will be in the form of a grant to you, effective upon the Effective Date, of 87,000 phantom units (the "Units"). Each Unit will be equal in value to one share of PolyOne's common stock. Any earned Units will entitle you to a cash payment following the end of the Performance Period equal to the number of Units earned multiplied by the high-low average of PolyOne's common stock on the day immediately preceding the date of the approval of the payment by the Committee.
 - (B) Payment of the Units is contingent on the attainment of certain pre-established metrics (including, threshold, target and maximum levels of achievement) previously approved by the Committee relating to the following equally-weighted financial performance measures: Return on Invested Capital, Ratio of Debt-to-EBITDA and Operating Cash Flow (as defined and approved by the Committee).
 - (C) Payment of the Units is also contingent upon your remaining in the continuous employ of PolyOne or a subsidiary through the end of the Performance Period and if your employment terminates before the end of the Performance Period (except as set forth below), the Units will be forfeited. Notwithstanding the preceding sentence, upon a Change in Control, you will be entitled to payment of 100% of the Units awarded and if your employment with PolyOne terminates during the Performance Period due to your death or Disability, PolyOne will pay to you or your executor or administrator, as the case may be, after the end of the Performance Period, the portion of the Units to which you would have been entitled had you remained employed by PolyOne through the end
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of the Performance Period, prorated based on the portion of the Performance Period during which you were employed by PolyOne.

- (D) The Units will not be transferable by you, except by will or the laws of descent and distribution.
 - (E) The Units will be adjusted by the Committee in the event of any Change in Capitalization.
 - (iv) In future years, you will be eligible to receive long-term incentive awards, together with PolyOne's other executive officers, as approved by the Committee.
 - (d) **Expense Reimbursement.** PolyOne will reimburse you for all reasonable business expenses incurred by you during the Employment Period in the course of performing your duties under this agreement that are consistent with PolyOne's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to PolyOne's requirements applicable generally with respect to reporting and documentation of such expenses.
 - (e) **Standard Benefits.** You will be entitled during the Employment Period to participate, on the same basis as other salaried employees of PolyOne, in PolyOne's standard benefit programs (the "Standard Benefits Package"). The Standard Benefits Package means those benefits (including the PolyOne Retirement Savings Plan, the PolyOne Supplemental Retirement Savings Plan, the health care programs, short-term and long-term disability benefits, life insurance, business travel accident coverage, flexible spending accounts, and an employee assistance program) for which PolyOne salaried employees are from time to time generally eligible, as determined from time to time by the Committee or the Board. As part of the Standard Benefits Package, you will also be entitled to reimbursement of relocation expenses under the PolyOne Plus Relocation Program (the "Relocation Program") (except that PolyOne will provide reimbursement for up to 24 months). Notwithstanding anything to the contrary contained in this agreement, the Standard Benefits Package will not include the right to participate in the PolyOne Employee Transition Plan (the "ETP"), which the parties agree is superseded by this agreement and any obligations of PolyOne under the ETP are deemed to be fully satisfied by this agreement.
 - (f) **Additional Relocation Benefits.** As an additional benefit, PolyOne will reimburse you for reasonable expenses relating to lodging, meals and travel between your residence and work (Avon Lake, Ohio) during the 90-day period immediately following the Effective Date, provided that, following such 90-day period and until such time as you initiate your relocation under the Relocation Program, you will be responsible for any and all expenses associated with commuting between your residence and work (Avon Lake, Ohio) locations, together with your living expenses.
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- (g) **Other.** You will also be entitled to the following: (i) five weeks of paid vacation per year; (ii) a car allowance equal to \$1200 per month; (iii) an annual allowance for financial planning and tax preparation in an amount equal to up to \$13,000 per year, payable upon submission of itemized invoices; and (iv) participation in the PolyOne Group Excess Liability policy.
3. **Other Agreements.** You agree, in connection with your employment with PolyOne, to execute and be bound by the terms and conditions of PolyOne's standard: (a) Management Continuity Agreement for executive officers (providing for 36 months of compensation upon the terms and conditions in such agreement); (b) Confidential Information, Invention and Non-Solicitation Agreement; (c) Code of Conduct; and (d) Code of Ethics for Senior Officers (collectively, the "Other Agreements").
4. **Employment Period.**
- (a) **The Employment Period.** Except as otherwise provided herein, the Employment Period will commence on the Effective Date and will continue thereafter until terminated as provided in this Paragraph 4 (the "Employment Period").
- (b) **Termination.** Notwithstanding anything to the contrary contained in this agreement, the Employment Period will end on the first to occur of any of the following events: (i) your death; (ii) PolyOne's termination of your employment on account of your Disability; (iii) a voluntary termination of your employment by you (including your retirement); (iv) an involuntary termination of your employment by PolyOne for Serious Cause (as defined below); or (v) an involuntary termination of your employment by PolyOne without Serious Cause (as defined below).
- (c) **Serious Cause.** For purposes of this agreement, "Serious Cause" will have the meaning ascribed to such term in the ETP, as such ETP may be amended from time to time, and will also include any breach of a provision of this agreement or of any of the Other Agreements. A copy of the current definition of "Serious Cause" has been delivered to you concurrently with this agreement.
5. **Post-Employment Period Payments.**
- (a) **Accrued Compensation/Benefits.** Except as provided in Paragraph 5(b) below, at the end of the Employment Period for any reason, you will cease to have any rights to compensation or benefits and you shall be entitled only to (i) any base salary that has accrued but is unpaid, any reimbursable expenses that have been incurred but are unpaid, and any unexpired vacation days that have accrued under PolyOne's vacation policy but are unused, as of the end of the Employment Period; (ii) any plan benefits that by their terms extend beyond termination of your employment (but only to the extent provided in any such benefit plan in which you have participated as an employee of PolyOne and excluding the ETP); and (iii) any benefits to which you are entitled under the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended ("COBRA").
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- (b) **Severance Payments.** Notwithstanding the foregoing, if (1) the Employment Period ends early for any reason other than as set forth in Paragraph 4(b)(i) through 4(b)(iv) above, (2) such termination is not following a change in control of PolyOne entitling you to benefits under your Management Continuity Agreement and (3) you agree to standard non-compete and non-solicitation covenants for a period of 36 months following the date of termination and to other standard terms and conditions, including a full release of claims, you will also be entitled to the following amounts and benefits, all payable in accordance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"):
- (i) 36 months of salary continuation, car allowance and financial planning/tax preparation allowance, with monthly payments to commence not earlier than six months following the date of termination (consistent with the requirements of Section 409A of the Code);
 - (ii) An annual incentive amount as earned for the year in which termination of employment occurs, pro-rated for the amount of time that has elapsed from the beginning of the applicable performance period until the date of termination of employment; and
 - (iii) 18 months of continuation in PolyOne's medical and dental plans (the "Health Plans") pursuant to COBRA and an amount equal to the financial equivalent of six additional months of continuation in the Health Plans, provided that Health Plans expressly do not include life insurance, short-term disability or long-term disability.
- (c) **Possible Additional Severance Payment.** Notwithstanding anything to the contrary contained herein, in the event that your employment with PolyOne is involuntarily terminated by PolyOne without Serious Cause (as defined in Paragraph 4(c) above) prior to the three year anniversary of the Effective Date, you will be entitled to the following cash payments, payable in accordance with the requirements of Section 409A of the Code:
- (i) If your employment is terminated at any time before the one year anniversary of the Effective Date, you will be entitled to a cash payment equal to the amount determined by multiplying 66,667 by the fair market value of one share of PolyOne common stock on the date of termination of your employment.
 - (ii) If your employment is terminated on or following the one year anniversary of the Effective Date but before the 18 month anniversary of the Effective Date, you will be entitled to a cash payment equal to the amount determined by multiplying 100,000 by the fair market value of one share of PolyOne common stock on the date of termination of your employment.
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- (iii) If your employment is terminated on or following the 18 month anniversary of the Effective Date but before the two year anniversary of the Effective Date, you will be entitled to a cash payment equal to the amount determined by multiplying 133,334 by the fair market value of one share of PolyOne common stock on the date of termination of your employment.
- (iv) If your employment is terminated on or following the two year anniversary of the Effective Date but before the three year anniversary of the Effective Date, you will be entitled to a cash payment equal to the amount determined by multiplying 166,667 by the fair market value of one share of PolyOne common stock on the date of termination of your employment.
- (v) If your employment is terminated on or following the three year anniversary of the Effective Date, you will not be entitled to any additional cash payment under this Paragraph 5(c).

6. Miscellaneous.

You represent and warrant to PolyOne that: (a) the execution, delivery and performance of this agreement by you does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which you are a party or by which you are bound, (b) except as disclosed in writing to PolyOne, you are not a party to or bound by any employment agreement, noncompete/non-solicitation agreement or confidentiality agreement with any other person or entity and (c) upon the execution and delivery of this agreement by you, this agreement will be a valid and binding obligation of you, enforceable in accordance with its terms.

PolyOne may withhold from any amounts payable under this agreement all federal, state, city or other taxes as PolyOne is required to withhold pursuant to any applicable law, regulation or ruling.

Whenever possible, each provision of this agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

This agreement embodies the complete agreement and understanding between the parties with respect to the subject matter hereof and effective as of its date supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way.

This agreement may be executed in separate counterparts, each of which shall be deemed to be an original and both of which taken together shall constitute one and the same agreement.

Mr. Stephen D. Newlin
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This Agreement shall be governed by the internal law, and not the laws of conflicts, of the State of Ohio.

The provisions of this agreement may be amended or waived only with the prior written consent of PolyOne and you, and no course of conduct or failure or delay in enforcing the provisions of this agreement shall affect the validity, binding effect or enforceability of this agreement.

If you find this agreement acceptable, please sign and date the letter below and return it to me. This agreement will become effective on the latest date set forth below.

Sincerely,

POLYONE CORPORATION

By: /s/ Farah M. Walters

Name: Farah M. Walters

Title: Chairperson of the Compensation and
Governance Committee

Date: February 13, 2006

I agree to the terms and conditions
in this letter agreement.

/s/ Stephen D. Newlin
Name: Stephen D. Newlin

Date: February 6, 2006