

**UNITED STATES 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 the quarterly period ended March 31, 2009**

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission file number 1-16091**

**POLYONE CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Ohio**

*(State or other jurisdiction  
of incorporation or organization)*

**34-1730488**

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

**33587 Walker Road, Avon Lake, Ohio**

*(Address of principal executive offices)*

**44012**

*(Zip Code)*

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

Former name, former address and former fiscal year, if changed since last report: **Not Applicable**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes   ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes   ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐   Accelerated filer ☒   Non-accelerated filer ☐   Smaller reporting company ☐  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes   ☒ No

The number of outstanding shares of the registrant's common stock, \$0.01 par value, as of May 1, 2009 was 92,387,514.

**Part I — Financial Information****Item 1. Financial Statements**

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

	<b>Three Months Ended</b>	
	<b>2009</b>	<b>2008</b>
	<b>March 31,</b>	
Sales	\$ 463.4	\$ 713.7
Cost of sales	404.2	628.8
Gross margin	59.2	84.9
Selling and administrative	70.2	72.9
Adjustment to impairment of goodwill	5.0	—
Income from equity affiliates	13.3	8.1
Operating (loss) income	(2.7)	20.1
Interest expense, net	(8.8)	(8.4)
Other expense, net	(6.6)	(2.0)
(Loss) income before income taxes	(18.1)	9.7
Income tax benefit (expense)	8.8	(3.2)
Net (loss) income	\$ (9.3)	\$ 6.5
Basic and diluted (loss) earnings per common share	\$ (0.10)	\$ 0.07
Weighted average shares used to compute (loss) earnings per common share:		
Basic	92.2	92.9
Diluted	92.2	93.3
Dividends declared per share of common stock	\$ —	\$ —

*See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.*

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

	(Unaudited) March 31, 2009	December 31, 2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 122.5	\$ 44.3
Accounts receivable, net	253.2	262.1
Inventories	158.3	197.8
Deferred income tax assets	0.2	1.0
Other current assets	15.9	19.9
Total current assets	550.1	525.1
Property, net	409.9	432.0
Investment in equity affiliates and nonconsolidated subsidiary	32.3	20.5
Goodwill	159.0	163.9
Other intangible assets, net	68.2	69.1
Deferred income tax assets	2.3	0.5
Other non-current assets	64.6	66.6
Total assets	<u>\$ 1,286.4</u>	<u>\$ 1,277.7</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 39.6	\$ 19.8
Short-term debt	21.2	6.2
Accounts payable	182.3	160.0
Accrued expenses	101.8	118.2
Total current liabilities	344.9	304.2
Long-term debt	388.8	408.3
Post-retirement benefits other than pensions	81.0	80.9
Pension benefits	207.2	225.0
Other non-current liabilities	83.0	83.4
Shareholders' equity	181.5	175.9
Total liabilities and shareholders' equity	<u>\$ 1,286.4</u>	<u>\$ 1,277.7</u>

*See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.*

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

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating Activities</b>		
Net (loss) income	\$ (9.3)	\$ 6.5
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	20.0	15.8
Deferred income tax benefit	(0.6)	(0.6)
Provision for doubtful accounts	1.0	2.1
Stock compensation expense	0.6	0.8
Adjustment to impairment of goodwill	5.0	—
Asset write-downs and impairment charges	1.2	—
Companies carried at equity:		
Income from equity affiliates	(13.3)	(8.1)
Dividends and distributions received	1.4	0.9
Change in assets and liabilities, net of acquisition:		
Decrease (increase) in accounts receivable	16.0	(51.7)
Decrease (increase) in inventories	35.8	(28.5)
Increase in accounts payable	25.7	45.6
(Decrease) increase in sale of accounts receivable	(14.2)	86.6
Increase (decrease) in accrued expenses and other	1.1	(12.3)
Net cash provided by operating activities	70.4	57.1
<b>Investing Activities</b>		
Capital expenditures	(6.7)	(8.4)
Business acquisitions, net of cash acquired	—	(150.0)
Net cash used by investing activities	(6.7)	(158.4)
<b>Financing Activities</b>		
Change in short-term debt	15.2	81.9
Repayment of long-term debt	—	(0.7)
Net cash provided by financing activities	15.2	81.2
Effect of exchange rate changes on cash	(0.7)	(0.1)
Increase (decrease) in cash and cash equivalents	78.2	(20.2)
Cash and cash equivalents at beginning of period	44.3	79.4
<b>Cash and cash equivalents at end of period</b>	<b>\$ 122.5</b>	<b>\$ 59.2</b>

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

**Note 1 — Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Form 10-Q instructions and in the opinion of management contain all adjustments, consisting of normal recurring accruals necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in the Annual Report on Form 10-K for the year ended December 31, 2008 of PolyOne Corporation.

Operating results for the three-month period ended March 31, 2009 are not necessarily indicative of the results that may be attained in subsequent periods or for the year ending December 31, 2009.

**Reclassification** — Certain reclassifications of the prior period amounts and presentation have been made to conform to the presentation for the current period.

Our presentation of certain expenses within the accompanying condensed consolidated statements of operations was changed. Depreciation expense recorded in connection with the manufacture of our products sold during each reporting period is now included in *Cost of sales*. Depreciation expense not associated with the manufacture of our products and amortization expense are now included in *Selling and administrative*. Depreciation and amortization were previously combined and reported in *Depreciation and amortization*. In connection with these reclassifications, we added the caption *Gross margin* to the accompanying consolidated statements of operations. We believe this change in presentation provides a more meaningful measure of cost of sales and selling and administrative expenses and that gross margin is a widely accepted measure of performance. The following table provides the amounts reclassified for the three-month period ended March 31, 2008:

(In millions)	<u>Three Months Ended</u> <u>March 31, 2008</u>
Amounts reclassified:	
Cost of sales	\$ 11.4
Selling and administrative expenses	4.4
Depreciation and amortization	(15.8)
Total costs and expenses	<u>\$ —</u>

Also, we netted *Interest income* of \$0.8 million for the three months ended March 31, 2008 into *Interest expense* resulting in one line on the consolidated statement of operations, *Interest expense, net*.

These reclassifications have no effect on total assets, total shareholders' equity, net income (loss) or cash flows as previously presented.

**Note 2 — New Accounting Pronouncements**

**FASB Staff Position 157-2** — In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes the framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157*, that delayed the effective date of FASB Statement No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. We adopted FASB Statement No. 157 for all nonfinancial assets and nonfinancial liabilities on

January 1, 2009 and it did not have a material impact on our financial statements. See Note 15, *Fair Value*, for information on our assets and liabilities measured at fair value.

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

**SFAS No. 161** — In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133*. FASB Statement No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. FASB Statement No. 161 is effective for fiscal years beginning after November 15, 2008. We adopted FASB Statement No. 161 on January 1, 2009 and it did not have a material impact on our financial statements. See Note 16, *Derivatives*, for information on our derivatives and the disclosures required under FASB Statement No. 161.

### Note 3 — Goodwill

In accordance with FASB Statement No. 141, *Business Combinations*, purchase accounting requires that the total purchase price of acquisitions be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding the fair values being recorded as goodwill. The following table details the changes in the carrying amount of goodwill during the three months ended March 31, 2009:

	<b>Three Months Ended March 31, 2009</b>
(In millions)	
Balance at beginning of the period	\$ 163.9
Acquisition of businesses	—
Adjustment to December 31, 2008 Step 2 analysis	(5.0)
Translation and other adjustments	0.1
Balance at end of the period	<u>\$ 159.0</u>

Goodwill as of March 31, 2009 and December 31, 2008, by operating segment, was as follows:

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
(In millions)		
International Color and Engineered Materials	\$ 72.1	\$ 72.0
Specialty Engineered Materials	44.1	44.1
Specialty Color, Additives and Inks	33.8	33.8
Performance Products and Solutions	7.4	12.4
PolyOne Distribution	1.6	1.6
Total	<u>\$ 159.0</u>	<u>\$ 163.9</u>

As previously disclosed in our 2008 Annual Report on Form 10-K, during the fourth quarter of 2008, we concluded that indicators of potential impairment were present and evaluated the carrying values of goodwill and intangible and other long-lived assets. Based on the results of this preliminary review, we recorded a non-cash impairment charge to reduce the carrying value of goodwill to its estimated fair value. The non-cash impairment charge recognized in the fourth quarter of 2008 was \$170.0 million. This charge was measured and recognized on an estimated basis following the guidance in FASB Statement No. 142, *Goodwill and Other Intangible Assets*, as described below.

The measurement of goodwill impairment consists of two steps. In the first step, which we completed in the fourth quarter of 2008, we compared the fair value of each reporting unit to its carrying value, and determined that the fair value of both the Geon Compounds and Specialty Coatings reporting units (reporting units within Performance Products and Solutions) was less than their corresponding carrying values. Following that determination, we performed a second step in order to measure the amount of the impairment loss by comparing the implied fair value of each reporting unit's

goodwill to its carrying value. The calculation of the goodwill impairment in this second step includes hypothetically valuing all of the tangible and intangible assets of the impaired reporting units as if the reporting units had been acquired in a business combination. Due to the extensive work involved in performing these valuations, we initially recognized an estimated impairment loss and indicated that the final impairment measurement would be completed during the first quarter of 2009, with any resulting adjustments recorded upon completion of the analysis.

As a result of the completion of the step two analysis, we determined that the final goodwill impairment charge as of December 31, 2008 was \$175.0 million, which consisted of \$147.8 million and \$27.2 million for the Geon Compounds and Specialty Coatings reporting units, respectively. This represents an increase in the goodwill impairment charge for Specialty Coatings of \$12.4 million and a decrease for Geon Compounds of \$7.4 million, as compared to the preliminary estimates recorded in the fourth quarter of 2008. The difference of \$5.0 million as compared to our preliminary estimated charge of \$170.0 million was recorded in the first quarter of 2009.

This adjustment is recorded in the accompanying consolidated statements of operations on the line *Adjustment to impairment of goodwill* and is reflected on the line *Corporate and eliminations* in Note 13, *Segment Information*.

#### Note 4 — Inventories

Components of inventories are as follows:

(In millions)	March 31, 2009	December 31, 2008
At FIFO or average cost, which approximates current cost:		
Finished products	\$ 109.7	\$ 127.4
Work in process	3.3	2.1
Raw materials and supplies	78.5	109.9
	191.5	239.4
Reserve to reduce certain inventories to LIFO cost basis	(33.2)	(41.6)
	<u>\$ 158.3</u>	<u>\$ 197.8</u>

#### Note 5 — Property

(In millions)	March 31, 2009	December 31, 2008
Land and land improvements	\$ 40.7	\$ 40.7
Buildings	277.9	278.6
Machinery and equipment	902.0	912.0
	1,220.6	1,231.3
Less accumulated depreciation and amortization	(810.7)	(799.3)
	<u>\$ 409.9</u>	<u>\$ 432.0</u>

During the first quarter of 2009, we recorded \$5.4 million of accelerated depreciation related to the restructuring of certain manufacturing assets. See Note 9, *Employee Separation and Plant Phaseout*, for further discussion.

#### Note 6 — Income Taxes

For the first quarter of 2009, we recorded an income tax benefit of \$8.8 million compared to income tax expense of \$3.2 million in the first quarter of 2008. We record our interim provision for income taxes based on our estimated annual effective tax rate as well as certain items discrete to the current period. Our interim provision as well as our estimated annual effective tax rate is impacted by a number of factors including our U.S. federal and state and foreign income tax loss carryforwards and our ability to use them as well as changes to our unrealized tax benefits.

We have increased existing valuation allowances against our deferred tax assets by \$5.4 million in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This non-cash charge to income tax expense relates to various U.S. federal and state and local and foreign deferred tax assets. Taking this charge has no impact on our ability to utilize

any of these deferred tax assets in future periods. We review all valuation allowances related to deferred tax assets and will reverse these charges, partially or totally, when appropriate under FASB Statement No. 109.

We have adopted the provisions of FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109*. In accordance with FIN 48, we have recognized \$10.0 million of income tax benefits and related interest income due to the favorable settlement of a foreign tax audit. We recognize interest and penalties related to unrecognized income tax benefits in the provision for income taxes.

#### Note 7 — Investment in Equity Affiliates

SunBelt Chlor-Alkali Partnership (SunBelt) is the most significant of our equity investments and is reported within the Resin and Intermediates segment. We own 50% of SunBelt.

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

(Dollars in millions)	Three Months Ended March 31,	
	2009	2008
<b>SunBelt:</b>		
Sales	\$ 52.5	\$ 42.2
Operating income	\$ 27.5	\$ 16.5
Partnership income as reported by SunBelt	\$ 25.5	\$ 14.4
PolyOne’s ownership of SunBelt	50%	50%
Earnings of equity affiliate recorded by PolyOne	\$ 12.8	\$ 7.2
 (In millions)		
	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Current assets	\$ 50.3	\$ 22.4
Non-current assets	105.2	107.7
Total assets	155.5	130.1
Current liabilities	21.5	19.7
Non-current liabilities	97.5	97.5
Total liabilities	119.0	117.2
Partnership capital	\$ 36.5	\$ 12.9



Other investments in equity affiliates are discussed below.

The BayOne Urethane Systems, L.L.C. equity affiliate (owned 50%) is included in the Specialty Color, Additives and Inks operating segment. The Performance Products and Solutions operating segment includes the Geon Polimeros Andinos equity affiliate (owned 50%). Combined summarized financial information for these equity affiliates follows.

(In millions)	Three Months Ended March 31,	
	2009	2008
As reported by other equity affiliates:		
Net sales	\$ 20.2	\$ 30.1
Operating income	\$ 1.1	\$ 2.7
Partnership income	\$ 1.0	\$ 1.8
Equity affiliate earnings recorded by PolyOne	\$ 0.5	\$ 0.9

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

(In millions)	Three Months Ended March 31,	
	2009	2008
Weighted-average shares outstanding — basic	92.2	92.9
Weighted-average shares — diluted:		
Weighted-average shares outstanding — basic	92.2	92.9
Plus dilutive impact of stock options and stock awards	—	0.4
	92.2	93.3

Basic earnings per common share is computed as net income available to common shareholders divided by the weighted average basic shares outstanding. Diluted earnings per common share is computed as net income available to common shareholders divided by the weighted average diluted shares outstanding. Pursuant to FASB Statement No. 128, *Earnings Per Share*, when a loss is reported the denominator of diluted earnings per share cannot be adjusted for the dilutive impact of stock options and awards because doing so will result in anti-dilution. Therefore, for the quarter ended March 31, 2009, basic weighted-average shares outstanding are used in calculating diluted earnings per share.

Outstanding stock options with exercise prices greater than the average price of the common shares and certain awards are anti-dilutive and are not included in the computation of diluted earnings per share. For the quarter ended March 31, 2008, 6.9 million of these options and awards were excluded from the computation of diluted earnings per share. Since we reported a net loss for the first quarter of 2009, all stock options and awards, which totaled 7.8 million at March 31, 2009, have been excluded from the computation of the diluted loss per share because their effect would have been anti-dilutive.

#### Note 9 — Employee Separation and Plant Phaseout

Management has undertaken certain restructuring initiatives to improve profitability and, as a result, we have incurred employee separation and plant phaseout costs. Employee separation and plant phaseout costs are reflected on the line *Corporate and eliminations* in Note 13, *Segment Information*. For further discussion of these initiatives, see Note 4, *Employee Separation and Plant Phaseout*, of the consolidated financial statements and the accompanying notes included in PolyOne's Annual Report on Form 10-K for the year ended December 31, 2008.

A summary of total employee separation and plant phaseout costs for the three-month periods ended March 31, 2009 and 2008, including where the charges are recorded in the accompanying condensed consolidated statements of operations, follows:

(In millions)	Three Months Ended March 31,	
	2009	2008
Cost of sales	\$ 9.8	\$ —
Selling and administrative	0.3	—
Total employee separation and plant phaseout	<u>\$ 10.1</u>	<u>\$ —</u>

Included in *Cost of sales* for the three-month period ended March 31, 2009 was a charge of \$5.4 million for accelerated depreciation on assets related to these restructuring initiatives. Cash payments during the three-month periods ended March 31, 2009 and 2008 were \$8.0 million and \$0.5 million, respectively.

In July 2008, we announced the restructuring of certain manufacturing assets, primarily in North America, which involves the closure of seven production facilities in North America and one in the United Kingdom, resulting in a net reduction of approximately 150 positions. In January 2009, we announced further cost saving measures that include eliminating approximately 370 jobs worldwide, implementing reduced work schedules for another 100 to 300 employees, closing our Niagara, Ontario facility and idling certain other capacity. We expect to incur one-time pre-tax charges of approximately \$66 million related to these actions, of which \$38.3 million was recorded in 2008 and \$10.1 million was recorded in the first quarter of 2009. In total, these one-time charges include cash costs of approximately \$38 million related to severance and site closure costs with the remaining \$28 million related to asset write-downs and accelerated depreciation. As of March 31, 2009, approximately \$26 million of the cash costs remain to be paid. The following table details the charges and changes to the reserves associated with these restructuring initiatives for the quarter ended March 31, 2009:

(In millions, except employee numbers)	Employee Separation		Plant Phaseout Costs		Total
	Number of Employees	Costs	Cash Closure	Asset Write-downs	
Realignment of certain manufacturing plants					
Balance at January 1, 2009	526	\$ 23.7	\$ 0.7	\$ —	\$ 24.4
Charge	129	0.9	2.3	6.9	10.1
Utilized	(348)	(5.7)	(2.2)	(6.9)	(14.8)
Impact of foreign currency translation	—	(0.8)	—	—	(0.8)
Balance at March 31, 2009	307	\$ 18.1	\$ 0.8	\$ —	\$ 18.9

In addition to the above, during the three-month periods ended March 31, 2009 and 2008, we paid \$0.1 million and \$0.3 million, respectively, related to executive severance. Our liability for unpaid severance costs was \$0.9 million at March 31, 2009 and will be paid over the next 17 months.

## Note 10 — Employee Benefit Plans

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

(In millions)	Three Months Ended March 31,			
	Pension Benefits		Health Care Benefits	
	2009	2008	2009	2008
Service cost	\$ 0.3	\$ 0.3	\$ 0.1	\$ 0.1
Interest cost	7.8	8.1	1.4	1.5
Expected return on plan assets	(5.3)	(8.3)	—	—
Amortization of unrecognized losses, transition obligation and prior service costs, including curtailment gain recognized in 2009	5.1	2.0	(0.9)	(1.1)
	<u>\$ 7.9</u>	<u>\$ 2.1</u>	<u>\$ 0.6</u>	<u>\$ 0.5</u>

On January 15, 2009, our Board of Directors approved and adopted changes to the Geon Pension Plan (Geon Plan), the Benefit Restoration Plan (BRP), the voluntary retirement savings plan (RSP) and the Supplemental Retirement Benefit Plan (SRP). Effective March 20, 2009, the amendments permanently froze future benefit accruals and provided that participants will not receive credit under the Geon Plan or the BRP for any eligible earnings paid on or after that date. All accrued benefits under the Geon Plan and the BRP will remain intact, and service credits for vesting and retirement eligibility will continue in accordance with the terms of the Geon Plan and the BRP. The amendments to the RSP and SRP provide that transition contributions under the RSP and the SRP were eliminated after March 20, 2009.

## Note 11 — Financing Arrangements

**Short-term debt** — At March 31, 2009, \$18.4 million of short-term notes issued by certain of our European subsidiaries were outstanding. These short-term notes have maturities of less than one year, are renewable with the consent of both parties and are prepayable.

The weighted-average interest rate on total short-term borrowings was 3.1% at March 31, 2009.

Through our Spanish subsidiary, we factor a portion of our accounts receivable through factoring transactions. As of March 31, 2009, all factoring transactions were with recourse to the seller. These transactions do not meet the requirements of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, for asset derecognition. Consequently, as of March 31, 2009, \$2.8 million of receivables sold through factoring transactions are recorded in the consolidated balance sheet in *Accounts receivable, net*. A corresponding liability, amounting to \$2.8 million related to the advance cash received from the factoring agent, is recorded in *Short-term debt*.

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

(Dollars in millions)	March 31, 2009 <sup>(1)</sup>	December 31, 2008 <sup>(1)</sup>
8.875% senior notes due 2012	\$ 279.3	\$ 279.2
7.500% debentures due 2015	50.0	50.0
Medium-term notes:		
6.91% medium-term notes due 2009	19.9	19.8
6.52% medium-term notes due 2010	19.7	19.6
6.58% medium-term notes due 2011	19.5	19.5
Revolving credit facility borrowings, facility expires 2011	40.0	40.0
Total long-term debt	\$ 428.4	\$ 428.1
Less current portion	39.6	19.8
Total long-term debt, net of current portion	\$ 388.8	\$ 408.3

(1) Book values include unamortized discounts and adjustments related to hedging instruments, as applicable.

We are exposed to market risk from changes in interest rates on debt obligations and from changes in foreign currency exchange rates. Information about these risks and exposure management is included in Item 7A “Qualitative and Quantitative Information about Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2008. There have been no material changes in the market risk faced by PolyOne from December 31, 2008 to March 31, 2009.

## Note 12 — Sale of Accounts Receivable

Accounts receivable consist of the following:

(In millions)	March 31, 2009	December 31, 2008
Trade accounts receivable	\$ 123.1	\$ 141.6
Retained interest in securitized accounts receivable	136.5	127.2
Allowance for doubtful accounts	(6.4)	(6.7)
	\$ 253.2	\$ 262.1

Under the terms of our receivables sale facility, we sell accounts receivable to PolyOne Funding Corporation (PFC) and PolyOne Funding Canada Corporation (PFCC), both wholly owned, bankruptcy-remote subsidiaries. PFC and PFCC, in turn, may sell an undivided interest in up to \$175.0 million and \$25.0 million of these accounts receivable, respectively, to certain investors. The receivables sale facility was amended in June 2007 to extend the maturity of the facility to June 2012 and to, among other things, modify certain financial covenants and reduce the cost of utilizing the facility. As of March 31, 2009, there was \$106.3 million of availability remaining under the accounts receivable sale facility. For liquidity purposes, we reduce this by \$40.0 million because we are not permitted to borrow the last \$40.0 million when our fixed charge coverage ratio is less than 1:1. Accordingly, we have \$66.3 million of net availability under the accounts receivable sale facility as of March 31, 2009.

As of March 31, 2009 and December 31, 2008, accounts receivable totaling \$136.5 million and \$141.4 million, respectively, were sold by us to PFC and PFCC. The maximum proceeds that PFC and PFCC may receive under the facility is limited to the lesser of \$200.0 million or 85% of the eligible domestic and Canadian accounts receivable sold. As of March 31, 2009, PFC and PFCC had not sold any of their undivided interests in accounts receivable. As of December 31, 2008, PFC and PFCC had sold \$14.2 million of their undivided interests in accounts receivable.

We retain an interest in the difference between the amount of trade receivables sold by us to PFC and PFCC and the undivided interest sold by PFC and PFCC as of March 31, 2009 and December 31, 2008. As a result, the interest retained by us was \$136.5 million and \$127.2 million, as of March 31, 2009 and December 31, 2008, respectively, and was included in *Accounts receivable, net* on the accompanying condensed consolidated balance sheets.

The receivables sale facility also makes up to \$40.0 million available for the issuance of standby letters of credit as a sub-limit within the \$200.0 million facility, of which \$11.4 million was used at March 31, 2009.

### Note 13 — Segment Information

During the second quarter of 2008, we announced that Producer Services, formerly included in All Other, was combined with Geon Performance Polymers to form the Performance Products and Solutions operating segment. In addition, North American Color and Additives and Specialty Inks and Polymer Systems, both formerly included in All Other, were combined to form a new operating segment named Specialty Color, Additives and Inks. As a result of these changes to our segment structure, prior period segment information was reclassified. These changes had no material impact on segment results.

Segment information for the three-month periods ended March 31, 2009 and 2008, follows:

(In millions)	Three Months Ended March 31, 2009			Three Months Ended March 31, 2008		
	Sales to External Customers	Total Sales	Segment Operating Income (Loss)	Sales to External Customers	Total Sales	Segment Operating Income (Loss)
International Color and Engineered Materials	\$ 94.1	\$ 94.1	\$ (0.4)	\$ 165.2	\$ 165.2	\$ 7.8
Specialty Engineered Materials	45.9	51.4	0.4	58.2	64.5	2.9
Specialty Color, Additives and Inks	44.3	44.8	0.5	57.7	58.4	2.8
Performance Products and Solutions	142.6	158.8	8.7	232.9	259.3	8.3
PolyOne Distribution	136.5	136.9	4.9	199.7	201.1	5.5
Resin and Intermediates	—	—	11.7	—	—	5.9
Corporate and eliminations	—	(22.6)	(28.5)	—	(34.8)	(13.1)
Total	<u>\$ 463.4</u>	<u>\$ 463.4</u>	<u>\$ (2.7)</u>	<u>\$ 713.7</u>	<u>\$ 713.7</u>	<u>\$ 20.1</u>

### Note 14 — Commitments and Contingencies

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

During the three-month periods ended March 31, 2009 and 2008, we recorded \$1.5 million and \$1.6 million, respectively, of expense related to environmental activities at all of our active and inactive sites. During these same periods, we did not receive any proceeds from insurance recoveries.

Based on estimates that were prepared by our environmental engineers and consultants, we had accruals totaling \$80.1 million at March 31, 2009 and \$84.6 million at December 31, 2008 to cover probable future environmental expenditures related to previously contaminated sites. The accruals represent our best estimate of the remaining probable remediation costs, based upon information and technology that is currently available and our view of the most likely remedy. Depending upon the results of future testing, the ultimate remediation alternatives undertaken, changes in regulations, new information, newly discovered conditions and other factors, it is reasonably possible that we could incur additional costs in excess of the amount accrued at March 31, 2009. However, such additional costs, if any, cannot be currently estimated. Our estimate of the liability may be revised as new regulations or technologies are developed or additional information is obtained. Additional information related to environmental liabilities is in Note 13, *Commitments and Related-Party Information*, to the consolidated financial statements included in PolyOne's Annual Report on Form 10-K for the year ended December 31, 2008.

We guarantee \$54.8 million of SunBelt's outstanding senior secured notes in connection with the construction of a chlor-alkali facility in McIntosh, Alabama. This debt matures in equal annual installments through 2017.

## Note 15 — Fair Value

The fair value of financial assets and liabilities are measured on a recurring or non-recurring basis. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. In determining fair value of financial assets and liabilities, we use various valuation techniques. The availability of inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment.

We assess the inputs used to measure fair value using a three-tier hierarchy. The hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical instruments and are the most observable. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, foreign currency exchange rates, commodity rates and yield curves. Level 3 inputs are not observable in the market and include management's own judgments about the assumptions market participants would use in pricing the asset or liability. The use of observable and unobservable inputs is reflected in the hierarchy assessment disclosed in the table below. The following table presents information about our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by us to determine such fair value:

(In millions)

Description	Recorded Value as of March 31, 2009	Fair Value Measurement Used		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Similar Instruments and Observable Inputs (Level 2)	Other Unobservable Inputs (Level 3)
Available for sale securities	\$ 0.2	\$0.2	\$ —	\$ —
Foreign exchange contracts	(1.2)	—	(1.2)	—

Foreign exchange contracts are valued based on observable market spot and forward rates, and are classified within Level 2 of the fair value hierarchy.

The following table presents information about our nonfinancial assets measured at fair value on a nonrecurring basis as of March 31, 2009:

(In millions)

Description	Recorded Value as of March 31, 2009	Fair Value Measurement Used			Total Gains (Losses)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Similar Instruments and Observable Inputs (Level 2)	Other Unobservable Inputs (Level 3)	
Goodwill	\$159.0	\$—	\$—	\$159.0	\$(5.0)

In accordance with the provisions of FASB Statement No. 142, *Goodwill and Other Intangibles*, goodwill with a carrying amount of \$334.0 million was written down to its implied fair value of \$159.0 million, resulting in an impairment charge of \$175.0 million, of which \$170.0 million was included in earnings for the three-month period ended December 31, 2008 and \$5.0 million was included in earnings for the three-month period ended March 31, 2009.

We use a combination of two valuation methods, a market approach and an income approach, to estimate the fair value of our reporting units. Absent an indication of fair value from a potential buyer or similar specific transactions, we believe that the use of these two methods provides reasonable estimates of a reporting unit's fair value and that these estimates are consistent with how we believe a market participant would view the reporting units' fair values. Fair value computed by these two methods is arrived at using a number of factors, including projected future operating results and business plans, economic projections, anticipated future cash flows, comparable marketplace data within a consistent industry grouping and the cost of capital. There are inherent uncertainties, however, related to these factors and to management's judgment in applying them to this analysis. Nonetheless, management believes that the combination of these two methods provides a reasonable approach to estimate the fair value of our reporting units.

The market approach estimates fair value by applying sales, earnings and cash flow multiples (derived from comparable publicly-traded companies with similar investment characteristics of the reporting unit) to the reporting unit's operating performance adjusted for non-recurring items. Management believes that this approach is appropriate because it provides a fair value estimate using multiples from entities with operations and economic characteristics comparable to our reporting units. The key estimates and assumptions that are used to determine fair value under this approach include trailing twelve-month EBITDA and projected EBITDA based on consensus estimates as reported by a third-party resource, which would approximate a market participant's view, to determine the market multiples to calculate the enterprise value.

The income approach is based on projected future debt-free cash flow that is discounted to present value using factors that consider the timing and risk of the future cash flows. Management believes that this approach is appropriate because it provides a fair value estimate based upon the reporting unit's expected long-term operating and cash flow performance. This approach also mitigates most of the impact of cyclical downturns that occur in the reporting unit's industry. The income approach is based on a reporting unit's projection of operating results and cash flows that is discounted using a weighted-average cost of capital. The projection is based upon management's best estimates of projected economic and market conditions over the related period including growth rates, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, terminal value margin rates, future capital expenditures and changes in future working capital requirements based on management projections.

#### **Note 16 — Derivatives**

We are exposed to certain risks relating to our ongoing business operations. The primary risks managed by using derivative instruments are foreign exchange risk. Foreign exchange contracts are entered into to manage foreign exchange risk associated with intercompany lending transactions denominated in various foreign currencies. These derivative instruments are not treated as hedges under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

The following table summarizes the notional amounts of our foreign exchange contracts at March 31, 2009:

Currency (In millions)	March 31, 2009	
	Buy	Sell
U.S. Dollar	\$60.5	
Euro		€42.4
British pound		£ 3.8

The table below summarizes derivative information at March 31, 2009:

(In millions)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments under FASB Statement No. 133:				
Foreign exchange forwards	Other current assets	\$0.1	Accrued expenses	\$(1.3)

For the three-month period ended March 31, 2009, we recognized a loss of \$2.2 million on foreign exchange forwards not designated as hedging instruments under FASB Statement No. 133. This loss is included in *Other expense, net*.

Certain of our derivative instruments contain provisions that require collateral and require us to increase collateral if the market value of the hedge is at a deficit of more than \$150,000. If we fail to meet this requirement, we would be in violation of those provisions and the counterparty could request immediate payment on derivative instruments in net liability positions.

#### Note 17 — Shareholders' Equity and Comprehensive Income

The following table sets forth the reconciliation of net (loss) income to comprehensive income:

(In millions)	Three Months Ended March 31,	
	2009	2008
Net (loss) income	\$ (9.3)	\$ 6.5
Amortization of unrecognized losses, transition obligation and prior service costs <sup>1</sup>	3.9	0.6
Net gain occurring in the year due to plan amendments (See Note 10)	18.5	—
Translation adjustment	(8.4)	5.0
Unrecognized loss on available-for-sale securities	—	(0.1)
Total comprehensive income	<u>\$ 4.7</u>	<u>\$ 12.0</u>

<sup>1</sup> Net of tax of \$0.0 and \$0.3 million for the three months ended March 31, 2009 and 2008, respectively.



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

### Our Business

We are a premier provider of specialized polymer materials, services and solutions with operations in thermoplastic compounds, specialty polymer formulations, color and additive systems, thermoplastic resin distribution and specialty vinyl resins. We also have three equity investments: one in a manufacturer of caustic soda and chlorine; one in a manufacturer of PVC compound products; and one in a formulator of polyurethane compounds. Headquartered in Avon Lake, Ohio, we have employees at manufacturing sites and distribution facilities in North America, Europe and Asia and equity investments in North America and South America. We provide value to our customers through our ability to link our knowledge of polymers and formulation technology with our manufacturing and supply chain to provide an essential link between large chemical producers (our raw material suppliers) and designers, assemblers and processors of plastics (our customers).

### Highlights and Executive Summary

While our first quarter earnings reflect the unfavorable impact of a decline in economic activity, this has been partially offset by improved gross margin percentages and lower selling and administrative expenses. Our volumes in the first quarter of 2009 declined 33.8% compared to the first quarter of 2008, and 7.7% sequentially. First quarter 2009 sales declined 35.1% and 14.5% compared to the first quarter of 2008 and the fourth quarter of 2008, respectively. Operating income in the first quarter of 2009 was \$22.8 million lower than first quarter 2008, and included a \$10.1 million increase, in charges for restructuring and employee separation, a \$5.0 million adjustment to our estimated year-end goodwill impairment charge of \$170.0 million and an unfavorable foreign exchange impact of \$1.2 million. Volumes declined for all segments as a result of the global recession. The operating income impact of this decline in volumes was partially offset by improved gross margins in percentage terms due to lower raw material costs and restructuring savings. Selling and administrative expenses have also declined, despite significantly higher pension expense, as a result of restructuring savings and reductions in discretionary spending.

The \$15.8 million decline in net income was due to the items discussed in the paragraph above, higher interest due to higher average borrowings and higher *Other expense, net* due to foreign exchange losses. Offsetting these unfavorable items was the recognition of \$10.0 million of income tax benefits and related interest income due to the favorable settlement of a foreign tax audit.

In response to the economic and industry dynamics discussed above, we focused on reducing working capital investment to improve liquidity during the first quarter. From year-end, our liquidity has increased \$23.1 million to \$188.8 million. While our borrowing capacity on the accounts receivable facility has declined, we have more than made up for it with cash on the balance sheet. We also continued to invest in our Lean Six Sigma (LSS) and black belt training and have identified nearly 70 projects focused on improving our profitability within the next twelve months. As of the end of March 2009, we successfully executed the restructuring actions announced in July 2008 and January 2009 in terms of all identified facilities being shutdown and product lines transitioned to new facilities. Additionally, as of March 31, 2009, the announced reductions in headcount had been substantially completed with cash severance and other termination payments occurring by year-end.

Selected financial data, a discussion of the aforementioned impact of these events on PolyOne, and a comparative review of performance in the first quarter of 2009 as compared to the first quarter of 2008 are provided below. An outlook is provided thereafter.

### Selected Financial Data

(In millions)	Three- month period ended March 31,	
	2009	2008
Sales	\$ 463.4	\$ 713.7
Operating (loss) income	\$ (2.7)	\$ 20.1
Net (loss) income	\$ (9.3)	\$ 6.5

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Cash and cash equivalents	\$ 122.5	\$ 44.3
Accounts receivable facility availability	66.3	121.4
<b>Liquidity</b>	<b>\$ 188.8</b>	<b>\$ 165.7</b>
Debt, short- and long-term	\$ 449.6	\$ 434.3

*Three-Month Period Ended March 31, 2009 vs. Three-Month Period Ended March 31, 2008*

Aggregate sales decreased \$250.3 million, or 35.1%, in the first quarter of 2009 as compared to the first quarter of 2008. The global recession negatively impacted all of our operating segments, most significantly our international segment.

Operating income in the first quarter of 2009 was \$22.8 million lower than first quarter 2008, and included a \$10.1 million increase, quarter over quarter, in charges for restructuring and employee separation, a \$5.0 million adjustment to our estimated year-end goodwill impairment charge and an unfavorable foreign exchange impact of \$1.2 million. Volumes declined for all segments as a result of the global recession. On a percentage of sales basis, gross margin and selling and administrative expenses improved in the first quarter of 2009 as compared to the first quarter of 2008 driven by effective price management in a declining raw material cost environment and tight control of our operating and discretionary costs.

The \$15.8 million decline in net income was due to the net unfavorable items impacting operating income, higher interest due to higher average borrowing and higher *Other expense, net* due to foreign exchange losses. Offsetting these unfavorable items was the recognition of \$10.0 million of income tax benefits and related interest income due to the favorable settlement of a foreign tax audit.

Liquidity increased \$23.1 million as a result of a \$78.2 million increase in our cash and cash equivalents driven by substantially lower working capital investment in the first quarter of 2009 as compared with the same period in 2008, partially offset by less availability under our accounts receivable facility resulting from lower sales in the first quarter of 2009 as compared with the fourth quarter of 2008. The increase in total debt resulted from an increase in short-term borrowings in Europe.

## Outlook

Despite significantly lower demand during the first quarter, we are encouraged as monthly revenues are showing some sequential improvement. This may be an indication that customer inventory destocking is nearing an end and/or that demand is recovering albeit slightly. That being said, we expect the balance of 2009 to be challenging as transportation and building and construction markets continue to search for a bottom. We further expect it will take our international operations longer to emerge from the recession, however, they stand to benefit the most from sequential earnings improvement as our restructuring actions take effect.

We will continue to focus on reducing working capital, improving cash flow and liquidity as our near-term priority. While we will invest in key initiatives, we expect to do so at a more moderate pace than in the past and this will be observable in reduced discretionary spending and capital spending.

We have limited near-term maturities of debt that we expect to fund with cash flow from operations. Given our current expectations, we see no reason to seek alternate or incremental financing at this time.

## Results of Operations

(Dollars in millions, except per share data)	Three Months Ended March 31,		Variances—Favorable (Unfavorable)	
	2009	2008	Change	% Change
Sales	\$ 463.4	\$ 713.7	\$ (250.3)	(35.1)%
Cost of sales	404.2	628.8	224.6	35.7%
Gross margin	59.2	84.9	(25.7)	(30.3)%
Selling and administrative	70.2	72.9	2.7	3.7%
Adjustment to impairment of goodwill	5.0	—	(5.0)	NM
Income from equity affiliates and minority interest	13.3	8.1	5.2	64.2%
Operating (loss) income	(2.7)	20.1	(22.8)	(113.4)%
Interest expense, net	(8.8)	(8.4)	(0.4)	(4.8)%
Other expense, net	(6.6)	(2.0)	(4.6)	NM
Income (loss) before income taxes	(18.1)	9.7	(27.8)	(286.6)%
Income tax (expense) benefit	8.8	(3.2)	12.0	375.0%
Net (loss) income	<u>\$ (9.3)</u>	<u>\$ 6.5</u>	<u>\$ (15.8)</u>	(243.1)%
Basic and diluted (loss) earnings per common share	<u>\$ (0.10)</u>	<u>\$ 0.07</u>		

NM — Not meaningful

### Sales

Aggregate sales declined \$250.3 million, or 35.1%, in the first quarter of 2009 due to the effects of the global recession. The components of this decrease include the unfavorable impact of the decline in volumes, which reduced sales by 34%, the unfavorable impact of foreign exchange on sales of 4.0%, and the favorable impact of price and mix on sales of 2.9%. The breadth of impact of the decline in volumes affected sales results in all of our global operations with the largest percentage declines in sales occurring in our International Color and Engineered Materials operating segment and the Performance Product and Solutions operating segment. In North America and Europe, the reduction in demand related to transportation and building and construction markets was a significant driver of the decline in sales. Our Asian operations were mostly impacted by the decline in demand for electrical and electronic products exported to the United States.

### Cost of Sales

These costs include raw materials, plant conversion, distribution, environmental remediation and plant related restructuring charges. As a percentage of sales, these costs declined to 87.2% of sales in the first quarter of 2009 as compared to 88.1% in the first quarter of 2008. Charges related to environmental remediation and plant related restructurings were \$11.3 million in the first quarter of 2009 as compared to \$1.6 million in the first quarter of 2008. The quarter-over-quarter increase in these types of charges was due to two restructuring programs that were announced on July 28, 2008 and January 15, 2009, respectively. Lower raw material costs driven by deflationary factors in the global plastics and chemicals industry and the realization of restructuring savings lowered *Cost of sales*.

### Selling and Administrative

These costs include selling, technology, administrative functions and corporate and general expenses. Selling and administrative costs decreased \$2.7 million, or 3.7%, in the first quarter of 2009 as compared to the first quarter of 2008. Increased pension expense of \$5.8 million and unfavorable foreign exchange was more than offset by restructuring savings and reductions in discretionary spending.

### Adjustment to Impairment of Goodwill

As previously disclosed in our 2008 Annual Report on Form 10-K, during the fourth quarter of 2008, we concluded that indicators of potential impairment were present and evaluated the carrying values of goodwill and intangible and other long-lived assets. Based on the results of this preliminary review, we recorded a non-cash impairment charge to reduce

the carrying value of goodwill to its estimated fair value. The non-cash impairment charge recognized in the fourth quarter of 2008 was \$170.0 million. This charge was measured and recognized on an estimated basis following the guidance in FASB Statement No. 142, *Goodwill and Other Intangible Assets*, as described below.

The measurement of goodwill impairment consists of two steps. In the first step, which we completed in the fourth quarter of 2008, we compared the fair value of each reporting unit to its carrying value, and determined that the fair value of both the Geon Compounds and Specialty Coatings reporting units (reporting units within Performance Products and Solutions) was less than their corresponding carrying values. Following that determination, we performed a second step in order to measure the amount of the impairment loss by comparing the implied fair value of each reporting unit's goodwill to its carrying value. The calculation of the goodwill impairment in this second step includes hypothetically valuing all of the tangible and intangible assets of the impaired reporting units as if the reporting units had been acquired in a business combination. Due to the extensive work involved in performing these valuations, we initially recognized an estimated impairment loss and indicated that the final impairment measurement would be completed during the first quarter of 2009, with any resulting adjustments recorded upon completion of the analysis.

As a result of the completion of the step two analysis, we determined that the final goodwill impairment charge as of December 31, 2008 was \$175.0 million, which consisted of \$147.8 million and \$27.2 million for the Geon Compounds and Specialty Coatings reporting units, respectively. This represents an increase in the goodwill impairment charge for Specialty Coatings of approximately \$12.4 million and a decrease for Geon Compounds of \$7.4 million, as compared to the preliminary estimates recorded in the fourth quarter of 2008. The difference of approximately \$5.0 million as compared to our preliminary estimated charge of \$170.0 million was recorded in the first quarter of 2009.

This adjustment is recorded in the accompanying consolidated statements of operations on the line *Adjustment to impairment of goodwill* and is reflected on the line *Corporate and eliminations* in Note 13, *Segment Information*.

#### *Income from Equity Affiliates*

*Income from equity affiliates* is summarized as follows:

(In millions)	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
SunBelt	\$ 12.8	\$ 7.2
Other equity affiliates	0.5	0.9
	<u>\$ 13.3</u>	<u>\$ 8.1</u>

During the first quarter of 2009, income from equity affiliates increased \$5.2 million, or 64.2% compared to the comparable period in 2008, due primarily to increased earnings from our Sunbelt joint venture, which was driven by expanded margins resulting from higher caustic soda prices which offset the unfavorable impact of lower demand for chlorine.

#### *Interest Expense, Net*

The increase in interest expense in the first quarter of 2009 as compared to the first quarter of 2008 is largely the result of 16.6% higher average borrowing levels over the first quarter of 2009 as compared to the first quarter of 2008.

Included in *Interest expense, net* for the three months ended March 31, 2009 and 2008 is interest income of \$0.8 million and \$0.8 million, respectively.

### *Other Expense, Net*

Financing costs associated with our receivables sale facility, foreign currency gains and losses and other miscellaneous items are as follows:

(In millions)	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Currency exchange loss	\$ (4.2)	\$ (0.1)
Foreign exchange contracts loss	(2.2)	(0.2)
Discount on sale of trade receivables	(0.3)	(1.5)
Other income (expense), net	0.1	(0.2)
Other expense, net	<u>\$ (6.6)</u>	<u>\$ (2.0)</u>

In the first quarter, we recorded \$6.4 million in foreign currency-related losses. This loss was primarily attributable to Euro-denominated exposures that were not hedged in connection with the transition of treasury management services to new providers. As of the end of the quarter ended March 31, 2008, these exposures had been hedged.

### *Income Tax (Expense) Benefit*

For the first quarter of 2009, we recorded an income tax benefit of \$8.8 million compared to income tax expense of \$3.2 million in the first quarter of 2008. We record our interim provision for income taxes based on our estimated annual effective tax rate as well as certain items discrete to the current period. Our interim provision as well as our estimated annual effective tax rate is impacted by a number of factors including our U.S. federal and state and foreign income tax loss carryforwards and our ability to use them as well as changes to our unrealized tax benefits.

We have increased existing valuation allowances against our deferred tax assets by \$5.4 million in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This non-cash charge to income tax expense relates to various U.S. federal and state and local and foreign deferred tax assets. Taking this charge has no impact on our ability to utilize any of these deferred tax assets in future periods. We review all valuation allowances related to deferred tax assets and will reverse these charges, partially or totally, when appropriate under FASB Statement No. 109.

We have adopted the provisions of FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109*. In accordance with FIN 48, we have recognized \$10.0 million of income tax benefits and related interest income due to the favorable settlement of a foreign tax audit. We recognize interest and penalties related to unrecognized income tax benefits in the provision for income taxes.

### **SEGMENT INFORMATION**

Operating income is the primary financial measure that is reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. Operating income at the segment level does not include: corporate general and administrative costs that are not allocated to segments; intersegment sales and profit eliminations; charges related to specific strategic initiatives, such as the consolidation of operations; restructuring activities, including employee separation costs resulting from personnel reduction programs, plant closure and phaseout costs; executive separation agreements; share-based compensation costs; asset and goodwill impairments; environmental remediation costs for facilities no longer owned or closed in prior years; gains and losses on the divestiture of joint ventures and equity investments; and certain other items that are not included in the measure of segment profit or loss that is reported to and reviewed by the chief operating decision maker. These costs are included in *Corporate and eliminations*.

During the second quarter of 2008, we announced that Producer Services, formerly included in All Other, was combined with Geon Performance Polymers to form the Performance Products and Solutions operating segment. In addition, North American Color and Additives and Specialty Inks and Polymer Systems, both formerly included in All Other, were combined to form a new operating segment named Specialty Color, Additives and Inks.

As a result of these changes to PolyOne's segment structure, prior period segment information was reclassified to conform to the 2009 presentation. These changes had no material impact on segment results.

**Sales and Operating Income (Loss) — Three Months Ended March 31, 2009 compared to Three Months Ended March 31, 2008:**

(Dollars in millions)	Three Months Ended March 31,		Change	% Change
	2009	2008		
Sales:				
International Color and Engineered Materials	\$ 94.1	\$ 165.2	\$ (71.1)	(43.0)%
Specialty Engineered Materials	51.4	64.5	(13.1)	(20.3)%
Specialty Color, Additives and Inks	44.8	58.4	(13.6)	(23.3)%
Performance Products and Solutions	158.8	259.3	(100.5)	(38.8)%
PolyOne Distribution	136.9	201.1	(64.2)	(31.9)%
Corporate and eliminations	(22.6)	(34.8)	12.2	35.1%
	<u>\$ 463.4</u>	<u>\$ 713.7</u>	<u>\$ (250.3)</u>	(35.1)%
Operating income (loss):				
International Color and Engineered Materials	\$ (0.4)	\$ 7.8	\$ (8.2)	(105.1)%
Specialty Engineered Materials	0.4	2.9	(2.5)	(86.2)%
Specialty Color, Additives and Inks	0.5	2.8	(2.3)	(82.1)%
Performance Products and Solutions	8.7	8.3	0.4	4.8%
PolyOne Distribution	4.9	5.5	(0.6)	(10.9)%
Resin and Intermediates	11.7	5.9	5.8	98.3%
Corporate and eliminations	(28.5)	(13.1)	(15.4)	(117.6)%
	<u>\$ (2.7)</u>	<u>\$ 20.1</u>	<u>\$ (22.8)</u>	(113.4)%
Operating income (loss) as a percentage of sales:				
International Color and Engineered Materials	(0.4)%	4.7%	(5.1)% points	
Specialty Engineered Materials	0.8%	4.5%	(3.7)% points	
Specialty Color, Additives and Inks	1.1%	4.8%	(3.7)% points	
Performance Products and Solutions	5.5%	3.2%	2.3 % points	
PolyOne Distribution	3.6%	2.7%	0.9 % points	
Total	(0.6)%	2.8%	(3.4)% points	

**International Color and Engineered Materials**

Sales decreased \$71.1 million, or 43.0%, in the first quarter of 2009 compared to the first quarter of 2008 driven by a 37.9% decline in volume due to the impact of the global recession in Europe and Asia and the unfavorable impact of foreign exchange, which lowered sales by \$17.8 million, or 10.8%. Operating income declined \$8.2 million in the first quarter of 2009 compared to the first quarter of 2008 driven by lower volumes, as described above, and the unfavorable impact of foreign exchange of \$1.1 million. Both of these items offset slightly higher margins due to a more specialized sales mix and aggressive cost containment programs.

**Specialty Engineered Materials**

Sales decreased \$13.1 million, or 20.3%, in the first quarter of 2009 compared to the first quarter of 2008 primarily due to the unfavorable impact of the recession on demand for products used in North America. Volumes were down 30.1% versus the first quarter of 2008. Operating income decreased \$2.5 million in the first quarter of 2009 compared to the first quarter of 2008 driven primarily by the decline in volumes due to the factors discussed above.

**Specialty Color, Additives and Inks**

Sales decreased \$13.6 million, or 23.3%, in the first quarter of 2009 compared to the first quarter of 2008 due to a decline in volumes of 28.3%. Operating income declined \$2.3 million driven by lower volumes, which were partially offset by the benefits of a more profitable sales mix, lower raw material costs and cost reduction initiatives in operations and selling and administrative costs.

## Performance Products and Solutions

Sales decreased \$100.5 million, or 38.8%, in the first quarter of 2009 compared to the first quarter of 2008 due to a 38.6% decline in volume driven by the continued downturn in the North American building and construction market and the broader downturn in the U.S. economy. Operating income increased \$0.4 million, or 4.8%, in the first quarter of 2009 compared to the first quarter of 2008 despite lower demand. Lower raw material costs and restructuring savings drove the quarter-over-quarter operating income improvement.

## PolyOne Distribution

PolyOne Distribution sales decreased \$64.2 million, or 31.9%, in the first quarter of 2009 compared to the first quarter of 2008, reflecting a 22.9% decline in volume and lower market pricing due to deflation in the North American plastics and chemicals industry. Operating income decreased \$0.6 million, or 10.9%, in the first quarter of 2009 compared to the first quarter of 2008 due to the decline in volume partially offset by improved margins and tight control on discretionary spending.

## Resin and Intermediates

During the first quarter of 2009, income from equity affiliates increased \$5.8 million, or 98.3%, compared to the first quarter of 2008 due primarily to increased earnings from our Sunbelt joint venture driven by expanded margins resulting from higher caustic soda prices offsetting the unfavorable impact of lower demand for chlorine.

## Corporate and Eliminations

Operating loss from Corporate and eliminations was \$15.4 million higher in the first quarter of 2009 as compared to the first quarter of 2008 due mainly to \$10.1 million of restructuring charges and a \$5.0 million adjustment in the first quarter of 2009 to our estimated year-end goodwill impairment charge of \$170.0 million. The following table breaks down Corporate and eliminations into its various components:

(In millions)	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Adjustment to impairment of goodwill (a)	\$ (5.0)	\$ —
Environmental remediation costs	(1.5)	(1.6)
Employee separation and plant phaseout (b)	(10.1)	—
Share-based compensation	(0.6)	(0.8)
Unallocated pension expense	(6.9)	(1.3)
All other and eliminations (c)	(4.4)	(9.4)
Total Corporate and eliminations	<u>\$ (28.5)</u>	<u>\$ (13.1)</u>

- (a) In the first quarter of 2009, we increased our estimated year-end goodwill impairment charge of \$170.0 million by \$5.0 million, which is comprised of an increase of \$12.4 million related to our Specialty Coatings reporting unit and a decrease of \$7.4 million to our Geon Compounds reporting unit. See Note 3, *Goodwill*, to the accompanying consolidated financial statements for further information.
- (b) During the third quarter of 2008, we announced the restructuring of certain manufacturing assets, primarily in North America. In January 2009, we announced the initiation of further cost saving measures that include eliminating approximately 370 jobs, implementing reduced work schedules, closing a facility and idling certain other capacity. See Note 4, *Employee Separation and Plant Phaseout*, to the accompanying consolidated financial statements for further information.
- (c) All other and eliminations is comprised of intersegment eliminations and corporate general and administrative costs that are not allocated to segments.

## Liquidity and Capital Resources

(In millions)	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Cash and cash equivalents	\$ 122.5	\$ 44.3
Accounts receivable facility availability	66.3	121.4
Liquidity	<u>\$ 188.8</u>	<u>\$ 165.7</u>

Liquidity is defined as an enterprise's ability to generate adequate amounts of cash to meet both current and future needs. These needs include paying obligations as they mature, maintaining production capacity and providing for planned growth. Capital resources are sources of funds other than those generated by operations. Liquidity increased \$23.1 million during the first quarter of 2009 compared to the first quarter of 2008 due to a \$78.2 million increase in cash and cash equivalents, which was the result of substantial reduction in working capital investment since the beginning of 2009. As of March 31, 2009, there was \$106.3 million of availability remaining under the accounts receivable sale facility. For liquidity purposes, we reduce this by \$40.0 million because we are not permitted to borrow the last \$40.0 million when our fixed charge coverage ratio is less than 1:1.

### **Cash Flows**

The following discussion focuses on the material components of cash flows from operating, investing and financing activities from the end of the preceding fiscal year (December 31, 2008) to the date of the most recent interim balance sheet (March 31, 2009).

**Operating Activities** — In first quarter of 2009, net cash provided by operating activities was \$70.4 million as compared to \$57.1 million in the first quarter of 2008. This increase of \$13.3 million was due to a \$112.1 million improvement in working capital year over year, which offset lower earnings and the repayment of amounts under our receivables financing facility of \$14.2 million.

**Investing Activities** — Net cash used by investing activities during the first quarter of 2009 was \$6.7 million as compared to \$158.4 million during the first quarter of 2008. This decline of \$151.7 million was due mainly to the acquisition of GLS Corporation in the prior year. Capital spending declined by \$1.7 million due to management actions to maintain liquidity while implementing the investment programs necessary to enable the capture of restructuring savings.

**Financing Activities** — Net cash provided by financing activities in the first quarter of 2009 was \$15.2 million as compared to \$81.2 million in the first quarter of 2008. This decline of \$66.0 million reflects less need for financing activities. On January 9, 2008, we borrowed \$40.0 million under our revolving credit facility. In April 2008, we sold an additional \$80.0 million aggregate principal amount of 8.875% senior notes due 2012.

### **Balance Sheets**

The following discussion focuses on material changes in balance sheet line items from December 31, 2008 to March 31, 2009 that are not discussed in the preceding "Cash Flows" section.

**Inventories** — Inventories decreased by \$39.5 million. This decrease is primarily comprised of a \$3.4 million decrease due to the impact of foreign exchange and a \$35.8 million decline due to management's actions to reduce on-hand quantities. This reduction in inventories along with price declines caused a \$8.4 million reduction in our LIFO reserve.

**Accounts Payable** — Accounts payable increased by \$22.3 million. The components of this increase include \$25.7 million as a result of management's actions to initiate vendor terms management programs, which was partially offset by a \$3.4 million increase due to the impact of foreign exchange.

**Pension Benefits** — Our liability for pension benefits decreased \$17.8 million mainly as a result of the amendments to the Geon Pension Plan announced in January 2009. These amendments permanently froze future benefit accruals effective March 20, 2009 and reduced our total future pension fund contributions by approximately \$19 million.

### **Liquidity and Capital Resources**

As of March 31, 2009, we had existing facilities to access available capital resources totaling \$515.9 million. As of March 31, 2009, we had used \$449.6 million of these resources, and \$66.3 million was available to be drawn. As of March 31, 2009, we also had a \$122.5 million cash and cash equivalents balance adding to our available liquidity.



The following table summarizes our available and outstanding facilities as of March 31, 2009:

(In millions)	<u>Outstanding</u>	<u>Available</u>
Long-term debt, including current maturities	\$ 428.4	\$ —
Receivables sale facility	—	66.3
Short-term debt	21.2	—
	<u>\$ 449.6</u>	<u>\$ 66.3</u>

### **Short-Term Debt**

Through our Spanish subsidiary, we factor a portion of our accounts receivable through factoring transactions. As of March 31, 2009, all factoring transactions were with recourse to the seller. These transactions do not meet the requirements of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, for asset derecognition. Consequently, as of March 31, 2009, \$2.8 million of receivables sold through factoring transactions are recorded in the consolidated balance sheet in *Accounts receivable, net*. A corresponding liability, amounting to \$2.8 million related to the advance cash received from the factoring agent, is recorded in *Short-term debt*.

### **Long-Term Debt**

As of March 31, 2009, long-term debt totaled \$428.4 million, with maturities ranging from 2009 to 2015. Current maturities of long-term debt at March 31, 2009 were \$39.6 million, which includes \$19.9 million of our 6.91% medium-term notes due October 1, 2009 and \$19.7 million of our 6.52% medium-term notes due February 23, 2010. For more information about our debt, see Note 11, *Financing Arrangements*, to the accompanying condensed consolidated financial statements.

### **Guarantee and Agreement**

We entered into a definitive Guarantee and Agreement with Citicorp USA, Inc., KeyBank National Association and National City Bank on June 6, 2006. Under this Guarantee and Agreement, we guarantee some treasury management and banking services provided to us and our subsidiaries, such as foreign currency forwards, letters of credit and bank overdrafts. This guarantee is secured by our inventories located in the United States.

### **Credit Facility**

On January 3, 2008, we entered into a credit agreement with Citicorp USA, Inc., as administrative agent and as issuing bank, and The Bank of New York, as paying agent. The credit agreement provides for an unsecured revolving and letter of credit facility with total commitments of up to \$40 million. The credit agreement expires on March 20, 2011.

Borrowings under the revolving credit facility are based on the applicable LIBOR rate plus a fixed facility fee of 4.77%. At March 31, 2009, we had outstanding borrowings under the revolving credit facility of \$40.0 million that are included in *Long-term debt* on the accompanying condensed consolidated balance sheets. The credit agreement contains covenants that, among other things, restrict our ability to incur liens, and various other customary provisions, including affirmative and negative covenants, and representations and warranties.

### **Receivables Sale Facility**

As of March 31, 2009, we had receivable sales facilities outstanding in the United States and Canada totaling \$200.0 million. These facilities expire in June 2012. The maximum proceeds that we may receive are limited to the lesser of \$200.0 million or 85% of the eligible domestic and Canadian accounts receivable sold. This facility also makes up to \$40.0 million available for issuing standby letters of credit as a sub-limit within the \$200.0 million facility, of which \$11.4 million was used at March 31, 2009.

The facility requires us to maintain a minimum fixed charge coverage ratio (defined as Adjusted EBITDA less capital expenditures, divided by interest expense and scheduled debt repayments for the next four quarters) of at least 1 to 1 when average excess availability under the facility is \$40.0 million or less.

### **Notes Receivable**

As of March 31, 2009 included in *Other non-current assets* is \$21.8 million outstanding on a seller note receivable due from Excel Polymers, LLC who purchased our elastomers and performance additives business in February 2006. This note accrues interest at 10% and is due in full with accrued interest at maturity in July 2010. Also included in *Other non-current assets* as of March 31, 2009 is \$7.7 million outstanding on a seller note receivable due to us from O'Sullivan Films who purchased our engineered films business in August 2004. This note accrues interest at 7% and is due in full with accrued interest at maturity in December 2010.

Of the capital resource facilities available to us as of March 31, 2009, the portion of the receivables sale facility that was actually sold provided security for the transfer of ownership of these receivables. Each indenture governing our senior unsecured notes and debentures and our guarantee of the SunBelt notes allows a specific level of secured debt, above which security must be provided on each indenture and our guarantee of the SunBelt notes. The receivables sale facility and our guarantee of the SunBelt notes are not considered debt under the covenants associated with our senior unsecured notes and debentures. As of March 31, 2009, we had not sold any accounts receivable under the receivable sale facility and had guaranteed \$54.8 million of our SunBelt equity affiliate's debt.

We expect that cash flows from operations in 2009 will enable us to maintain existing levels of available capital resources and meet our cash requirements. Expected sources of cash in 2009 include cash from operations, cash distributions from equity affiliates and proceeds from the sale of previously closed facilities and redundant assets. Expected uses of cash in 2009 include interest expense and discounts on the sale of accounts receivable, cash taxes, a contribution to a defined benefit pension plan, debt retirements (including current maturities), environmental remediation at inactive and formerly owned sites and capital expenditures. Capital expenditures are currently estimated to approximate \$40 million in 2009, primarily to support and maintain manufacturing operations and restructuring actions.

We may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. Disruptions, uncertainty or volatility in the credit markets may adversely impact the availability of credit already arranged and the availability and cost of credit in the future. These market conditions may limit our ability to replace, in a timely manner, maturing liabilities and access the capital necessary to grow and maintain our business.

### **Contractual Obligations**

We have future obligations under various contracts relating to debt and interest payments, operating leases, standby letters of credit, pension and postretirement benefit plans and purchase obligations. During the three months ended March 31, 2009, there were no significant changes to these obligations as reported in our Annual Report on Form 10-K for the year ended December 31, 2008.

### **Critical Accounting Policies and Estimates**

During the three months ended March 31, 2009, there were no significant changes to our critical accounting policies and estimates as reported in our Annual Report on Form 10-K for the year ended December 31, 2008, other than those described below:

**Goodwill** — As previously disclosed in our 2008 Annual Report on Form 10-K, during the fourth quarter of 2008, we concluded that indicators of potential impairment were present and evaluated the carrying values of goodwill and intangible and other long-lived assets. Based on the results of this preliminary review, we recorded a non-cash impairment charge to reduce the carrying value of goodwill to its estimated fair value. The non-cash impairment charge

recognized in the fourth quarter of 2008 was \$170.0 million. This charge was measured and recognized on an estimated basis following the guidance in FASB Statement No. 142, *Goodwill and Other Intangible Assets*, as described below.

The measurement of goodwill impairment consists of two steps. In the first step, which we completed in the fourth quarter of 2008, we compared the fair value of each reporting unit to its carrying value, and determined that the fair value of both the Geon Compounds and Specialty Coatings reporting units (reporting units within Performance Products and Solutions) was less than their corresponding carrying values. Following that determination, we performed a second step in order to measure the amount of the impairment loss by comparing the implied fair value of each reporting unit's goodwill to its carrying value. The calculation of the goodwill impairment in this second step includes hypothetically valuing all of the tangible and intangible assets of the impaired reporting units as if the reporting units had been acquired in a business combination. Due to the extensive work involved in performing these valuations, we initially recognized an estimated impairment loss and indicated that the final impairment measurement would be completed during the first quarter of 2009, with any resulting adjustments recorded upon completion of the analysis.

As a result of the completion of the step two analysis, we determined that the final goodwill impairment charge as of December 31, 2008 was \$175.0 million, which consisted of \$147.8 million and \$27.2 million for the Geon Compounds and Specialty Coatings reporting units, respectively. This represents an increase in the goodwill impairment charge for Specialty Coatings of \$12.4 million and a decrease for Geon Compounds of \$7.4 million, as compared to the preliminary estimates recorded in the fourth quarter of 2008. The difference of \$5.0 million as compared to our preliminary estimated charge of \$170.0 million was recorded in the first quarter of 2009.

This adjustment is recorded in the accompanying consolidated statements of operations on the line *Adjustment to impairment of goodwill* and is reflected on the line *Corporate and eliminations* in Note 13, *Segment Information*.

## CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

In this quarterly report on Form 10-Q, statements that are not reported financial results or other historical information are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give current expectations or forecasts of future events and are not guarantees of future performance. They are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. They use words such as “will,” “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 and/or sales. Factors that could cause actual results to differ materially from those implied by these forward-looking statements include, but are not limited to:

- the effect on foreign operations of currency fluctuations, tariffs and other political, economic and regulatory risks;
- changes in polymer consumption growth rates in the markets where PolyOne conducts business;
- 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;
- production outages or material costs associated with scheduled or unscheduled maintenance programs;
- unanticipated developments that could occur with respect to contingencies such as litigation and environmental matters, 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 working capital reductions, cost reductions and employee productivity goals;
- an inability to raise or sustain prices for products or services;
- an inability to maintain appropriate relations with unions and employees;
- the continued degradation in the North American residential construction market;
- the timing of plant closings in connection with the recently announced manufacturing realignments;
- separation and severance amounts that differ from original estimates because of the timing of employee terminations;

- amounts for non-cash charges relating to property, plant and equipment that differ from the original estimates because of the ultimate fair market value of such property, plant and equipment;
- amounts required for capital expenditures at remaining locations changing based on the level of expenditures required to shift production capacity;
- our ability to realize anticipated savings and operational benefits from our realigning of assets, including those related to closure of certain production facilities;
- the financial condition of our customers, including the ability of customers (especially those that may be highly leveraged and those with inadequate liquidity) to maintain their credit availability;
- disruptions, uncertainty or volatility in the credit markets that could adversely impact the availability of credit already arranged and the availability and cost of credit in the future; and
- other factors affecting our business beyond our control, including, without limitation, changes in the general economy, changes in interest rates and changes in the rate of inflation.

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, except as otherwise required by law. You are advised, however, to consult any further disclosures we make on related subjects in our reports on Forms 10-Q, 8-K and 10-K furnished to the SEC. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to certain market risks as part of our ongoing business operations, including risks from changes in interest rates on debt obligations and foreign currency exchange rates that could impact our financial condition, results of operations and cash flows. We manage our exposure to these and other market risks through regular operating and financing activities, including the use of derivative financial instruments. We intend to use these derivative financial instruments as risk management tools and not for speculative investment purposes.

*Interest rate exposure* — We are subject to interest rate risk related to our floating rate debt. As of March 31, 2009, approximately 86% of our debt obligations were at fixed rates. There would be no significant impact on our interest expense or cash flows from either a 10% increase or decrease in market rates of interest on our outstanding variable rate debt as of March 31, 2009.

To help manage borrowing costs, we may periodically enter into interest rate swap agreements. Under these arrangements, we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts on agreed-upon notional principal amounts. As of March 31, 2009, there were no outstanding interest rate swap agreements.

*Foreign currency exposure* — We enter into intercompany lending transactions that are denominated in various foreign currencies and are subject to financial exposure from foreign exchange rate movement from the date a loan is recorded to the date it is settled or revalued. To mitigate this risk, we enter into foreign exchange contracts. These contracts are not treated as hedges and, as a result, are marked to market, with the resulting gains and losses recognized as other income or expense in the accompanying consolidated statements of operations. Gains and losses on these contracts generally offset gains or losses on the assets and liabilities being hedged. At March 31, 2009, these agreements had a fair value of \$(1.2) million. The estimated potential effect on the fair values of these foreign exchange contracts, outstanding as of March 31, 2009, given a 10% change in exchange rates would be a \$6.2 million impact to pre-tax income. We do not hold or issue financial instruments for trading purposes. For more information about our foreign currency exposure, see Note 16, *Derivatives*, to the accompanying consolidated financial statements.

We face translation risks related to the changes in foreign currency exchange rates. Amounts invested in our foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as a component of Accumulated other comprehensive income (loss) in the Shareholders' equity section of the accompanying consolidated balance sheets. Net sales and expenses in our foreign

operations' foreign currencies are translated into varying amounts of U.S. dollars depending upon whether the U.S. dollar weakens or strengthens against other currencies. Therefore, changes in exchange rates may either positively or negatively affect our net sales and expenses from foreign operations as expressed in U.S. dollars.

#### Item 4. Controls and Procedures

##### Disclosure controls and procedures

PolyOne's management, under the supervision of and with the participation of its Chief Executive Officer and its Chief Financial Officer, has evaluated the effectiveness of the design and operation of PolyOne's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this quarterly report. Based upon this evaluation, PolyOne's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, its disclosure controls and procedures were effective.

##### Changes in internal control over financial reporting

There were no changes in PolyOne's internal control over financial reporting during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

#### Part II — Other Information

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

The table below sets forth information regarding repurchases by the Company of its common shares during the period indicated:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program (1)
January 1 to January 31	—	\$ —	—	8,750,000
February 1 to February 28	65,400(2)	2.23	—	8,750,000
March 1 to March 31	—	—	—	8,750,000
Total	<u>65,400</u>	<u>\$ 2.23</u>	<u>—</u>	

- (1) On August 18, 2008, our Board of Directors approved a stock repurchase program authorizing us, depending upon market conditions and other factors, to repurchase up to 10.0 million shares of our common stock, in the open market or in privately negotiated transactions.
- (2) Represents shares surrendered or deemed surrendered to our company to satisfy the tax withholding obligations in connection with the vesting of restricted stock.

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
10.1+	First Amendment to The Geon Company Section 401(a)(17) Benefit Restoration Plan (December 31, 2007 Restatement)
10.2+	Amendment No. 1 to the PolyOne Supplemental Retirement Benefit Plan (As Amended and Restated Effective December 31, 2007)
10.3+	Form of Grant of Performance Shares under the 2009 Long-Term Incentive Plan
10.4+	Form of Grant of Stock-Settled Stock Appreciation Rights under the 2009 Long-Term Incentive Plan
10.5+	Form of Grant of Performance Units under the 2009 Long-Term Incentive Plan
31.1	Certification of Stephen D. Newlin, Chairman, President and Chief Executive Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Robert M. Patterson, Senior Vice President and Chief Financial Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Stephen D. Newlin, Chairman, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Robert M. Patterson, Senior Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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+ Indicates management contract or compensatory plan, contract or arrangement in which one or more directors or executive officers of the Registrant may be participants

SIGNATURE

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.

May 6, 2009

POLYONE CORPORATION

/s/ Robert M. Patterson

Robert M. Patterson

Senior Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

## **EXHIBIT INDEX**

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FIRST AMENDMENT  
TO  
THE GEON COMPANY  
SECTION 401(a)(17) BENEFIT RESTORATION PLAN  
(December 31, 2007 Restatement)

PolyOne Corporation hereby adopts this First Amendment to The Geon Company Section 401(a)(17) Benefit Restoration Plan (December 31, 2007 Restatement) (the “Plan”) effective March 20, 2009. Words and phrases used herein with initial capital letters that are defined in the Plan are used herein as so defined.

I.

The Preamble to the Plan is hereby amended by the addition of the following new paragraph at the end thereof:

“Effective as of the close of business on March 20, 2009, all Supplemental Restoration Benefits and Supplemental Preretirement Surviving Spouse Death Benefits under the Plan are permanently frozen.”

II.

Section 3.1 of the Plan is hereby amended by the addition of the following new subsection (d) at the end thereof:

“(d) Notwithstanding the foregoing provisions of this Section 3.1 or any other provision of the Plan to the contrary, all Supplemental Restoration Benefits and Supplemental Preretirement Surviving Spouse Death Benefits under the Plan are permanently frozen effective as of the close of business on March 20, 2009. In furtherance of, but without limiting the foregoing, a Participant shall not receive credit under this Plan for any eligible earnings that are paid on or after March 20, 2009.”

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EXECUTED as of the 15th day of January, 2009.

POLYONE CORPORATION

By: \_\_\_\_\_  
Gordon D. Harnett  
Title: Chair, Compensation and Governance Committee

AMENDMENT NO. 1  
TO THE  
POLYONE SUPPLEMENTAL RETIREMENT BENEFIT PLAN  
(As Amended and Restated Effective December 31, 2007)

PolyOne Corporation (the "Company") hereby adopts this Amendment No. 1 to the PolyOne Supplemental Retirement Benefit Plan (As Amended and Restated Effective December 31, 2007) (the "Plan"), effective March 20, 2009. Words and phrases used herein with initial capital letters that are defined in the Plan are used herein as so defined.

I.

Section 8 of the Plan is hereby amended in its entirety to read as follows:

**"SECTION 8. EMPLOYER CONTRIBUTIONS**

As of each payroll period, the Employer shall allocate to the account of each Participant an amount equal to the difference between, (a) the retirement contributions that would otherwise be contributed on behalf of the Participant under Section 4.2(b) of the Retirement Plan if the provisions of the Retirement Plan were administered without regard to the limitations imposed by Sections 401(a)(17) and 415 of the Code and (b) the retirement contributions made on his or her behalf under the Retirement Plan for such payroll period."

II.

The first sentence of Section 11 of the Plan is hereby amended in its entirety to read as follows:

"A Participant shall be 100% vested in that portion of his or her account which is attributable to elective deferrals made under Section 5, employer matching contributions made under Section 7 and the employer contributions made prior to March 21, 2009 under Section 8 that correspond to transition contributions under Section 4.2(c) of the Retirement Plan."

[Signature on Following Page]

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EXECUTED as of the 15th day of January, 2009.

POLYONE CORPORATION

By: \_\_\_\_\_  
Gordon D. Harnett  
Title: Chair, Compensation and Governance Committee



[DATE]

Attn: [\_\_\_\_\_]   
 PolyOne Corporation

POLYONE CORPORATION INCENTIVE AWARD

**Grant of Performance Shares**

**THIS AGREEMENT CONSTITUTES PART OF A PROSPECTUS COVERING  
SECURITIES REGISTERED UNDER THE SECURITIES ACT OF 1933, AS  
AMENDED. THE COMMON SHARES OF THE COMPANY ARE LISTED ON THE  
NEW YORK STOCK EXCHANGE.**

Dear [\_\_\_\_\_]:

Subject to the terms and conditions of the [INSERT PLAN] (the “Plan”) and this letter agreement (this “Agreement”), the Compensation and Governance Committee of the Board of Directors (the “Committee”) of PolyOne Corporation (“PolyOne”) (or a subcommittee thereof) has granted to you as of [DATE], the following award:

[\_\_\_\_\_] performance shares (the “Performance Shares”), with each such Performance Share being equal in value to one share of PolyOne’s common stock, par value \$0.01 per share (the “Common Shares”) and the payment of which depends on PolyOne’s performance as set forth in this Agreement.

A copy of the Plan is available for your review through the Corporate Secretary’s office. Unless otherwise indicated, the capitalized terms used in this Agreement shall have the same meanings as set forth in the Plan.

1. **Performance Shares.**

- (a) Your right to receive all or any portion of the Performance Shares will be contingent upon the achievement of certain management objectives (the “Management Objectives”), as set forth below. The achievement of the Management Objectives will be measured during the period from [DATE] through [DATE] (the “Performance Period”).

US Form — Performance Shares

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- (b) The Management Objectives for the Performance Period will be based solely on achievement of performance goals relating to the stock price appreciation of Common Shares.

2. **Earning of Performance Shares.**

- (a) The number of Performance Shares that you will earn at the conclusion of the Performance Period shall be determined as follows:
  - (i) If, upon the conclusion of the Performance Period, the market price of the Common Shares as reported on the New York Stock Exchange — Composite Transactions Listing or similar report has reached a minimum of \$\_\_\_\_, but has not exceeded \$\_\_\_\_ for a minimum of three consecutive trading days during the Performance Period, you shall earn only one-third of the Performance Shares.
  - (ii) If, upon the conclusion of the Performance Period, the market price of the Common Shares as reported on the New York Stock Exchange — Composite Transactions Listing or similar report has reached a minimum of \$\_\_\_\_, but has not exceeded \$\_\_\_\_ for a minimum of three consecutive trading days during the Performance Period, you shall earn only two-thirds of the Performance Shares.
  - (iii) If, upon the conclusion of the Performance Period, the market price of the Common Shares as reported on the New York Stock Exchange — Composite Transactions Listing or similar report has reached a minimum of \$\_\_\_\_ for a minimum of three consecutive trading days during the Performance Period, you shall earn all of the Performance Shares.
- (b) In no event shall any Performance Shares become earned if the market price of the Common Shares as reported on the New York Stock Exchange — Composite Transactions Listing or similar report does not reach \$\_\_\_\_ for a minimum of three consecutive trading days during the Performance Period.
- (c) If the Committee determines that a change in the business, operations, corporate structure or capital structure of PolyOne, the manner in which it conducts business or other events or circumstances render the Management Objectives to be unsuitable, the Committee may modify such Management Objectives or the related levels of achievement, in whole or in part, as the Committee deems appropriate; provided, however, that no such action will be made in the case of a Covered Employee where such action may result in the loss of the otherwise available exemption of the award under Section 162(m) of the Code.
- (d) Subject to Section 3 and Section 4, your right to receive any Performance Shares is contingent upon your remaining in the continuous employ of PolyOne or a Subsidiary through [DATE] (the “Determination Date”). The Committee shall determine the number of Performance Shares that shall have become earned hereunder as of the Determination Date. For awards to Covered Employees, the

Committee shall only have the ability and authority to reduce, but not increase, the amount of Performance Shares that become earned hereunder.

3. **Change of Control.** If a Change of Control (as defined on Exhibit A to this Agreement) occurs prior to the end of the Performance Period, PolyOne shall pay to you 100% of the Performance Shares as soon as administratively practicable after, but in all events no later than 60 days following, the Change of Control.
4. **Retirement, Disability or Death.** If your employment with PolyOne or a Subsidiary terminates before the Determination Date due to (a) retirement at age 55 or older with at least 10 years of service or retirement under other circumstances entitling you to receive benefits under one of PolyOne's (including its predecessors) defined benefit pension plans or under an individual agreement with PolyOne, (b) permanent and total disability (as defined under the relevant disability plan or program of PolyOne or a Subsidiary in which you then participate) or (c) death, PolyOne shall pay to you or your executor or administrator, as the case may be, the portion of the Performance Shares to which you would have been entitled under Section 2 above, had you remained employed by PolyOne through the Determination Date, prorated based on the number of days during the Performance Period that you were employed by PolyOne or a Subsidiary. The pro-rata portion of the Performance Shares required to be paid under this Section 4 shall be paid to you or your executor or administrator, as the case may be, as provided in Section 6 of this Agreement.
5. **Other Termination.** If your employment with PolyOne or a Subsidiary terminates before the Determination Date for any reason other than as set forth in Section 4 above and before a Change of Control, the Performance Shares will be forfeited.
6. **Payment of Performance Shares.** Payment of any Performance Shares that become earned as set forth herein will be made in the form of Common Shares. Payment will be made as soon as practicable after the end of the Performance Period, but no later than [DATE]. If PolyOne determines that it is required to withhold any federal, state, local or foreign taxes from any payment of Performance Shares made hereunder, PolyOne shall withhold from the total number of Performance Shares that you are to receive upon vesting a number of shares that has a total value equal to the amount necessary to satisfy any and all such withholding tax obligations. The value of any fraction of retained shares not necessary for required withholding shall be applied to your income tax withholding by PolyOne generally. Instead of withholding shares as described above, PolyOne may, in its discretion, (a) require you to remit to PolyOne on the date on which you become the owner of Common Shares under this Agreement cash in an amount sufficient to satisfy all applicable required withholding taxes and social security contributions related to the shares, or (b) deduct from your regular salary payroll cash, on a payroll date following the date on which you become the owner of Common Shares under this Agreement, in an amount sufficient to satisfy such obligations.
7. **Adjustments.** In the event of any change in the number of Common Shares by reason of a merger, consolidation, reorganization, recapitalization, or similar transaction, or in the event of a stock dividend, stock split, or distribution to shareholders (other than normal

cash dividends), the number and class of shares subject to outstanding Performance Shares and other value determinations, if any, applicable to outstanding Performance Shares will be adjusted. Such adjustment shall be made automatically on the customary arithmetical basis in the case of any stock split, including a stock split effected by means of a stock dividend, and in the case of any other dividend paid in Common Shares. If any such transaction or event occurs, the Committee may provide in substitution for outstanding Performance Shares such alternative consideration (including, without limitation, in the form of cash, securities or other property) as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Performance Shares subject to this Agreement. No adjustment provided for in this Section 7 will require PolyOne to issue any fractional shares.

8. **Non-Assignability.** The Performance Shares subject to this grant of Performance Shares are personal to you and may not be sold, exchanged, assigned, transferred, pledged, encumbered or otherwise disposed of by you until they become earned as provided in this Agreement; provided, however, that your rights with respect to such Performance Shares may be transferred by will or pursuant to the laws of descent and distribution. Any purported transfer or encumbrance in violation of the provisions of this Section 7 shall be void, and the other party to any such purported transaction shall not obtain any rights to or interest in such Performance Shares.
9. **Cash Dividends.** Cash dividends on the Performance Shares covered by this Agreement shall be sequestered by PolyOne from and after [DATE], until such time as any of such Performance Shares become earned in accordance with this Agreement, whereupon such dividends shall be converted into a number of Common Shares (based on the Market Value per Share on the date such Performance Shares become earned) to the extent such dividends are attributable to Performance Shares that have become earned. To the extent that Performance Shares covered by this Agreement are forfeited, all of the dividends sequestered with respect to such Performance Shares shall also be forfeited. No interest shall be payable with respect to any such dividends.
10. **Miscellaneous.**
  - (a) The contents of this Agreement are subject in all respects to the terms and conditions of the Plan as approved by the Board and the shareholders of PolyOne, which are controlling. The interpretation and construction by the Board and/or the Committee of any provision of the Plan or this Agreement shall be final and conclusive upon you, your estate, executor, administrator, beneficiaries, personal representative and guardian and PolyOne and its successors and assigns.
  - (b) The grant of the Performance Shares is discretionary and will not be considered to be an employment contract or a part of your terms and conditions of employment or of your salary or compensation. Information about you and your participation in the Plan, including, without limitation, your name, home address and telephone number, date of birth, social security number or other identification number, salary, nationality, job title, any shares of stock or directorships held in PolyOne, and details of the Performance Shares or other entitlement to shares of stock



awarded, cancelled, exercised, vested, unvested or outstanding in your favor may be collected, recorded, held, used and disclosed by PolyOne and any of its Subsidiaries and any non-PolyOne entities engaged by PolyOne to provide services in connection with this grant (a "Third Party Administrator"), for any purpose related to the administration of the Plan. You understand that PolyOne and its Subsidiaries may transfer such information to Third Party Administrators, regardless of whether such Third Party Administrators are located within your country of residence, the European Economic Area or in countries outside of the European Economic Area, including the United States of America. You consent to the processing of information relating to you and your participation in the Plan in any one or more of the ways referred to above. This consent may be withdrawn at any time in writing by sending a declaration of withdrawal to PolyOne's chief human resources officer.

- (c) Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto. The terms and conditions of this Agreement may not be modified, amended or waived, except by an instrument in writing signed by a duly authorized executive officer at PolyOne. Notwithstanding the foregoing, no amendment shall adversely affect your rights under this Agreement without your consent.
- (d) By signing this Agreement, you acknowledge that you have entered into an Employee Agreement with PolyOne. You understand that, as set forth in Paragraph 5 and Attachment A of the Employee Agreement, you have agreed not to engage in certain prohibited practices in competition with PolyOne following the termination of your employment (hereinafter referred to as the "Covenant Not to Compete"). You further acknowledge that as consideration for entering into the Covenant Not to Compete, PolyOne is providing you the opportunity to participate in PolyOne's long-term incentive plan and receive the award set forth in this Agreement. You understand that eligibility for participation in the long-term incentive plan was conditioned upon entering into the Covenant Not to Compete. You further understand and acknowledge that you would have been ineligible to participate in the long-term incentive plan and receive this award had you decided not to agree to the Covenant Not to Compete. You understand that the acknowledgment contained in this sub-section is a part of the Employee Agreement and is to be interpreted in a manner consistent with its terms.

11. **Notice.** All notices under this Agreement to PolyOne must be delivered personally or mailed to PolyOne Corporation at PolyOne Center, Avon Lake, Ohio 44012, Attention: Corporate Secretary. PolyOne's address may be changed at any time by written notice of such change to you. Also, all notices under this Agreement to you will be delivered personally or mailed to you at your address as shown from time to time in PolyOne's records.

12. **Compliance with Section 409A of the Code.**

- (a) To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to you. This Agreement and the Plan shall be administered in a manner consistent with this intent.
- (b) Reference 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.

13. **Counterparts.** 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.

14. **Severability.** If one or more of the provisions of this Agreement is invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

This Agreement, and the terms and conditions of the Plan, shall bind, and inure to the benefit of you, your estate, executor, administrator, beneficiaries, personal representative and guardian and PolyOne and its successors and assigns.

Very Truly Yours,

POLYONE CORPORATION

By: \_\_\_\_\_  
Kenneth M. Smith, Senior Vice President,  
Chief Information and Human Resources  
Officer

Accepted:

\_\_\_\_\_  
\_\_\_\_\_  
(Date)

## Exhibit A

A “Change of Control” means:

(a) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of voting securities of PolyOne where such acquisition causes such Person to own 25% or more of the combined voting power of the then outstanding voting securities of PolyOne entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this paragraph (a), the following acquisitions shall not be deemed to result in a Change of Control: (i) any acquisition directly from PolyOne that is approved by the Incumbent Board (as defined in paragraph (b) below), (ii) any acquisition by PolyOne, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by PolyOne or any corporation controlled by PolyOne or (iv) any acquisition by any corporation pursuant to a transaction that complies with clauses (i), (ii) and (iii) of paragraph (c) below; provided, further, that if any Person’s beneficial ownership of the Outstanding Company Voting Securities reaches or exceeds 25% as a result of a transaction described in clause (i) or (ii) above, and such Person subsequently acquires beneficial ownership of additional voting securities of PolyOne, such subsequent acquisition shall be treated as an acquisition that causes such Person to own 25% or more of the Outstanding Company Voting Securities; and provided, further, that if at least a majority of the members of the Incumbent Board determines in good faith that a Person has acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 25% or more of the Outstanding Company Voting Securities inadvertently, and such Person divests as promptly as practicable a sufficient number of shares so that such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) less than 25% of the Outstanding Company Voting Securities, then no Change of Control shall have occurred as a result of such Person’s acquisition; or

(b) individuals who, as of August 31, 2000, constitute the Board (the “Incumbent Board” as modified by this paragraph (b)) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to August 31, 2000 whose election, or nomination for election by PolyOne’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (either by specific vote or by approval of the proxy statement of PolyOne in which such person is named as a nominee for director, without objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) the consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of PolyOne or the acquisition of assets of another corporation or other transaction (“Business Combination”) excluding, however, such a Business Combination pursuant to which (i) the individuals and entities who were the beneficial

owners of the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that as a result of such transaction owns PolyOne or all or substantially all of PolyOne's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of PolyOne, PolyOne or such entity resulting from such Business Combination) beneficially owns, directly or indirectly, 25% or more of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors of the entity resulting from such Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) approval by the shareholders of PolyOne of a complete liquidation or dissolution of PolyOne except pursuant to a Business Combination that complies with clauses (i), (ii) and (iii) of paragraph (c) above.



[DATE]

Attn: [\_\_\_\_\_] ]  
PolyOne Corporation

**POLYONE CORPORATION INCENTIVE AWARD**

**Grant of Stock-Settled SARs**

**THIS AGREEMENT CONSTITUTES PART OF A PROSPECTUS COVERING  
SECURITIES REGISTERED UNDER THE SECURITIES ACT OF 1933, AS  
AMENDED. THE COMMON SHARES OF THE COMPANY ARE LISTED ON THE  
NEW YORK STOCK EXCHANGE.**

Dear [\_\_\_\_\_] :

Subject to the terms and conditions of the [INSERT PLAN] (the “Plan”) and this letter agreement (this “Agreement”), the Compensation and Governance Committee of the Board of Directors (the “Committee”) of PolyOne Corporation (“PolyOne”) has granted to you as of [DATE], the following award:

Stock-Settled Stock Appreciation Rights (“SARs”) in respect of an aggregate of [\_\_\_\_\_] common shares of PolyOne, having a par value of \$0.01 per share (the “Common Shares”). The price (the “Base Price”) to be used as the basis for determining the Spread (as defined below) upon exercise of the SAR is \$\_\_\_\_\_, the fair market value of one Common Share on [DATE].

A copy of the Plan is available for your review through the Corporate Secretary’s office. Unless otherwise indicated, the capitalized terms used in this Agreement shall have the same meanings as set forth in the Plan.

**1. Vesting and Exercise of SARs.**

- (a) Subject to the provisions of the Plan and this Agreement, the SARs will expire on [DATE] and shall be exercisable on or before [DATE]. Provided that you have been in the continuous employ of PolyOne or a Subsidiary on the respective vesting date specified below (except as provided in Section 3(ii)), the SARs shall vest as follows:
  - (i) If the market price of the Common Shares as reported on the New York Stock Exchange — Composite Transactions Listing or similar report reaches a minimum of U.S. \$\_\_\_\_\_ for three consecutive trading days prior to [DATE], one-third of the SARs shall vest on the first trading day

US Form — SARs

immediately following the third consecutive trading day of the first such consecutive trading day period to occur prior to [DATE]; provided, however, that such vested SARs may be exercised no earlier than [DATE].

- (ii) If the market price of the Common Shares as reported on the New York Stock Exchange — Composite Transactions Listing or similar report reaches a minimum of U.S. \$ \_\_\_\_\_ for three consecutive trading days prior to [DATE], an additional one-third of the SARs shall vest on the first trading day immediately following the third consecutive trading day of the first such consecutive trading day period to occur prior to [DATE]; provided, however, that such vested SARs may be exercised no earlier than [DATE].
- (iii) If the market price of the Common Shares as reported on the New York Stock Exchange — Composite Transactions Listing or similar report reaches a minimum of U.S. \$ \_\_\_\_\_ for three consecutive trading day prior to [DATE], the remaining one-third of the SARs shall vest on the first trading day immediately following the third consecutive trading day of the first such consecutive trading day period to occur prior to [DATE]; provided, however, that such vested SARs may be exercised no earlier than [DATE].
- (b) The SARs may be exercised as provided in this Section 1(b) as to all or any of the SARs that are exercisable in accordance with Section 1(a), as long as each exercise covers at least 1,000 SARs. To exercise the SARs, you must submit a SAR Exercise Form to PolyOne signed by you stating the number of SARs you are exercising at that time and certifying that you are in compliance with the terms and conditions of the Plan. PolyOne will then issue you the number of Common Shares determined under Section 1(c).
- (c) The number of Common Shares to be issued will be determined by calculating (i) the difference between the fair market value of a Common Share on the date of exercise and the Base Price (the “Spread”); (ii) multiplied by the number of SARs exercised; (iii) less any withholding taxes (federal, state, local or foreign taxes) PolyOne determines are to be withheld in accordance with the Plan and with applicable law. The result of this calculation will then be divided by the fair market value of a Common Share on the date of exercise to determine the number of Common Shares to be issued, rounded down to the nearest whole share. For purposes of this Section 1(c), the term “fair market value” will mean the closing price of the Common Shares on the date of exercise as reported on the New York Stock Exchange — Composite Transactions Listing or similar report. In no event will you be entitled to acquire a fraction of one Common Share pursuant to this Agreement.
- (d) If the Committee determines that a change in the business, operations, corporate structure or capital structure of PolyOne, the manner in which it conducts business or other events or circumstances render the stock price appreciation

targets specified in Section 1(a) (the “Management Objectives”) to be unsuitable, the Committee may modify such Management Objectives or the related levels of achievement, in whole or in part, as the Committee deems appropriate; provided, however, that no such action will be made in the case of a Covered Employee where such action may result in the loss of the otherwise available exemption of the award under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”).

2. **Vesting Upon a Change of Control.** If a Change of Control (as defined on Exhibit A to this Agreement) occurs during the term of the SARs, the SARs, to the extent not previously fully exercisable, will become immediately exercisable in full.
3. **Retirement, Disability or Death.** If your employment with PolyOne or a Subsidiary terminates before the expiration of the SARs due to (a) retirement at age 55 or older with at least 10 years of service or retirement under other circumstances entitling you to receive benefits under one of PolyOne’s (including its predecessors) defined benefit pension plans or under an individual agreement with PolyOne, (b) permanent and total disability (as defined under the relevant disability plan or program of PolyOne or a Subsidiary in which you then participate) or (c) death, then:
  - (i) Any SARs that have vested as provided in Section 1(a) above, but have not been exercised as of the time of the termination of your employment, may be exercised in whole or in part (subject to the provisos in Section 1(a) above) for the shorter of (A) a period of three years after the termination of your employment and (B) the remainder of their term, but in no event beyond [DATE], after which such SARs will terminate; and
  - (ii) If any SARs become vested as provided in Section 1(a) above following the termination of your employment and before [DATE], you, or your executor or administrator, as the case may be, will be entitled to exercise, in whole or in part (subject to the provisos in Section 1(a) above), a pro-rata portion of the number of SARs that vest following the termination of your employment, based on the number of days that you were employed by PolyOne or a Subsidiary during the period commencing [DATE] and ending [DATE], for a period of three years after the termination of your employment.
4. **Termination Following Change of Control.**
  - (a) If your employment with PolyOne or a Subsidiary terminates following a Change of Control because (i) your employment is involuntarily terminated without “Cause” (as defined below), or (ii) you terminate your employment for “Good Reason” (as defined below), notwithstanding anything herein to the contrary, the SARs may be exercised in whole or in part at any time and from time to time for the remainder of their term, but in no event beyond [DATE], after which the SARs will terminate.

(b) For purposes of Section 4(a) above:

- (i) If you are a party to a Management Continuity Agreement, “Cause” shall mean “Cause” and “Good Reason” shall mean “Good Reason,” each as defined in your Management Continuity Agreement;
- (ii) If you are not a party to a Management Continuity Agreement, “Cause” shall mean: (A) the willful and continued failure by you to substantially perform your duties with PolyOne or a Subsidiary, which failure causes material and demonstrable injury to PolyOne or a Subsidiary (other than any such failure resulting from your incapacity due to physical or mental illness), after a demand for substantial performance is delivered to you by PolyOne or a Subsidiary which specifically identifies the manner in which you have not substantially performed your duties, and after you have been given a period (hereinafter known as the “Cure Period”) of at least thirty (30) days to correct your performance, or (B) the willful engaging by you in other gross misconduct materially and demonstrably injurious to PolyOne or a Subsidiary. For purposes of this Section 4(b)(ii), no act, or failure to act, on your part shall be considered “willful” unless conclusively demonstrated to have been done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interests of PolyOne or a Subsidiary; and
- (iii) If you are not a party to a Management Continuity Agreement, “Good Reason” shall mean, without your express written consent: (A) your permanent assignment to a new work location that would either increase your routine one-way commute by fifty (50) or more miles, measured by the shortest commonly traveled routes between your then-current residence and new reporting or work location, or make your routine one-way commute sixty (60) or more miles, or (B) a reduction in your base salary, target annual incentive amount or employer-provided benefits, if immediately after the reduction the aggregate total of your base salary, target annual incentive amount and value of employer-provided benefits is less than eighty percent (80%) of the aggregate total of your salary, target annual incentive amount and the value of employer-provided benefits immediately prior to the Change of Control.

5. **Other Termination.** If your employment with PolyOne or a Subsidiary terminates before the expiration of the SARs for any reason other than as set forth in Sections 3 or 4 above, the SARs that are exercisable shall be limited to the number of SARs that could have been exercised under Section 1 above at the time of your termination of employment and shall terminate as to the remaining SARs and may be exercised as to such limited number of SARs at any time within ninety (90) days of your termination of employment, but in no event beyond [DATE], after which the SARs will terminate.



6. **Non-Assignability.** The SARs are personal to you and are not transferable by you other than by will or the laws of descent and distribution. They are exercisable during your lifetime only by you or by your guardian or legal representative.
7. **Adjustments.** In the event of any change in the number of Common Shares by reason of a merger, consolidation, reorganization, recapitalization, or similar transaction, or in the event of a stock dividend, stock split, or distribution to shareholders (other than normal cash dividends), the number and class of shares subject to outstanding SARs, the Base Price applicable to outstanding SARs and other value determinations, if any, applicable to outstanding SARs will be adjusted. Such adjustment shall be made automatically on the customary arithmetical basis in the case of any stock split, including a stock split effected by means of a stock dividend, and in the case of any other dividend paid in Common Shares. If any such transaction or event occurs, the Committee may provide in substitution for outstanding SARs such alternative consideration (including, without limitation, in the form of cash, securities or other property) as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the SARs subject to this Agreement. No adjustment provided for in this Section 7 will require PolyOne to issue any fractional shares.
8. **Miscellaneous.**
- (a) The contents of this letter are subject in all respects to the terms and conditions of the Plan as approved by the Board and the shareholders of PolyOne, which are controlling. The interpretation and construction by the Board and/or the Committee of any provision of the Plan or this Agreement shall be final and conclusive upon you, your estate, executor, administrator, beneficiaries, personal representative and guardian and PolyOne and its successors and assigns.
- (b) The grant of the SARs is discretionary and will not be considered to be an employment contract or a part of your terms and conditions of employment or of your salary or compensation. Information about you and your participation in the Plan, including, without limitation, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in PolyOne, and details of the SARs or other entitlement to shares of stock awarded, cancelled, exercised, vested, unvested or outstanding in your favor may be collected, recorded, held, used and disclosed by PolyOne and any of its Subsidiaries and any non-PolyOne entities engaged by PolyOne to provide services in connection with this grant (a "Third Party Administrator"), for any purpose related to the administration of the Plan. You understand that PolyOne and its Subsidiaries may transfer such information to Third Party Administrators, regardless of whether such Third Party Administrators are located within your country of residence, the European Economic Area or in countries outside of the European Economic Area, including the United States of America. You consent to the processing of information relating to you and your participation in the Plan in any one or more of the ways referred to above. This consent may be withdrawn at any time in

writing by sending a declaration of withdrawal to PolyOne's chief human resources officer.

- (c) Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto. The terms and conditions of this Agreement may not be modified, amended or waived, except by an instrument in writing signed by a duly authorized executive officer at PolyOne. Notwithstanding the foregoing, no amendment shall adversely affect your rights under this Agreement without your consent.
- (d) By signing this Agreement, you acknowledge that you have entered into an Employee Agreement with PolyOne. You understand that, as set forth in Paragraph 5 and Attachment A of the Employee Agreement, you have agreed not to engage in certain prohibited practices in competition with PolyOne following the termination of your employment (hereinafter referred to as the "Covenant Not to Compete"). You further acknowledge that as consideration for entering into the Covenant Not to Compete, PolyOne is providing you the opportunity to participate in PolyOne's long-term incentive plan and receive the award set forth in this Agreement. You understand that eligibility for participation in the long-term incentive plan was conditioned upon entering into the Covenant Not to Compete. You further understand and acknowledge that you would have been ineligible to participate in the long-term incentive plan and receive this award had you decided not to agree to the Covenant Not to Compete. You understand that the acknowledgment contained in this sub-section is a part of the Employee Agreement and is to be interpreted in a manner consistent with its terms.

9. **Notice.** All notices under this Agreement to PolyOne must be delivered personally or mailed to PolyOne Corporation at PolyOne Center, Avon Lake, Ohio 44012, Attention: Corporate Secretary. PolyOne's address may be changed at any time by written notice of such change to you. Also, all notices under this Agreement to you will be delivered personally or mailed to you at your address as shown from time to time in PolyOne's records.

10. **Compliance with Section 409A of the Code.**

- (a) To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to you. This Agreement and the Plan shall be administered in a manner consistent with this intent.
- (b) Reference 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.

11. **Counterparts.** 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.
12. **Severability.** If one or more of the provisions of this Agreement is invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

This Agreement, and the terms and conditions of the Plan, shall bind, and inure to the benefit of you, your estate, executor, administrator, beneficiaries, personal representative and guardian and PolyOne and its successors and assigns.

Very Truly Yours,

POLYONE CORPORATION

By: \_\_\_\_\_  
Kenneth M. Smith, Senior Vice President,  
Chief Information and Human Resources Officer

Accepted:

\_\_\_\_\_

\_\_\_\_\_ (Date)

## **Exhibit A**

A “Change of Control” means:

(a) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of voting securities of PolyOne where such acquisition causes such Person to own 25% or more of the combined voting power of the then outstanding voting securities of PolyOne entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this paragraph (a), the following acquisitions shall not be deemed to result in a Change of Control: (i) any acquisition directly from PolyOne that is approved by the Incumbent Board (as defined in paragraph (b) below), (ii) any acquisition by PolyOne, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by PolyOne or any corporation controlled by PolyOne or (iv) any acquisition by any corporation pursuant to a transaction that complies with clauses (i), (ii) and (iii) of paragraph (c) below; provided, further, that if any Person’s beneficial ownership of the Outstanding Company Voting Securities reaches or exceeds 25% as a result of a transaction described in clause (i) or (ii) above, and such Person subsequently acquires beneficial ownership of additional voting securities of PolyOne, such subsequent acquisition shall be treated as an acquisition that causes such Person to own 25% or more of the Outstanding Company Voting Securities; and provided, further, that if at least a majority of the members of the Incumbent Board determines in good faith that a Person has acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 25% or more of the Outstanding Company Voting Securities inadvertently, and such Person divests as promptly as practicable a sufficient number of shares so that such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) less than 25% of the Outstanding Company Voting Securities, then no Change of Control shall have occurred as a result of such Person’s acquisition; or

(b) individuals who, as of August 31, 2000, constitute the Board (the “Incumbent Board” as modified by this paragraph (b)) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to August 31, 2000 whose election, or nomination for election by PolyOne’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (either by specific vote or by approval of the proxy statement of PolyOne in which such person is named as a nominee for director, without objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) the consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of PolyOne or the acquisition of assets of another corporation or other transaction (“Business Combination”); excluding, however, such a Business Combination pursuant to which (i) the individuals and entities who were the beneficial

owners of the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that as a result of such transaction owns PolyOne or all or substantially all of PolyOne's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of PolyOne, PolyOne or such entity resulting from such Business Combination) beneficially owns, directly or indirectly, 25% or more of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors of the entity resulting from such Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) approval by the shareholders of PolyOne of a complete liquidation or dissolution of PolyOne except pursuant to a Business Combination that complies with clauses (i), (ii) and (iii) of paragraph (c) above.



[DATE]

Attn: [\_\_\_\_\_]
   
PolyOne Corporation

POLYONE CORPORATION INCENTIVE AWARD

**Grant of Performance Units**

**THIS AGREEMENT CONSTITUTES PART OF A PROSPECTUS COVERING  
SECURITIES REGISTERED UNDER THE SECURITIES ACT OF 1933, AS  
AMENDED. THE COMMON SHARES OF THE COMPANY ARE LISTED ON THE  
NEW YORK STOCK EXCHANGE.**

Dear [\_\_\_\_\_]:

Subject to the terms and conditions of the [INSERT PLAN] (the “Plan”) and this letter agreement (this “Agreement”), the Compensation and Governance Committee of the Board of Directors (the “Committee”) of PolyOne Corporation (“PolyOne”) (or a subcommittee thereof) has granted to you as of [DATE], the following award:

[\_\_\_\_\_] performance units (the “Performance Units”), with each such Performance Unit being equal in value to \$1.00, payment of which depends on PolyOne’s performance as set forth in this Agreement and in your Statement of Performance Goals.

A copy of the Plan is available for your review through the Corporate Secretary’s office. Unless otherwise indicated, the capitalized terms used in this Agreement shall have the same meanings as set forth in the Plan.

1. **Performance Units.**

- (a) Your right to receive all or any portion of the Performance Units will be contingent upon the achievement of certain management objectives (the “Management Objectives”), as set forth in your Statement of Performance Goals. The achievement of the Management Objectives will be measured during the period from January 1, 20\_\_ through December 31, 20\_\_ (the “Performance Period”).
- (b) The Management Objectives for the Performance Period will be based solely on achievement of performance goals relating to PolyOne’s Consolidated Working

US Form — Performance Units

Capital Percentage of Sales (“Working Capital”), as defined in your Statement of Performance Goals.

2. **Earning of Performance Units.**

- (a) The Performance Units shall be earned as follows:
  - (i) If, upon the conclusion of the Performance Period, Working Capital equals or exceeds the threshold level, but is less than the 100% target level, as set forth in the Performance Matrix contained in your Statement of Performance Goals, a proportionate number of the Performance Units shall become earned, as determined by mathematical interpolation and rounded up to the nearest whole unit.
  - (ii) If, upon the conclusion of the Performance Period, Working Capital equals or exceeds the 100% target level, but is less than the maximum level, as set forth in the Performance Matrix contained in your Statement of Performance Goals, a proportionate number of the Performance Units shall become earned, as determined by mathematical interpolation and rounded up to the nearest whole unit.
  - (iii) If, upon the conclusion of the Performance Period, Working Capital equals or exceeds the maximum level, as set forth in the Performance Matrix contained in your Statement of Performance Goals, 200% of the Performance Units shall become earned.
- (b) In no event shall any Performance Units become earned if actual performance falls below the threshold level for Working Capital.
- (c) If the Committee determines that a change in the business, operations, corporate structure or capital structure of PolyOne, the manner in which it conducts business or other events or circumstances render the Management Objectives to be unsuitable, the Committee may modify such Management Objectives or the related levels of achievement, in whole or in part, as the Committee deems appropriate; provided, however, that no such action will be made in the case of a Covered Employee where such action may result in the loss of the otherwise available exemption of the award under Section 162(m) of the Code.
- (d) Your right to receive any Performance Units is contingent upon your remaining in the continuous employ of PolyOne or a Subsidiary through the payment date, which shall be a date in [YEAR] determined by the Board and shall occur no later than [DATE] (the “Payment Date”). For awards to Covered Employees, the Committee shall only have the ability and authority to reduce, but not increase, the amount of Performance Units that become earned hereunder.

3. **Change of Control.** Subject to Section 6(b),
- (a) if a Change of Control (as defined on Exhibit A to this Agreement) occurs prior to the end of the Performance Period, PolyOne shall pay to you 100% of the Performance Units as soon as administratively practicable after, but in all events no later than 60 days following, the Change of Control; and
  - (b) if a Change of Control (as defined on Exhibit A to this Agreement) occurs after the end of the Performance Period but on or prior to the Payment Date, PolyOne shall pay to you the actual number of Performance Units earned pursuant to Section 2(a) as soon as administratively practicable after, but in all events no later than 60 days following, the Change of Control.
4. **Retirement, Disability or Death.** If your employment with PolyOne or a Subsidiary terminates before the Payment Date due to (a) retirement at age 55 or older with at least 10 years of service or retirement under other circumstances entitling you to receive benefits under one of PolyOne's (including its predecessors) defined benefit pension plans or under an individual agreement with PolyOne, (b) permanent and total disability (as defined under the relevant disability plan or program of PolyOne or a Subsidiary in which you then participate) or (c) death, PolyOne shall pay to you or your executor or administrator, as the case may be, the portion of the Performance Units to which you would have been entitled under Section 2 above, had you remained employed by PolyOne through the Payment Date, prorated based on the number of days that you were employed by PolyOne or a Subsidiary from [DATE] until the Payment Date. The pro-rata portion of the Performance Units required to be paid under this Section 4 shall be paid to you or your executor or administrator, as the case may be, as provided in Section 6 of this Agreement.
5. **Other Termination.** If your employment with PolyOne or a Subsidiary terminates before the Payment Date for any reason other than as set forth in Section 4 above or before a Change of Control, the Performance Units will be forfeited.
6. **Payment of Performance Units.**
- (a) Payment of any Performance Units that become earned as set forth herein will be made in the form of cash. The amount of the cash payment to be made shall be determined by multiplying (i) the number of Performance Units earned pursuant to Sections 2, 3 or 4 above by (ii) \$1.00. Except as provided in Section 3 and Section 6(b), payment will be made on the Payment Date. If PolyOne determines that it is required to withhold any federal, state, local or foreign taxes from any payment, PolyOne will withhold the amount of these taxes from the payment.
  - (b) If the event triggering the right to payment under Section 3 or Section 4 above does not constitute a permitted distribution event under Section 409A(a)(2) of the Code, then notwithstanding anything herein to the contrary, the cash payment will be made to you, to the extent necessary to comply with Section 409A of the Code, on the earliest of (i) your "separation from service" with PolyOne or a Subsidiary



(determined in accordance with Section 409A); (ii) the Payment Date (to the extent it constitutes a permitted distribution event); or (iii) your death. In addition, if you are a “key employee” as determined pursuant to procedures adopted by PolyOne in compliance with Section 409A of the Code and any payment made pursuant to this Agreement is considered to be a “deferral of compensation” (as such phrase is defined for purposes of Section 409A of the Code) that is payable upon your “separation from service” (within the meaning of Section 409A of the Code), then the payment date for such payment shall be the date that is the first business day of the seventh month after the date of your “separation from service” with PolyOne or a Subsidiary (determined in accordance with Section 409A of the Code).

7. **Non-Assignability.** The Performance Units subject to this grant of Performance Units are personal to you and may not be sold, exchanged, assigned, transferred, pledged, encumbered or otherwise disposed of by you until they become earned as provided in this Agreement; provided, however, that your rights with respect to such Performance Units may be transferred by will or pursuant to the laws of descent and distribution. Any purported transfer or encumbrance in violation of the provisions of this Section 7 shall be void, and the other party to any such purported transaction shall not obtain any rights to or interest in such Performance Units.

8. **Miscellaneous.**

- (a) The contents of this Agreement are subject in all respects to the terms and conditions of the Plan as approved by the Board and the shareholders of PolyOne, which are controlling. The interpretation and construction by the Board and/or the Committee of any provision of the Plan or this Agreement shall be final and conclusive upon you, your estate, executor, administrator, beneficiaries, personal representative and guardian and PolyOne and its successors and assigns.
- (b) The grant of the Performance Units is discretionary and will not be considered to be an employment contract or a part of your terms and conditions of employment or of your salary or compensation. Information about you and your participation in the Plan, including, without limitation, your name, home address and telephone number, date of birth, social security number or other identification number, salary, nationality, job title, any shares of stock or directorships held in PolyOne, and details of the Performance Units or other entitlement to shares of stock awarded, cancelled, exercised, vested, unvested or outstanding in your favor may be collected, recorded, held, used and disclosed by PolyOne and any of its Subsidiaries and any non-PolyOne entities engaged by PolyOne to provide services in connection with this grant (a “Third Party Administrator”), for any purpose related to the administration of the Plan. You understand that PolyOne and its Subsidiaries may transfer such information to Third Party Administrators, regardless of whether such Third Party Administrators are located within your country of residence, the European Economic Area or in countries outside of the European Economic Area, including the United States of America. You consent to the processing of information relating to you and your participation in the Plan

in any one or more of the ways referred to above. This consent may be withdrawn at any time in writing by sending a declaration of withdrawal to PolyOne's chief human resources officer.

- (c) Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto. The terms and conditions of this Agreement may not be modified, amended or waived, except by an instrument in writing signed by a duly authorized executive officer at PolyOne. Notwithstanding the foregoing, no amendment shall adversely affect your rights under this Agreement without your consent.
- (d) By signing this Agreement, you acknowledge that you have entered into an Employee Agreement with PolyOne. You understand that, as set forth in Paragraph 5 and Attachment A of the Employee Agreement, you have agreed not to engage in certain prohibited practices in competition with PolyOne following the termination of your employment (hereinafter referred to as the "Covenant Not to Compete"). You further acknowledge that as consideration for entering into the Covenant Not to Compete, PolyOne is providing you the opportunity to participate in PolyOne's long-term incentive plan and receive the award set forth in this Agreement. You understand that eligibility for participation in the long-term incentive plan was conditioned upon entering into the Covenant Not to Compete. You further understand and acknowledge that you would have been ineligible to participate in the long-term incentive plan and receive this award had you decided not to agree to the Covenant Not to Compete. You understand that the acknowledgment contained in this sub-section is a part of the Employee Agreement and is to be interpreted in a manner consistent with its terms.

9. **Notice.** All notices under this Agreement to PolyOne must be delivered personally or mailed to PolyOne Corporation at PolyOne Center, Avon Lake, Ohio 44012, Attention: Corporate Secretary. PolyOne's address may be changed at any time by written notice of such change to you. Also, all notices under this Agreement to you will be delivered personally or mailed to you at your address as shown from time to time in PolyOne's records.

10. **Compliance with Section 409A of the Code.**

- (a) To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to you. This Agreement and the Plan shall be administered in a manner consistent with this intent.
- (b) Reference 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.

11. **Counterparts.** 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.
12. **Severability.** If one or more of the provisions of this Agreement is invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

This Agreement, and the terms and conditions of the Plan, shall bind, and inure to the benefit of you, your estate, executor, administrator, beneficiaries, personal representative and guardian and PolyOne and its successors and assigns.

Very Truly Yours,

POLYONE CORPORATION

By: \_\_\_\_\_  
Kenneth M. Smith, Senior Vice President, Chief  
Information and Human Resources Officer

Accepted:

\_\_\_\_\_

\_\_\_\_\_ (Date)

## **Exhibit A**

A “Change of Control” means:

(a) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of voting securities of PolyOne where such acquisition causes such Person to own 25% or more of the combined voting power of the then outstanding voting securities of PolyOne entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this paragraph (a), the following acquisitions shall not be deemed to result in a Change of Control: (i) any acquisition directly from PolyOne that is approved by the Incumbent Board (as defined in paragraph (b) below), (ii) any acquisition by PolyOne, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by PolyOne or any corporation controlled by PolyOne or (iv) any acquisition by any corporation pursuant to a transaction that complies with clauses (i), (ii) and (iii) of paragraph (c) below; provided, further, that if any Person’s beneficial ownership of the Outstanding Company Voting Securities reaches or exceeds 25% as a result of a transaction described in clause (i) or (ii) above, and such Person subsequently acquires beneficial ownership of additional voting securities of PolyOne, such subsequent acquisition shall be treated as an acquisition that causes such Person to own 25% or more of the Outstanding Company Voting Securities; and provided, further, that if at least a majority of the members of the Incumbent Board determines in good faith that a Person has acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 25% or more of the Outstanding Company Voting Securities inadvertently, and such Person divests as promptly as practicable a sufficient number of shares so that such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) less than 25% of the Outstanding Company Voting Securities, then no Change of Control shall have occurred as a result of such Person’s acquisition; or

(b) individuals who, as of August 31, 2000, constitute the Board (the “Incumbent Board” as modified by this paragraph (b)) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to August 31, 2000 whose election, or nomination for election by PolyOne’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (either by specific vote or by approval of the proxy statement of PolyOne in which such person is named as a nominee for director, without objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) the consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of PolyOne or the acquisition of assets of another corporation or other transaction (“Business Combination”) excluding, however, such a Business Combination pursuant to which (i) the individuals and entities who were the beneficial

US Form — Performance Units

owners of the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that as a result of such transaction owns PolyOne or all or substantially all of PolyOne's assets either directly or through one or more subsidiaries), (ii) no Person (excluding any employee benefit plan (or related trust) of PolyOne, PolyOne or such entity resulting from such Business Combination) beneficially owns, directly or indirectly, 25% or more of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors of the entity resulting from such Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) approval by the shareholders of PolyOne of a complete liquidation or dissolution of PolyOne except pursuant to a Business Combination that complies with clauses (i), (ii) and (iii) of paragraph (c) above.

## CERTIFICATION

I, Stephen D. Newlin, certify that:

1. I have reviewed this quarterly 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.

May 6, 2009

/s/ Stephen D. Newlin

Stephen D. Newlin

Chairman, President and Chief Executive Officer

# CERTIFICATION

I, Robert M. Patterson, certify that:

1. I have reviewed this quarterly 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.

May 6, 2009

/s/ Robert M. Patterson

Robert M. Patterson

Senior Vice President and Chief Financial Officer

**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 March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen D. Newlin, Chairman, 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/ Stephen D. Newlin

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Stephen D. Newlin  
Chairman, President and Chief Executive Officer  
May 6, 2009

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.



**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 March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert M. Patterson, Senior 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/ Robert M. Patterson

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Robert M. Patterson  
Senior Vice President and Chief Financial Officer  
May 6, 2009

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.