SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For Quarterly Period Ended September 30, 2004. 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

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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No o

As of October 25, 2004, there were 91,616,135 common shares outstanding.

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Part I - Financial Information

Item 1. Financial Statements

PolyOne Corporation and Subsidiaries

Condensed Consolidated Statements of Operations (Unaudited)
(In millions, except per share data)

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Sales	$552.2	$493.3	$1,645.6	$1,490.5
Operating costs and expenses:				
Cost of sales	469.1	414.6	1,377.3	1,261.7
Selling and administrative	49.1	61.3	166.2	184.6
Depreciation and amortization	9.1	12.8	31.7	38.6
Employee separation and plant phase-out	(0.3)	7.7	(1.5)	26.1
Environmental remediation at inactive sites	7.4	0.3	8.7	1.1
Loss on sale of assets	0.2	—	5.9	0.3
Income from equity affiliates and minority interest	(20.2)	(10.1)	(46.1)	(25.8)
Operating income	37.8	6.7	103.4	3.9
Interest expense	(18.1)	(19.2)	(54.8)	(49.0)
Other expense, net	(5.7)	(2.6)	(11.7)	(9.1)
Income (loss) before income taxes and discontinued operations	14.0	(15.1)	36.9	(54.2)
Income tax expense	(2.2)	(26.3)	(7.5)	(11.2)
Income (loss) before discontinued operations	11.8	(41.4)	29.4	(65.4)
Discontinued operations:				
Income (loss) from operations, net of income taxes	(0.2)	(1.8)	7.7	(3.1)
Net income (loss)	$ 11.6	$ (43.2)	$ 37.1	$ (68.5)
Income (loss) per share of common stock:				
Basic income (loss) per share before discontinued operations	$ 0.13	$ (0.45)	$ 0.32	$ (0.72)
Discontinued operations	—	(0.02)	0.08	(0.03)
Basic income (loss) per share	$ 0.13	$ (0.47)	$ 0.40	$ (0.75)
Diluted income (loss) per share before discontinued operations	$ 0.13	$ (0.45)	$ 0.32	$ (0.72)
Discontinued operations	—	(0.02)	0.08	(0.03)
Diluted income (loss) per share	$ 0.13	$ (0.47)	$ 0.40	$ (0.75)
Weighted average shares used to compute earnings per share:				
Basic	91.5	91.1	91.5	91.0
Diluted	91.8	91.1	91.7	91.0
Dividends paid per share of common stock	$ —	$ —	$ —	$ —

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)
(In millions, except per share data)

	September 30, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 114.7	$ 48.7
Accounts receivable, net	345.6	263.5
Inventories	201.7	196.9
Deferred income tax assets	27.0	26.9
Other current assets	16.9	17.7
Discontinued operations	33.4	52.1
Total current assets	739.3	605.8
Property, net	431.2	486.1
Investment in equity affiliates	268.3	256.7
Goodwill, net	327.1	334.0
Other intangible assets, net	14.1	20.2
Other non-current assets	59.8	53.2
Discontinued operations	63.1	144.9
Total assets	$1,902.9	$1,900.9
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term bank debt	$ 4.0	$ 1.1
Accounts payable	221.6	173.4
Accrued expenses	124.7	111.1
Current portion of long-term debt	44.4	26.3
Discontinued operations	24.9	52.3
Total current liabilities	419.6	364.2
Long-term debt	673.0	757.1
Deferred income tax liabilities	24.2	25.9
Post-retirement benefits other than pensions	115.0	120.3
Other non-current liabilities, including pensions	266.0	257.9
Minority interest in consolidated subsidiaries	7.8	8.5
Discontinued operations	0.2	0.2
Total liabilities	1,505.8	1,534.1
Shareholders' equity:		
Preferred stock, 40.0 shares authorized, no shares issued	—	—
Common stock, $.01 par, 400.0 shares authorized, 122.2 shares issued at September 30, 2004 and December 31, 2003	1.2	1.2
Other shareholders' equity	395.9	365.6
Total shareholders' equity	397.1	366.8
Total liabilities and shareholders' equity	$1,902.9	$1,900.9

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)
(In millions)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Operating Activities		
Net income (loss)	$ 37.1	$ (68.5)
Income (loss) from discontinued operations	7.7	(3.1)
Income (loss) from continuing operations	29.4	(65.4)
Adjustments to reconcile income (loss) from continuing operations to net cash used by operating activities of continuing operations:		
Employee separation and plant phase-out charges	(1.5)	26.1
Cash payments on employee separation and plant phase-out	(18.9)	(35.3)
Charges for environmental remediation at inactive sites	8.7	1.1
Cash payments on environmental remediation at inactive sites	(1.0)	(1.2)
Depreciation and amortization	31.7	38.6
Loss on sale of assets	5.9	0.3
Companies carried at equity and minority interest:		
Income from equity affiliates	(47.1)	(27.2)
Minority interest expense	1.0	1.4
Dividends and distributions received	34.7	12.5
Deferred income taxes	1.4	—
Change in assets and liabilities:		
Accounts receivable	(60.6)	(128.0)
FIFO inventories	(25.7)	1.2
Accounts payable	55.0	4.6
Decrease in sale of accounts receivable	(70.7)	(14.6)
Accrued expenses and other	42.3	27.6
Net cash used by operating activities of continuing operations	(15.4)	(158.3)
Investing Activities		
Capital expenditures	(13.0)	(22.7)
Business acquired, net of cash received	(5.1)	(15.8)
Proceeds from sale of discontinued business, net of note receivable of $14.0	106.0	—
Proceeds from sale of assets	31.9	27.0
Net cash provided (used) by investing activities of continuing operations	119.8	(11.5)
Financing Activities		
Change in short-term debt	20.9	(90.1)
Change in long-term debt	(83.4)	297.8
Termination of interest rate swaps	(0.3)	(2.6)
Debt issuance costs	—	(14.7)
Net cash provided (used) by financing activities of continuing operations	(62.8)	190.4
Net cash provided (used) by discontinued operations	24.8	(8.4)
Effect of exchange rate on changes on cash	(0.4)	(3.2)
Increase in cash and cash equivalents	66.0	9.0
Cash and cash equivalents at beginning of period	48.7	41.4
Cash and cash equivalents at end of period	$114.7	$ 50.4

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

PolyOne Corporation and Subsidiaries

Condensed Consolidated Statements of Shareholders' Equity (Unaudited)
(Dollars in millions, shares in thousands)

	Common Shares	Common Shares Held in Treasury	Total	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Common Stock Held in Treasury	Share Ownership Trust	Accumulated Other Non-Owner Equity Changes
Balance January 1, 2003	122,192	30,517	$579.7	$1.2	$1,069.5	$ 18.7	$(341.1)	$(1.8)	$(166.8)
Non-owner equity changes:									
Net loss			(19.3)			(19.3)			
Translation adjustment			11.3						11.3
Net unrealized gain on securities			0.1						0.1
Total non-owner equity changes			(7.9)						
Stock-based compensation and benefits		(35)	0.9		(0.4)		0.4	0.4	0.5
Balance March 31, 2003	122,192	30,482	$572.7	$1.2	$1,069.1	$ (0.6)	$(340.7)	$(1.4)	$(154.9)
Non-owner equity changes:									
Net loss			(6.0)			(6.0)			
Translation adjustment			7.9						7.9
Net unrealized gain on securities			—						—
Total non-owner equity changes			1.9						
Adjustment to market value			—		0.1			(0.1)	
Stock-based compensation and benefits		(23)	0.7		(0.2)		0.3	0.3	0.3
Balance June 30, 2003	122,192	30,459	$575.3	$1.2	$1,069.0	$ (6.6)	$(340.4)	$(1.2)	$(146.7)
Non-owner equity changes:									
Net loss			(43.2)			(43.2)			
Translation adjustment			(0.4)						(0.4)
Net unrealized gain on securities			0.1						0.1
Total non-owner equity changes			(43.5)						
Stock-based compensation and benefits		(16)	0.3		(0.3)		0.3		0.3
Balance September 30, 2003	122,192	30,443	$532.1	$1.2	$1,068.7	$ (49.8)	$(340.1)	$(1.2)	$(146.7)
Balance January 1, 2004	122,192	30,425	$366.8	$1.2	$1,068.7	$(232.4)	$(339.8)	$(1.3)	$(129.6)
Non-owner equity changes:									
Net income			4.0			4.0			
Translation adjustment			0.2			—			0.2
Total non-owner equity changes			4.2			4.0			0.2
Stock-based compensation and benefits		141	(0.9)		(0.1)		(0.8)		
Balance March 31, 2004	122,192	30,566	$370.1	$1.2	$1,068.6	$(228.4)	$(340.6)	$(1.3)	$(129.4)
Non-owner equity changes:									
Net income			21.5			21.5			—
Translation adjustment			(12.5)			—			(12.5)
Total non-owner equity changes			9.0			21.5			(12.5)
Stock-based compensation and benefits		(4)	—		0.1			(0.1)	
Balance June 30, 2004	122,192	30,562	$379.1	$1.2	$1,068.7	$(206.9)	$(340.6)	$(1.4)	$(141.9)
Non-owner equity changes:									
Net income			11.6			11.6			—
Translation adjustment			6.3			—			6.3
Total non-owner equity changes			17.9			11.6			6.3
Stock-based compensation and benefits		(24)	0.1		(0.1)		0.2		
Balance September 30, 2004	122,192	30,538	$397.1	$1.2	$1,068.6	$(195.3)	$(340.4)	$(1.4)	$(135.6)

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Form 10-Q instructions and, in the opinion of management, contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. These interim statements should be read in conjunction with the financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2003 of PolyOne Corporation.

Operating results for the three and nine month periods ended September 30, 2004 are not necessarily indicative of the results expected in subsequent quarters or for the year ending December 31, 2004.

We have separately presented costs related to employee separation and plant phase-out, environmental remediation at inactive sites and loss on sale of assets in our Condensed Consolidated Statements of Operations. Employee separation and plant phase-out costs are discussed in Note H below. Environmental remediation at inactive sites represents environmental remediation costs for manufacturing facilities that we either no longer own, or that we closed in prior years. Loss on sale of assets includes a $0.3 million loss recorded upon the sale of our European vinyl compounding business in the second quarter of 2003 and a $5.9 million loss upon the sale of our Melos rubber granulates business in the second quarter of 2004. We completed the sale of the Melos business on June 9, 2004 to the Melos management team, which was supported by investors from a group of European banks and funds, to allow us to focus on our core plastic compounding and color additives businesses. The business, which we acquired in 1998, had 2003 sales of approximately $35 million and was previously included in the Performance Plastics business segment.

On October 21, 2003, we announced that our future focus would be on our global Plastics Compounding and Color & Additive Masterbatch businesses, and our Distribution business, as part of our drive to improve profitability and strengthen our balance sheet because we believe these businesses have the strongest market synergies and potential for success. As a result, our Elastomers and Performance Additives, Engineered Films and Specialty Resins businesses were targeted for divestment. The Elastomers and Performance Additives business had 2002 sales of $363.8 million and pre-tax income of $24.0 million. The Engineered Films and Specialty Resins businesses had 2002 sales of $242.9 million and pre-tax income of $8.7 million.

As a result, as of December 31, 2003, PolyOne's Elastomers and Performance Additives, Specialty Resins and Engineered Films businesses qualified for accounting treatment as discontinued operations. The net assets held for sale of the discontinued operations were written down in the fourth quarter of 2003 to their projected net sale proceeds. These charges, totaling $92.6 million for the Elastomers and Performance Additives business and $37.9 million for the Engineered Films and Specialty Resins businesses, were included in "Income (loss) from discontinued operations and loss on sale, net of income taxes" on the Consolidated Statement of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2003.

On June 28, 2004, we entered into a definitive agreement with an entity formed by an investor group led by Lion Chemical Capital, LLC and ACI Capital Co., Inc. to sell our Elastomers and Performance Additives business. The sale, which was completed on August 5, 2004, provided gross proceeds before associated fees and costs of approximately $120 million, of which $106 million was paid in cash on that date and $14 million is in the form of a six-year note from the buyer. This price was within our previous range of estimates for the sale of this unit. Accordingly, through September 30, 2004, all historical financial information of these businesses (sales, costs and expenses, assets and liabilities and cash flows) has been reported separately as discontinued operations. Elastomers and Performance Additives was previously reported as a separate business segment. The Specialty Resins and Engineered Films businesses were previously included in PolyOne's Performance Plastics business segment. In addition, in 2004, PolyOne recognized a $15.3 million non-cash pre-tax charge for impairment of net assets held for sale to adjust the net asset carrying value of the Elastomers and Performance Additives business to the net proceeds. The carrying amounts of the major classes of assets and liabilities of the Engineered Films and Specialty Resins businesses as of September 30, 2004 are reflected in "Discontinued operations" in the Condensed Consolidated Balance Sheets. The net carrying value of these businesses at September 30, 2004 was $71.4 million.

Note B – Accounting Policies

Stock-Based Compensation - As provided under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock Based Compensation," PolyOne has elected to account for stock-based compensation under the provisions of Accounting

Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Compensation cost for stock options is measured as the excess, if any, of the quoted market price of the PolyOne stock at the date of the grant over the amount an employee must pay to acquire the stock. Compensation cost for stock appreciation rights (SARs) is recognized upon vesting, and is the amount by which the quoted market value of the shares of PolyOne stock covered by the grant exceeds the appreciation rights' specified value. At September 30, 2004, approximately 1.6 million SARs were issued and outstanding, of which approximately 184,000 were vested and exercisable at share prices ranging from $6.00 to $12.22. The impact on compensation expense was less than $0.1 million for the three and nine month periods ended September 30, 2004.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share data)	**2004**	**2003**	**2004**	**2003**
Net income (loss), as reported	$11.6	$(43.2)	$37.1	$(68.5)
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	0.6	1.2	1.9	3.7
Pro forma net income (loss)	$11.0	$(44.4)	$35.2	$(72.2)
Net income (loss) per share:				
Basic and diluted - as reported	$0.13	$(0.47)	$0.40	$(0.75)
Basic and diluted - pro forma	$0.12	$(0.49)	$0.38	$(0.79)

New Accounting Pronouncements - In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 clarifies the application of accounting Research Bulletin No. 51, "Consolidated Financial Statements," for certain entities which do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of a controlling financial interest ("variable interest entities"). Variable interest entities are required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both, as a result of holding variable interests. These include ownership, contractual, or other pecuniary interests in an entity. FIN 46 was effective for all variable interest entities during PolyOne's first quarter of fiscal 2004. The adoption of FIN 46 had no impact on our overall financial position, results of operations or cash flows.

On March 31, 2004, the FASB issued its Exposure Draft, "Share-Based Payment", which is a proposed amendment to SFAS No**.** 123, "Accounting for Stock-Based Compensation." The amendment would require all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The FASB expects to issue a final standard late in 2004. On October 13, 2004, the FASB decided that the final amendment would be effective for public companies for any interim or annual period beginning after June 15, 2005, though early adoption would be encouraged, provided that financial statements for periods prior to the effective date have not been issued.

Reclassification - Certain amounts for prior periods have been reclassified to conform to the current period's presentation.

Note C – Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended September 30, 2004 by business segment are as follows:

(In millions)	Performance Plastics	Distribution	Other	Total
December 31, 2003	$331.6	$1.1	$1.3	$334.0
Business acquisition	1.8	0.5	—	2.3
Business divestment	(9.0)	—	—	(9.0)
Currency translation	(0.2)	—	—	(0.2)
September 30, 2004	$324.2	$1.6	$1.3	$327.1

Information regarding PolyOne’s other intangible assets follows:

(In millions)	As of December 31, 2003:			
	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Non-contractual customer relationships	$ 8.1	$ (3.4)	$ —	$ 4.7
Sales contract	12.9	(5.9)	—	7.0
Patents, technology and other	13.3	(6.0)	1.2	8.5
Total	$34.3	$(15.3)	$1.2	$20.2

(In millions)	As of September 30, 2004:			
	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Non-contractual customer relationships	$ 8.6	$ (5.1)	$ —	$ 3.5
Sales contract	12.9	(6.4)	—	6.5
Patents, technology and other	4.0	(1.0)	1.1	4.1
Total	$25.5	$(12.5)	$1.1	$14.1

Amortization of other intangible assets follows:

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Amortization of other intangible assets	$0.8	$0.8	$2.8	$3.0

Amortization expense for each of the five succeeding fiscal years is expected to be approximately $3 million per year.

As of September 30, 2004, we had $327.1 million of goodwill that resulted from acquiring businesses. SFAS No. 142, “Goodwill and Other Intangible Assets,” requires an annual assessment for potential impairment of goodwill and we have elected July 1 as our annual assessment date. During the third quarter of 2004, we completed the required “phase one” goodwill impairment assessment and determined that goodwill was not impaired as of July 1, 2004. We use the combination of two valuation methodologies, a market approach and an income 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. The income approach is based on projected future debt-free cash flow that is discounted to present value using discount factors that consider the timing and risk associated with the forecasted debt-free cash flow. The average fair values of the market approach and income approach exceeded the carrying value by 92% for the Plastic Compounds and Colors reporting unit and by 9% for the Formulators reporting unit. Using the lowest fair value determined by these two methodologies would have resulted in a fair value that exceeded the carrying value by 92% for the Plastic Compounds and Colors reporting unit and by 7% for the Formulators reporting unit. While we determined that there was no additional goodwill impairment as of the annual assessment on July 1, 2004, the future occurrence of a potential indicator of impairment, such as a significant adverse change in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key personnel or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed of, would result in our having to perform an interim assessment for some or all of our reporting units prior to the next required 2005 annual assessment.

Note D – Inventories

Components of inventories are as follows:

(In millions)	September 30, 2004	December 31, 2003
Finished products and in-process inventories	$147.3	$135.0
Raw materials and supplies	83.1	82.9
	230.4	217.9
LIFO reserve	(28.7)	(21.0)
Total inventories	$201.7	$196.9

Note E – Income Taxes

For the third quarter of 2004, PolyOne recorded tax expense of $2.2 million before discontinued operations, which was entirely for foreign taxes. A tax provision was not recorded on domestic income, as a result of the deferred tax valuation recorded in previous periods. PolyOne continues to maintain a full valuation allowance against its net deferred federal and state deferred tax assets. PolyOne intends to maintain a valuation allowance until positive evidence exists to support realization of some or all of the valuation allowance. During the same period in 2003, PolyOne recorded a deferred tax allowance in accordance with SFAS No. 109, "Accounting for Income Taxes." In addition, PolyOne recorded tax expense of $24.0 million related to dividends from foreign subsidiaries and $2.3 million for foreign taxes.

For the nine months ended September 30, 2004, PolyOne recorded tax expense of $7.5 million before discontinued operations, which was entirely for foreign taxes. The tax expense for the nine months ended September 30, 2003 included a tax benefit of $32.1 million, offset by $24.0 million of tax expense related to dividends from foreign subsidiaries, a tax valuation allowance of $9.0 million and foreign tax expense of $10.3 million.

Note F – Investment in Equity Affiliates

PolyOne owns 24% of Oxy Vinyls LP (OxyVinyls), a manufacturer and marketer of PVC resins. OxyVinyls is a leading producer of PVC resins in North America. The following table presents OxyVinyls' summarized results of operations for the three and nine months ended September 30, 2004 and 2003, and summarized balance sheet information as of September 30, 2004 and December 31, 2003.

(In millions)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net sales	$590.6	$452.0	$1,675.3	$1,292.9
Operating income	84.4	34.0	201.1	85.1
Partnership income as reported by OxyVinyls	67.0	29.4	152.7	65.9
PolyOne's ownership of OxyVinyls	24%	24%	24%	24%
PolyOne's proportionate share of OxyVinyls' earnings	16.1	7.0	36.7	15.8
Amortization of the difference between PolyOne's investment and its underlying share of OxyVinyls' equity	0.1	0.2	0.4	0.5
Earnings of equity affiliate recorded by PolyOne	$ 16.2	$ 7.2	$ 37.1	$ 16.3

(In millions)	September 30, 2004	December 31, 2003
Current assets	$ 382.8	$ 326.7
Non-current assets	1,413.5	1,489.4
Total assets	1,796.3	1,816.1
Current liabilities	187.3	196.5
Non-current liabilities	555.8	598.3
Total liabilities	743.1	794.8
Partnership capital	$1,053.2	$1,021.3

OxyVinyls' income during the first quarter of 2003 reported above includes a charge of $3.4 million, net of tax, in connection with a change in accounting from the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations." Our proportionate share of the charge was $0.8 million.

PolyOne's Resin and Intermediates segment also includes SunBelt Chlor-Alkali Partnership (SunBelt), which is 50% owned by PolyOne. The following table presents SunBelt's summarized results of operations for the three and nine months ended September 30, 2004 and 2003, and summarized balance sheet information as of September 30, 2004 and December 31, 2003.

(In millions)	Three Months Ended September 30, 2004	2003	Nine Months Ended September 30, 2004	2003
Net sales	$26.8	$25.6	$69.7	$75.3
Operating income	9.6	7.9	21.1	25.9
Partnership income as reported by SunBelt	6.4	4.6	11.8	16.0
PolyOne's ownership of SunBelt	50%	50%	50%	50%
Earnings of equity affiliate recorded by PolyOne	$ 3.2	$ 2.3	$ 5.9	$ 8.0

(In millions)	September 30, 2004	December 31, 2003
Current assets	$ 33.9	$ 13.1
Non-current assets	126.4	135.3
Total assets	160.3	148.4
Current liabilities	20.5	6.4
Non-current liabilities	158.4	170.6
Total liabilities	178.9	177.0
Partnership deficit	$ (18.6)	$ (28.6)

The Performance Plastics segment includes DH Compounding Company (owned 50%), BayOne Urethane Systems, L.L.C (owned 50%) and Geon/Polimeros Andinos (owned 50%) equity affiliates. For the one-month period ended January 31, 2003, the Performance Plastics segment included results from Techmer PM, LLC, an equity affiliate (owned 51%). In January 2003, we sold our unconsolidated equity ownership interest in Techmer. For the eight-month period ended August 31, 2003, the Resin and Intermediates segment included results from Welvic Australia Pty Ltd (Welvic), an equity affiliate (owned 37.4%). As of September 1, 2003, Welvic sold substantially all of its net operating assets to Orica Ltd, the other partner in the joint venture with PolyOne. Combined summarized financial information for these equity affiliates is presented below.

(In millions)	Three Months Ended September 30, 2004	2003	Nine Months Ended September 30, 2004	2003
Net sales	$28.8	$17.9	$86.3	$51.2
Operating income	$ 2.7	$ 0.3	$ 9.2	$ 4.6
Net income	$ 2.5	$ 1.2	$ 8.4	$ 4.1

Note G – Earnings Per Share Computation

Weighted average shares outstanding are computed as follows:

(In millions)	Three Months Ended September 30, 2004	2003	Nine Months Ended September 30, 2004	2003
Weighted-average shares – basic:				
Weighted-average shares outstanding	91.5	91.7	91.5	91.6
Less unearned portion of restricted stock awards included in outstanding shares	—	(0.6)	—	(0.6)
	91.5	91.1	91.5	91.0
Weighted-average shares – diluted:				
Weighted-average shares outstanding – basic	91.5	91.1	91.5	91.0
Plus unearned portion of restricted stock awards included in outstanding shares plus dilutive impact of stock options and stock awards	0.3	—	0.2	—
	91.8	91.1	91.7	91.0

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

PolyOne has excluded all outstanding options from the calculation of diluted earnings (loss) per share for the three and nine months ended September 30, 2003 because they would have had an anti-dilutive effect due to PolyOne's net loss from continuing operations and exercise prices greater than the average market price of PolyOne's common shares during these periods.

Note H – Employee Separation and Plant Phase-Out

During 2003 and 2004, we have undertaken several restructuring initiatives to improve profitability and, as a result, have incurred various employee separation and plant phase-out costs.

Employee separation costs include salary continuation benefits, medical coverage and outplacement assistance and are based upon a formula that takes into account each individual employee's base compensation level and length of service. We maintain an employee severance plan that provides specific benefits to all employees (except those employed under collective bargaining agreements) who lose their jobs due to reduction in workforce or job elimination initiatives or from closing manufacturing facilities. Collective bargaining employees are covered under the terms of the specific agreement under which they are employed. The amount is determined separately for each affected employee and is recognized at the date the employee is notified if the actual termination date will be within 60 days of notification, or is accrued on a straight-line basis over the period from the notification date to the actual termination date if the termination date is greater than 60 days after the notification date. Of the 1,108 employees identified during 2003 and 40 employees identified in 2001 to be terminated, 405 remained to be terminated at December 31, 2003. As of September 30, 2004, all employees who were affected by these restructuring initiatives have been terminated.

Plant phase-out costs include the impairment of buildings, land, manufacturing equipment and office equipment at manufacturing facilities, and the resulting write-down of the carrying value of these assets to fair value, which represents our best estimate of the net proceeds to be received for the assets to be sold or scrapped, less cost to sell. Plant phase-out costs also include cash facility closing costs and lease termination costs. Assets transferred to other PolyOne facilities were transferred at net book value.

These costs associated with continuing operations are reflected on the Condensed Consolidated Statement of Operations on the line "Employee separation and plant phase-out." These costs associated with discontinued operations are reflected on the Condensed Consolidated Statement of Operations on the line "Income (loss) from discontinued operations, net of income taxes." Plant phase-out costs for continuing operations relate to the Performance Plastics business segment, and for discontinued operations relate to the Engineered Films business, formerly included in the Performance Plastics business segment, and the Elastomers and Performance Additives business, which was previously reported as a separate business segment. For further information, please refer to Note F to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2003.

2004 Charges — Operating income for the first nine months of 2004 includes a $1.5 million benefit and income from discontinued operations includes a $0.9 million expense relative to employee separation and plant phase-out costs as a result of adjusting our estimate for the remaining liabilities associated with restructuring initiatives announced in prior years. Charges recorded in 2004 totaling $6.7 million resulted from the announcement in the fourth quarter of 2003 and closure in the first quarter of 2004 of one of our Engineered Films' manufacturing facilities and two of our Elastomers and Performance Additives' manufacturing facilities. In addition, a gain of $0.3 million was recorded upon the sale of a previously closed Elastomers and Performance Additives' manufacturing facility located in Tillsonburg, Ontario. As a result, income from discontinued operations for the same period was reduced by $6.4 million on a pre-tax basis for employee separation and plant phase-out costs. The liabilities for employee separation and plant phase-out for the businesses reported as discontinued operations will be retained by PolyOne upon the sale of these businesses and, as a result, are included in this discussion. All employees who were affected by the restructuring initiatives announced in prior years have been terminated as of September 30, 2004. The remaining employee separation costs accrued at September 30, 2004 totaling $4.2 million are expected to be paid out through the second quarter of 2005. The remaining plant phase-out cash closure costs accrued at September 30, 2004 totaling $2.9 million are expected to be paid out through the first quarter of 2007.

2003 Charges - Operating income for the first nine months of 2003 was reduced by $26.1 million, and income from discontinued operations for the same period was reduced by $9.2 million, on a pre-tax basis for employee separation and plant phase-out costs. A total of $21.4 million resulted from a January 2003 announcement to reduce approximately 400 staff personnel, of which $18.4 million related to continuing operations and $3.0 million related to discontinued operations. In June 2003, the decision was made to close the Fort Worth, Texas color additives plant, for which an expense of $3.5 million was recorded. During the second quarter of 2003, PolyOne adjusted its estimate for the remaining liabilities associated with restructuring initiatives announced in prior years. As a result of the adjustment, net reserves of $4.0 million were reversed and included in "employee separation and plant phase-out" on the Consolidated Statements of Operations. During the third quarter of 2003, PolyOne closed two leased Ohio administrative offices, closed a portion of the Mexico Distribution business and reduced manufacturing personnel in the North American plastics businesses. The impact of the third quarter closures and reductions was to reduce operating income by $8.2 million and to terminate 112 employees. The remaining $6.2 million of charges in discontinued operations resulted from an announcement in March 2003 to close an Engineered Films' plant.

The following table summarizes the provisions, payments and remaining reserves associated with each of these initiatives from January 1, 2003 through September 30, 2004:

(In millions, except employee numbers)	Employee Separation Number of Employees	Employee Separation Costs	Plant Phase-Out Costs Cash Closure	Plant Phase-Out Costs Asset Write-Downs	Total
January 2003 reduction of staff personnel					
Balance at January 1, 2003		$ —	$—	$ —	$ —
2003 charge (benefit):					
Continuing operations	400	17.7			17.7
Discontinued operations		3.0			3.0
Utilized 2003	(400)	(19.2)	—	—	(19.2)
Balance at December 31, 2003	—	1.5	—	—	1.5
2004 charge (benefit):					
Continuing operations		(0.5)			(0.5)
Discontinued operations					
Utilized 2004	—	(0.9)	—	—	(0.9)
Balance at September, 2004	—	$ 0.1	$—	$ —	$ 0.1

(In millions, except employee numbers)	Employee Separation Number of Employees	Employee Separation Costs	Plant Phase-Out Costs Cash Closure	Plant Phase-Out Costs Asset Write-Downs	Total
Performance Plastics restructuring announced in 2001					
Balance at January 1, 2003	40	$13.5	$ 1.1	$ —	$ 14.6
2003 charge (benefit):					
Continuing operations		(3.6)	0.3	1.1	(2.2)
Discontinued operations					
Utilized 2003	(40)	(9.0)	(1.3)	(1.1)	(11.4)
Balance at December 31, 2003	—	0.9	0.1	—	1.0
2004 charge (benefit):					
Continuing operations		(0.9)	(0.1)		(1.0)
Discontinued operations					
Utilized 2004					
Balance at September, 2004	—	$ —	$ —	$ —	$ —

(In millions, except employee numbers)	Employee Separation Number of Employees	Employee Separation Costs	Plant Phase-Out Costs Cash Closure	Plant Phase-Out Costs Asset Write-Downs	Total
Closure and exit of Engineered Films manufacturing plants					
Balance at January 1, 2003	—	$ —	$ —	$ —	$ —
2003 charge (benefit):					
Continuing operations					
Discontinued operations	199	4.8	3.2	7.1	15.1
Utilized 2003	(82)	(2.2)	(0.9)	(7.1)	(10.2)
Balance at December 31, 2003	117	2.6	2.3	—	4.9
2004 charge (benefit):					
Continuing operations					
Discontinued operations		3.0	(0.1)		2.9
Utilized 2004	(117)	(4.7)	(1.0)		(5.7)
Balance at September, 2004	—	$ 0.9	$ 1.2	$ —	$ 2.1

(In millions, except employee numbers)	Employee Separation Number of Employees	Costs	Plant Phase-Out Costs Cash Closure	Asset Write-Downs	Total
Wynne, Arkansas and Deforest, Wisconsin production facility closures					
Balance at January 1, 2003	—	$ —	$ —	$ —	$ —
2003 charge (benefit):					
Continuing operations					
Discontinued operations	137	1.6		5.5	7.1
Utilized 2003				(5.5)	(5.5)
Balance at December 31, 2003	137	1.6	—	—	1.6
2004 charge (benefit):					
Continuing operations					
Discontinued operations		1.0	2.5		3.5
Utilized 2004	(137)	(2.6)	(2.5)		(5.1)
Balance at September, 2004	—	$ —	$ —	$ —	$ —

(In millions, except employee numbers)	Employee Separation Number of Employees	Costs	Plant Phase-Out Costs Cash Closure	Asset Write-Downs	Total
June 2003 closure of Ft. Worth, Texas color additives plant					
Balance at January 1, 2003	—	$ —	$ —	$ —	$ —
2003 charge (benefit):					
Continuing operations	32	0.5	0.4	2.7	3.6
Discontinued operations					
Utilized 2003	(32)	(0.5)	(0.4)	(2.7)	(3.6)
Balance at December 31, 2003	—	—	—	—	—
2004 charge (benefit):					
Continuing operations		0.6			0.6
Discontinued operations		(0.6)			(0.6)
Utilized 2004					
Balance at September, 2004	—	$ —	$ —	$ —	$ —

(In millions, except employee numbers)	Employee Separation Number of Employees	Costs	Plant Phase-Out Costs Cash Closure	Asset Write-Downs	Total
Mexico & North America administrative staff reductions					
Balance at January 1, 2003	—	$ —	$ —	$ —	$ —
2003 charge (benefit):					
Continuing operations	340	12.9	2.6	0.5	16.0
Discontinued operations		1.2			1.2
Utilized 2003	(189)	(5.1)	(0.4)	(0.5)	(6.0)
Balance at December 31, 2003	151	9.0	2.2	—	11.2
2004 charge (benefit):					
Continuing operations		(0.6)			(0.6)
Discontinued operations		0.9			0.9
Utilized 2004	(151)	(6.1)	(0.5)		(6.6)
Balance at September, 2004	—	$ 3.2	$ 1.7	$ —	$ 4.9

(In millions, except employee numbers)	Employee Separation Number of Employees	Costs	Plant Phase-Out Costs Cash Closure	Asset Write-Downs	Total
Total					
Balance at January 1, 2003	40	$ 13.5	$ 1.1	$ —	$ 14.6
2003 charge (benefit):					
Continuing operations	772	27.5	3.3	4.3	35.1
Discontinued operations	336	10.6	3.2	12.6	26.4
Utilized 2003	(743)	(36.0)	(3.0)	(16.9)	(55.9)
Balance at December 31, 2003	405	15.6	4.6	—	20.2
2004 charge (benefit):					
Continuing operations		(1.4)	(0.1)		(1.5)
Discontinued operations		4.9	2.4		7.3
Utilized 2004	(405)	(14.9)	(4.0)		(18.9)
Balance at September, 2004	—	$ 4.2	$ 2.9	$ —	$ 7.1

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Note I - Employee Benefit Plans

Components of defined-benefit pension plan costs are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2004	2003	2004	2003
Service cost	$ —	$ 0.7	$ 0.6	$ 1.1
Interest cost	6.5	6.7	21.5	22.5
Expected return on plan assets	(5.2)	(4.9)	(19.0)	(16.3)
Amortization of unrecognized losses, transition obligation and prior service cost	0.2	2.8	8.0	10.4
	$ 1.5	$ 5.3	$ 11.1	$ 17.7

There is currently no minimum pension funding payment required for 2004. This differs from the 2004 minimum pension funding estimate of $16 million discussed in our Annual Report on Form 10-K for the year ended December 31, 2003 and from the estimate of $5 million discussed in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 due to recently passed U.S. legislation providing funding relief. We made a voluntary $3.9 million pension funding payment on October 15, 2004. Any additional funding we make in 2004 will depend upon the available cash flows of the business. After giving effect to the $3.9 million October 2004 payment, we currently estimate a minimum funding requirement in 2005 of approximately $28 million. Any additional 2004 funding contributions in excess of the required minimum will reduce funding required in 2005.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2004	2003	2004	2003
Service cost	$ —	$0.2	$ 0.4	$0.6
Interest cost	0.9	2.5	6.1	7.7
Expected return on plan assets	—	—	—	—
Amortization of unrecognized losses, transition obligation and prior service cost	(1.2)	0.4	(0.6)	0.6
	$(0.3)	$3.1	$ 5.9	$8.9

On December 8, 2003, Congress passed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act). On May 19, 2004, the FASB issued Financial Staff Position Number 106-2, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003” (FSP). The FSP is effective for the first interim or annual period beginning after June 15, 2004. The FSP provides guidance on accounting for the effects of the Medicare Act for employers that sponsor post-retirement health care plans that provide prescription drug benefits. As a result, the net cost above reflects a $0.8 million pre-tax benefit for the year to date, which was recorded in the third quarter of 2004 and is included in “Amortization of unrecognized losses, transition obligation and prior service cost.”

Note J – Financing Arrangements

PolyOne is exposed to market risk from changes in interest rates on debt obligations and from changes in foreign currency exchange rates. Information related to these risks and our management of the exposure is included in Item 7A “Qualitative and Quantitative Information about Market Risk” in PolyOne’s Annual Report on Form 10-K for the year ended December 31, 2003. PolyOne periodically enters into interest rate swap agreements that convert fixed-rate obligations to floating rates. During July 2003, PolyOne terminated all outstanding interest rate swap agreements at a cash cost of $2.6 million. PolyOne then immediately entered into new interest rate swap agreements on seven of its fixed-rate obligations in the aggregate amount of $120.0 million. These exchange agreements are “perfectly effective” as defined by SFAS No. 133, “Accounting for Derivative Financial Instruments and Hedging Activities.” During September 2004, PolyOne terminated one of the seven interest rate swap agreements at a cash cost of $0.3 million. At September 30, 2004, the six remaining agreements had a net fair value obligation of ($3.0) million. The weighted-average interest rate for these six agreements was 5.634%. There have been no material changes in the market risk faced by us from December 31, 2003 to September 30, 2004.

Note K – Sale of Accounts Receivable

Accounts receivable consist of the following:

(In millions)	September 30, 2004	December 31, 2003
Trade accounts receivable	$173.6	$134.9
Retained interest in securitized accounts receivable	179.4	137.9
Allowance for doubtful accounts	(7.4)	(9.3)
	$345.6	$263.5

Under the terms of its receivables sale facility, PolyOne sells its accounts receivable to PolyOne Funding Corporation (PFC), a wholly-owned, bankruptcy remote subsidiary. At September 30, 2004, accounts receivable totaling $179.4 million were sold by PolyOne to PFC and, as a result, are included as a reduction of accounts receivable on the PolyOne Condensed Consolidated Balance Sheet. PFC in turn sells an undivided interest in these accounts receivable to certain investors and realizes proceeds of up to $175 million. The maximum amount of proceeds that PFC may receive under the facility is limited to 85% of the then-current amount of the accounts receivable sold to PFC. At September 30, 2004, PFC had not sold any of its undivided interests in accounts receivable. PolyOne retains an interest in the $179.4 million difference between the amount of trade receivables sold by PolyOne to PFC and the undivided interests sold by PFC. As a result, this interest retained by PolyOne is included in accounts receivable on the PolyOne Condensed Consolidated Balance Sheet at September 30, 2004 and December 31, 2003. As a result of the sale of our Elastomers and Performance Additives business in August 2004, we amended our receivables sale facility in the third quarter of 2004 to reduce the amount of eligible receivables available to be sold from $225 million to $175 million. The receivables sale facility also makes up to $50 million available for the issuance of standby letters of credit as a sub-limit within the $175 million limit under the facility. Continued availability of the securitization program depends upon compliance with covenants, related primarily to operating performance as set forth in the related agreements. As of September 30, 2004, PolyOne was in compliance with all such covenants.

PolyOne receives the remaining proceeds from collection of the receivables after deduction for the aggregate yield payable on the undivided interests in the receivables sold by PFC, a servicer's fee, an unused commitment fee (between 0.5% and 0.75%, depending upon the amount of the unused portion of the facility), fees for any outstanding letters of credit, and an administration and monitoring fee ($150,000 per annum).

PolyOne also services the underlying accounts receivable and receives a service fee of 1% per annum on the average daily amount of the outstanding interests in its receivables. The net discount and other costs of the receivables sale facility are included in other expenses, net in the Condensed Consolidated Statements of Operations.

Note L – Segment Information

PolyOne operates in three business segments: Performance Plastics, Distribution, and Resin and Intermediates. The Elastomers and Performance Additives business that was sold on August 5, 2004 (see Note A) was previously reported as a separate business segment. The Specialty Resins and Engineered Films businesses were previously included in the Performance Plastics business segment. All three of these businesses are now included in discontinued operations. The Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2004 include the results of the Elastomers and Performance Additives business only through August 5, 2004. The accounting policies of each business segment are consistent with those described in the "Summary of Significant Accounting Policies" in Note C to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2003. Business segment assets consist primarily of customer receivables, inventories, net property and goodwill. Inter-segment sales are accounted for at prices that generally approximate those for similar transactions with unaffiliated customers. The Other segment includes the elimination of inter-segment sales, certain unallocated corporate expenses, including a portion of certain corporate expenses previously allocated to discontinued operations, cash, sales of accounts receivable, assets of discontinued operations and certain other unallocated corporate assets.

Senior management uses operating income before the effect of "special items" to assess performance and allocate resources to business segments because senior management believes that this measure is useful in understanding current profitability levels and how current levels may serve as a base for future performance. In addition, operating income before the effect of "special items" is a component of the PolyOne Annual Incentive Plan at the corporate level and is used in debt covenant computations.

"Special items" include charges related to specific strategic initiatives such as the consolidation of operations, restructuring activities such as employee separation costs resulting from personnel reduction programs, plant closure and phase-out costs, asset impairments, environmental remediation costs for facilities no longer owned or closed in prior years, and gains and losses on the divestiture of joint ventures and equity investments.

Nine months ended September 30, 2004 (in millions)	Total	Performance Plastics	Distribution	Resin and Intermediates	Other Segment	Special Items
Net Sales	$1,645.6	$1,294.8	$454.3		$(103.5)	
Inter-segment sales	—	(99.1)	(4.4)		103.5	
Sales to external customers	$1,645.6	$1,195.7	$449.9		$ —	
Operating income	$ 103.4	$ 74.2	$ 14.0	$33.8	$ (18.6)	
Special items		4.5	—	4.5	4.1	(13.1)
Operating income before allocation of special items		$ 78.7	$ 14.0	$38.3	$ (14.5)	

Nine months ended September 30, 2003 (in millions)	Total	Performance Plastics	Distribution	Resin and Intermediates	Other Segment	Special Items
Net Sales	$1,490.5	$1,183.0	$397.1		$(89.6)	
Inter-segment sales	—	(84.6)	(5.0)		89.6	
Sales to external customers	$1,490.5	$1,098.4	$392.1		$ —	
Operating income	$ 3.9	$ 10.5	$ 4.2	$17.2	$(28.0)	
Special items		17.7	2.5	2.9	8.6	(31.7)
Operating income before allocation of special items		$ 28.2	$ 6.7	$20.1	$(19.4)	

Three months ended September 30, 2004 (in millions)	Total	Performance Plastics	Distribution	Resin and Intermediates	Other Segment	Special Items
Net Sales	$552.2	$426.9	$154.7		$(29.4)	
Inter-segment sales	—	(27.9)	(1.5)		29.4	
Sales to external customers	$552.2	$399.0	$153.2		$ —	
Operating income	$ 37.8	$ 28.5	$ 4.5	$14.9	$(10.1)	
Special items		(0.1)	—	3.2	4.2	(7.3)
Operating income before allocation of special items		$ 28.4	$ 4.5	$18.1	$ (5.9)	

Three months ended September 30, 2003 (in millions)	Total	Performance Plastics	Distribution	Resin and Intermediates	Other Segment	Special Items
Net Sales	$493.3	$392.6	$128.1		$(27.4)	
Inter-segment sales	—	(25.7)	(1.7)		27.4	
Sales to external customers	$493.3	$366.9	$126.4		$ —	
Operating income	$ 6.7	$ 7.2	$ 0.5	$ 7.6	$ (8.6)	
Special items		5.6	1.7	0.3	1.6	(9.2)
Operating income before allocation of special items		$ 12.8	$ 2.2	$ 7.9	$ (7.0)	

A breakdown of the Performance Plastics segment's sales for the three and nine months ended September 30, 2004 and the changes versus the same periods in 2003, by primary product group, is as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2004 Sales $ % of Total	2004 Sales $ % Change vs. 2003	2004 Shipment Lbs. % Change vs. 2003	2004 Sales $ % of Total	2004 Sales $ % Change vs. 2003	2004 Shipment Lbs. % Change vs. 2003
Vinyl Compounds	42%	11%	8%	42%	12%	10%
Colors and Additives	14%	12%	28%	13%	8%	24%
Engineered Materials	7%	10%	(8)%	7%	5%	(5)%
International Compounds and Colors	27%	6%	(10)%	28%	10%	(5)%
Formulators	10%	1%	(8)%	10%	0%	(3)%
Total Performance Plastics	100%	9%	4%	100%	9%	6%

Note M – Commitments and Contingencies

There are pending or threatened against PolyOne or its subsidiaries various claims, lawsuits and administrative proceedings, all arising from the ordinary course of business with respect to employment, commercial, product liability and environmental matters, which seek damages or other remedies.

PolyOne has accrued for environmental liabilities based upon estimates prepared by its environmental engineers and consultants to cover probable future environmental expenditures related to previously contaminated sites. The accrual, totaling approximately $64.2 million at September 30, 2004, represents PolyOne's best estimate, net of estimated insurance recoveries, for the remaining probable remediation costs, based upon information and technology currently available and PolyOne's view of the most likely remedy. Depending upon the results of future testing, the ultimate remediation alternatives undertaken, changes in regulations, new information, newly discovered conditions and other factors, it is reasonably possible that PolyOne could incur additional costs in excess of the accrued amount at September 30, 2004. However, such additional costs, if any, cannot be currently estimated. PolyOne's estimate of the liability may be revised as new regulations and technologies are developed or as additional information is obtained. Additional information related to our environmental liabilities is included in Note O to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2003.

PolyOne guarantees $85.3 million of SunBelt's outstanding senior secured notes issued in connection with the construction of the chlor-alkali facility in Macintosh, Alabama. This debt, for which principal payments are made annually, and the related guarantee mature in 2017.

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

Overview

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

Discontinued Operations - As of December 31, 2003, PolyOne's Elastomers and Performance Additives, Specialty Resins and Engineered Films businesses qualified for accounting treatment as discontinued operations. As a result, all historical financial information of these businesses (sales, costs and expenses, assets and liabilities, and cash flows) has been reported separately as discontinued operations. Elastomers and Performance Additives was previously reported as a separate business segment. As discussed in Note A to the Condensed Consolidated Financial Statements, we completed the sale of our Elastomers and Performance Additives business on August 5, 2004. Specialty Resins and Engineered Films were previously included in PolyOne's Performance Plastics business segment. The following table summarizes the results for the businesses reported as discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2004	2003	2004	2003
Sales:				
Elastomers and Performance Additives	$30.3	$ 84.7	$220.2	$266.2
Specialty Resins and Engineered Films	55.1	52.6	175.7	170.3
Total sales	$85.4	$137.3	$395.9	$436.5
Income (loss):				
Elastomers and Performance Additives	$ 2.9	$ 5.8	$ 20.6	$ 21.2
Specialty Resins and Engineered Films	3.2	0.7	11.0	2.9
Depreciation and amortization	—	(5.8)	—	(17.4)
Employee separation and plant phase-out costs	(1.0)	(0.6)	(7.3)	(9.2)
Operating income (loss)	5.1	0.1	24.3	(2.5)
Net asset impairment	(5.4)	—	(15.3)	—
Interest (expense), net	—	(0.1)	(0.1)	(0.1)
Other income (expense), net	0.2	(0.4)	(0.2)	(0.2)
Income tax (expense)	(0.1)	(1.4)	(1.0)	(0.3)
Income (loss) from discontinued operations, after taxes	$ (0.2)	$ (1.8)	$ 7.7	$ (3.1)

In restating the 2003 operating results of the discontinued operations, estimated indirect costs previously allocated to the Elastomers and Performance Additives, Specialty Resins and Engineered Films businesses that are expected to be retained by PolyOne upon disposal of these businesses have now been included in the continuing businesses operating results. These costs, totaling $4.1 million in the third quarter of 2003 and $13.8 million for the nine months ended September 30, 2003, were allocated to the continuing business segments as follows: Performance Plastics 40%, Distribution 12% and Other 48%.

Outlook – We anticipate that fourth quarter 2004 revenues from continuing operations could be down 6 percent to 10 percent from third quarter levels. Compared with the fourth quarter of 2003, however, we anticipate revenues from continuing operations to increase in the range of 5 percent to 10 percent. Compared to the third quarter, this anticipated decline in sales could result in $10 million to $16 million lower operating income.

All of our North American and International operating units are expected to continue to experience margin compression from higher raw material, additive and freight costs. Nevertheless, we anticipate mitigating most of the adverse effects from these pressures through increased product selling prices and product reformulations.

While the Resin and Intermediates segment should continue to benefit in the fourth quarter of 2004 from increasing market prices for polyvinyl chloride (PVC) resin and caustic soda, we anticipate typical seasonal slowing in PVC resin demand compared with the third quarter. Average PVC resin industry prices are projected to be slightly higher primarily due to increases realized during the third quarter that lift the sequential quarter average. Additionally, caustic soda should continue the current trend and realize higher average market prices. Ethylene prices are also projected to escalate further in the fourth quarter in conjunction with high natural gas and oil costs. In combination, these factors could result in a quarterly Resin and Intermediates operating income decrease of between $2 million and $4 million compared with the third quarter of 2004.

Net income from discontinued operations should be lower in the fourth quarter of 2004 compared with the third quarter of 2004 as a result of the sale of the Elastomers and Performance Additives unit during the third quarter, continued margin pressure and lower seasonal demand for Specialty Resins and Engineered Films products. The net result is that the discontinued businesses could contribute between $3 million and $4 million less net income in the fourth quarter than in the third quarter of 2004.

We anticipate fourth quarter cost levels to be generally comparable with the third quarter after considering the cost adjustments discussed above. Interest expense should decline by approximately $1 million in the fourth quarter from the third quarter as a result of the early retirement of debt. We do not expect that the premium associated with early debt retirement will approach the $3 million experienced in the third quarter.

We will continue to maintain a full valuation allowance against net federal and state deferred tax assets, even though loss carry-forwards are expected to preclude us from paying these taxes for several years. We anticipate foreign income taxes to be between $2 million and $3 million in the fourth quarter of 2004.

We are projecting positive cash generation in the fourth quarter of 2004 before considering business divestments, which will be driven by cash earnings, reduced working capital needs and diminishing cash restructuring costs.

Results of Operations

Consolidated Results

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2004**	**2003**	**2004**	**2003**
Sales:				
Performance Plastics segment	$426.9	$392.6	$1,294.8	$1,183.0
Distribution segment	154.7	128.1	454.3	397.1
Inter-segment eliminations	(29.4)	(27.4)	(103.5)	(89.6)
Total sales	$552.2	$493.3	$1,645.6	$1,490.5
Net income (loss):				
Performance Plastics segment	$ 28.4	$ 12.8	$ 78.7	$ 28.2
Distribution segment	4.5	2.2	14.0	6.7
Resin and Intermediates segment	18.1	7.9	38.3	20.1
Other segment	(5.9)	(7.0)	(14.5)	(19.4)
Employee separation and plant phase-out (a)	0.3	(7.7)	1.5	(26.1)
Environmental remediation at inactive sites (a)	(7.4)	(0.3)	(8.7)	(1.1)

(In millions)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Loss on sale of assets (a)	(0.2)	—	(5.9)	(0.3)
Period plant phase-out costs incurred (a)	—	(1.2)	—	(2.4)
Equity affiliate - cumulative change in accounting (a)	—	—	—	(0.8)
Equity affiliate – employee separation (a)	—	—	—	(1.0)
Operating income	37.8	6.7	103.4	3.9
Interest expense	(18.1)	(19.2)	(54.8)	(49.0)
Other expense, net	(5.7)	(2.6)	(11.7)	(9.1)
Income tax expense	(2.2)	(26.3)	(7.5)	(11.2)
Income (loss) before discontinued operations	11.8	(41.4)	29.4	(65.4)
Income (loss) from discontinued operations, after taxes	(0.2)	(1.8)	7.7	(3.1)
Net income (loss)	$ 11.6	$(43.2)	$ 37.1	$(68.5)
(a) Total special items included in operating income above	$ (7.3)	$ (9.2)	$(13.1)	$(31.7)

Period to period changes in business segment sales and operating performance are discussed within the "Business Segment Information" section that follows.

Employee separation and plant phase-out - Costs for severance, employee outplacement, external outplacement consulting, lease termination, facility closing costs and the write-down of the carrying value of plant and equipment resulting from restructuring initiatives. Details of these costs are discussed in Note H to the Condensed Consolidated Financial Statements.

Environmental remediation at inactive sites - Environmental remediation costs for manufacturing facilities that we either no longer own, or that we closed in prior years. We adjusted our reserves in the third quarter of 2004 to reflect two significant matters that we believe are of a non-recurring nature, (1) to reflect a reduction in anticipated insurance recoveries for groundwater remediation costs at an site that we no longer own from an insurance company whose policies are now in runoff, and (2) to recognize an increase over previous cost estimates for a remedial action work plan at an inactive site that required state and federal approval, which was received during the third quarter of 2004.

Loss on sale of assets - Loss recorded upon the sale of European vinyl compounding business in 2003 and upon the sale of our Melos rubber granules business in 2004.

Period plant phase-out costs incurred - Costs associated with restructuring initiatives that are required to be recognized as period costs versus when the restructuring initiative was approved.

Equity affiliate - cumulative change in accounting - A charge for the cumulative effect of a change in accounting in the first quarter of 2003 upon Oxy Vinyls LP adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations."

Equity affiliate - employee separation - Employee severance costs associated with a personnel reduction undertaken by Oxy Vinyls LP in the second quarter of 2003.

Interest expense - For the nine-month period ended September 30, 2004, interest expense was $5.8 million higher than the same period in 2003, primarily due to the issuance of $300 million of 10.625% unsecured senior notes in the second quarter of 2003. For the three-month period ended September 30, 2004, interest expense was $1.1 million lower than the same period in 2003, primarily due to the repurchase of $63.7 million of near-term maturity senior notes in the third quarter of 2004 with proceeds from the August 2004 sale of the Elastomers and Performance Additives business.

Other expense, net - Other expense, net, includes foreign currency gains and losses, discounts on the sale of trade accounts receivables, retained post-employment benefit costs from discontinued operations, premiums paid in connection with the third quarter 2004 repurchase of near-term maturity senior notes, interest income and other miscellaneous expenses. The following table summarizes the major components of Other expense, net for 2004 and 2003.

(In millions)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Currency exchange gain (loss), net of foreign exchange contracts	$(1.1)	$(1.0)	$(2.7)	$(3.4)
Discount on sale of trade receivables	(1.1)	(1.7)	(4.6)	(4.4)
Retained post-employment benefit cost related to previously discontinued business operations	(0.5)	(0.6)	(2.2)	(1.8)

(In millions)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Premium on debt repurchase	(3.1)	—	(3.1)	—
Interest income	0.5	0.6	1.0	0.8
Other income (expense), net	(0.4)	0.1	(0.1)	(0.3)
	$(5.7)	$(2.6)	$(11.7)	$(9.1)

Income taxes - Income tax expense of $2.2 million recorded in the third quarter of 2004 and $7.5 million for the nine months ended September 30, 2004 was entirely for foreign taxes. A domestic tax provision was not recorded against income before income taxes and discontinued operations in the third quarter of 2004 and the first nine months of 2004 due to the uncertainty regarding full realization of the net deferred tax assets generated by domestic losses. We intend to maintain a full valuation allowance until positive evidence exists to support reversal of all or portion of the allowance. The third quarter of 2003 and the first nine months of 2003 included $24.0 million of tax expense related to dividends from foreign subsidiaries and a tax valuation allowance of $9.0 million. In addition, the third quarter of 2003 and the first nine months of 2003 included foreign tax expense of $2.3 million and $10.3 million.

Income (loss) from discontinued operations, net of income taxes - Loss from discontinued operations, net of income taxes, was $0.2 million in the third quarter of 2004 compared to $1.8 million for the same period in 2003. Included in the 2004 third quarter loss was a $5.4 million loss on the sale the Elastomers and Performance Additives business. The sale was completed August 5, 2004. Included in the 2003 third quarter loss was a $1.0 million pre-tax charge for employee separation and plant phase-out costs related to the first quarter 2003 announcements to reduce staff personnel and close a manufacturing plant in Yerington, Nevada. Also included in the 2003 third quarter loss was $5.8 million of depreciation and amortization expense. No depreciation or amortization expense is reflected in 2004 results because these businesses qualified for discontinued operations accounting treatment as of December 31, 2003.

Income from discontinued operations, net of income taxes, was $7.7 million in the first nine months of 2004 compared to a $3.1 million loss for the same period in 2003. Included in September 2004 year to date income was a $7.3 million pre-tax charge for employee separation and plant phase-out costs related to the fourth quarter 2003 announcements to close the Burlington, New Jersey, Wynne, Arkansas and DeForest, Wisconsin manufacturing plants and a $15.3 million loss on the sale of the Elastomers and Performance Additives business. Included in the 2003 first nine month's loss was a $9.2 million pre-tax charge for employee separation and plant phase-out costs related to the first quarter 2003 announcements to reduce staff personnel and close a manufacturing plant in Yerington, Nevada. Also included in the 2003 first nine month's loss was $17.4 million of depreciation and amortization expense. As previously discussed, no depreciation or amortization expense is reflected in 2004 results because these businesses qualified for discontinued operations accounting treatment as of December 31, 2003.

Business Segment Information

Senior management uses operating income before the effect of "special items" to assess performance and allocate resources to business segments because senior management believes that this measure is useful in understanding current profitability levels and how current levels may serve as a base for future performance. In addition, operating income before the effect of "special items" is a component of the PolyOne Annual Incentive Plan at the corporate level and is used in debt covenant computations.

"Special items" include charges related to specific strategic initiatives such as the consolidation of operations, restructuring activities such as employee separation costs resulting from personnel reduction programs, plant closure and phase-out costs, asset impairments, environmental remediation costs for facilities no longer owned or closed in prior years, and gains and losses on the divestiture of joint ventures and equity investments.

For further information, see Notes A, H and L to the Condensed Consolidated Financial Statements.

2004 Compared with 2003:

(In millions)	Three Months Ended September 30, 2004	2003	$ Change	% Change	Nine Months Ended September 30, 2004	2003	$ Change	% Change
Sales:								
Performance Plastics segment	$426.9	$392.6	$34.3	9%	$1,294.8	$1,183.0	$111.8	9%
Distribution segment	154.7	128.1	26.6	21%	454.3	397.1	57.2	14%
Inter-segment eliminations	(29.4)	(27.4)	(2.0)	7%	(103.5)	(89.6)	(13.9)	16%
Total Sales	$552.2	$493.3	$58.9	12%	$1,645.6	$1,490.5	$155.1	10%
Operating income:								
Performance Plastics segment	$ 28.4	$ 12.8	$15.6	122%	$ 78.7	$ 28.2	50.5	179%
Distribution segment	4.5	2.2	2.3	105%	14.0	6.7	7.3	109%
Resin and Intermediates segment	18.1	7.9	10.2	129%	38.3	20.1	18.2	91%

(In millions)	Three Months Ended September 30, 2004	2003	$ Change	% Change	Nine Months Ended September 30, 2004	2003	$ Change	% Change
Other segment	(5.9)	(7.0)	1.1	(16)%	(14.5)	(19.4)	4.9	(25)%
Special items, expense	(7.3)	(9.2)	1.9	(21)%	(13.1)	(31.7)	18.6	(59)%
Operating income	$37.8	$ 6.7	$31.1	464%	$103.4	$ 3.9	$99.5	2,551%

Performance Plastics sales were $426.9 million for the three months ended September 30, 2004 and $1,294.8 million for the nine months ended September 30, 2004. This represents an increase of 9% for the third quarter and for the year to date compared with the same periods last year. A breakdown of third quarter and year to date 2004 segment sales by primary product group is as follows:

	Three Months Ended September 30, 2004 Sales $ % of Total	2004 Sales $ % Change vs. 2003	2004 Shipment Lbs. % Change vs. 2003	Nine Months Ended September 30, 2004 Sales $ % of Total	2004 Sales $ % Change vs. 2003	2004 Shipment Lbs. % Change vs. 2003
Vinyl Compounds	42%	11%	8%	42%	12%	10%
Colors and Additives	14%	12%	28%	13%	8%	24%
Engineered Materials	7%	9%	(9)%	7%	6%	(5)%
International Compounds and Colors	27%	6%	(10)%	28%	10%	(5)%
Formulators	10%	1%	(8)%	10%	0%	(3)%
Total Performance Plastics	100%	9%	2%	100%	9%	5%

Vinyl Compounds volume was up 8% in the third quarter and 10% for the year to date compared with the same periods in 2003 from stronger demand in the construction and telecommunication markets. Higher average selling prices resulting from efforts to offset raw material cost increases helped bring the sales increase to 11% in the third quarter and 12% for the year to date compared with the same periods in 2003.

Colors and Additives volume was up 28% in the third quarter and 24% for the year to date compared with the same periods in 2003 from stronger demand in extrusion profile and film market platforms, and from higher contract compounding volume. As compared to volume growth, lower selling prices for contract compounding, due to raw materials generally being supplied by the customer, combined with lower average selling prices in extrusion profile and film market platforms, resulted in sales revenue increases at a lesser rate of 12% in the third quarter and 8% for the year to date.

Engineered Materials volume was down 9% in the third quarter and 5% for the year to date compared with the same periods in 2003, while sales increased 9% in the third quarter and 6% for the year to date. Volume declined as a result of softer demand in toll compounding applications for the automotive market. Sales increased due to a higher-priced mix of proprietary and customer-tolled products for automotive and telecommunication applications.

International Compounds and Colors total volume was down 10% in the third quarter and 5% for the year to date compared with the same periods in 2003 due primarily to the divestment of the Melos rubber granules business on June 9, 2004. Excluding Melos, volume was up 13% in the third quarter and 8% for the year to date compared with the same periods in 2003, reflecting stronger demand experienced in both Asia and Europe. Favorable currency exchange rates increased sales by $6.9 million in the third quarter and $27.7 million for the year to date compared with the same periods in 2003.

Formulators volume was down 8% in the third quarter and 3% for the year to date compared with the same periods in 2003. Lower plastisol and powder volumes, driven by lower automotive application demand, were partially offset by higher volumes in inks, while sales remained generally flat for the quarter and year to date due primarily to the resulting change in product mix.

Performance Plastics operating income for the third quarter was $28.4 million, up $15.6 million from the third quarter of 2003. Year to date operating income was $78.7 million, up $50.5 million from 2003. For both the quarter and year to date, the operating income improvement was driven by higher volumes combined with lower costs that resulted from manufacturing, selling and administrative restructuring and cost reduction initiatives. Selling price increases largely offset higher raw material costs. Favorable currency exchange rates contributed $0.6 million to third quarter earnings and $2.4 million to year to date earnings compared with the same periods in 2003. In addition, in the third quarter of 2004, we recorded a $3.8 million year to date pre-tax benefit in the Performance Plastics business segment from adjustments to our pension and post-retirement benefit plan accruals, as discussed below.

Distribution sales were $154.7 million for the three months ended September 30, 2004 and $454.3 million for the nine months ended September 30, 2004. This represents an increase of 21% for the third quarter and 14% for the year to date compared with the same periods last year. Volume rose 16% in the third quarter and 11% for the year to date compared with the same periods in the prior year. These volume improvements were largely the result of stronger demand for PolyOne-produced vinyl products and third-party commodity resins, combined with the January 2004 acquisition of the North American business of ResinDirect. These increases were partially offset by volume declines in Mexico that resulted from exiting a portion of the business during the first half of 2003 and subsequently exporting from the United States. Excluding 2003 shipment volumes by the Mexican distribution operation for better year-over-year comparability, volume rose 20% in the third quarter and 17% for the year to date compared with 2003.

Distribution operating income for the third quarter was $4.5 million, up $2.3 million from the same period in 2003. Year to date operating income was $14.0 million, up $7.3 million from the same period in 2003. The principal driver for this earnings improvement was the volume increase augmented by cost savings The main drivers for these earnings improvements were increased volume and cost savings resulting from restructuring initiatives and with closing the Mexican distribution operation in 2003.

Resin and Intermediates operating income for the third quarter was $18.1 million, up $10.2 million from the same period in 2003. Year to date operating income was $38.3 million, up $18.2 million from the same period in 2003. The main driver for these increases was higher OxyVinyls earnings. OxyVinyls' equity earnings contribution increased $9.0 million for the third quarter and $20.8 million for the year to date primarily due to strong demand and improved operating margins for polyvinyl chloride (PVC) and vinyl chloride monomer (VCM). SunBelt's equity earnings contribution increased $0.9 million for the third quarter from the same period in 2003 primarily from increased volume. SunBelt's equity earnings contribution for the year to date declined $2.1 million primarily due to lower average selling prices for caustic soda and chlorine.

"Other" consists primarily of corporate general and administrative costs not allocated to business segments and inter-segment sales and profit eliminations. The loss, or net expense, for the third quarter was $5.9 million compared with $7.0 million for the same period last year. The $1.1 million improvement included $0.1 million less unallocated corporate general and administrative costs and the elimination of $1.0 million less pre-tax inter-segment profit in the Distribution business segment's inventories related to PolyOne-produced products. The loss, or net expense, for the year to date was $14.5 million compared with $19.4 million for the same period last year. The $4.9 million improvement included $3.5 million less unallocated corporate general and administrative costs and the elimination of $1.4 million less pre-tax inter-segment profit in the Distribution business segment's inventories related to PolyOne-produced products. In addition, in the third quarter of 2004, we recorded a $2.7 million year to date pre-tax benefit in the Other business segment from adjustments to our pension and post-retirement benefit plan accruals, as discussed below.

In the third quarter of 2004, we recorded a $6.5 million year to date pre-tax benefit from adjustments to our pension and post-retirement benefit plan accruals, of which $6.0 million is reflected in the "Selling and administrative" line and $0.5 million is reflected in the "Cost of sales" line in the Condensed Consolidated Statements of Operations. Broken down by business segment, $3.8 million is reflected in "Performance Plastics" and the remaining $2.7 million is reflected in "Other." As discussed in Note I to the Condensed Consolidated Financial Statements, on December 8, 2003, Congress passed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act). On May 19, 2004, the FASB issued Financial Staff Position Number 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP). The FSP is effective for the first interim or annual period beginning after June 15, 2004. The FSP provides guidance on accounting for the effects of the Medicare Act for employers that sponsor post-retirement health care plans that provide prescription drug benefits. As a result, in the third quarter of 2004, we recorded a $0.8 million year to date pre-tax benefit. Also in the third quarter, we recorded a $2.4 million year to date pre-tax benefit as a result of adjusting our post-retirement benefit plan accruals to reflect current plan amendments and actuarial gains. In addition, we also recorded a $3.3 million year to date pre-tax benefit as a result of adjusting our defined-benefit pension plan accruals to reflect the effect of current year workforce reduction initiatives combined with other actuarial gains. As a result, we currently estimate that fourth quarter 2004 pre-tax earnings will be positively impacted by approximately $2.2 million.

Asbestos-Related Claims

We have been named in various lawsuits involving multiple claimants and defendants relating to alleged asbestos exposure in the past by, among others, workers or contractors and their families at plants owned by us or our predecessors or on board ships owned or operated by us or our predecessors. We have established reserves of approximately $2 million as of September 30, 2004 for asbestos-related claims that are probable and estimable. We believe the probability is remote that losses in excess of the amounts we have accrued could be material to our financial condition, results of operations, or liquidity. This belief is based upon our ongoing assessment of the strengths and weaknesses of the specific claims and our defenses and insurance coverages available with respect to these claims, as well as the probability and expected magnitude of reasonably anticipated future asbestos-related claims. Such assessment includes: whether the pleadings allege exposure to asbestos, asbestos-containing products or premises exposure; the severity of the plaintiffs' alleged injuries from exposure to asbestos or asbestos-containing products and the length and certainty of exposure on our premises, to the extent disclosed in the pleadings or identified through discovery; whether the named defendant related to us manufactured or sold asbestos-containing products; the outcomes of cases recently resolved; and the historical pattern of the number of claims. If the underlying facts and circumstances change in the future, we will modify our reserves, as appropriate.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that we make estimates, judgments and assumptions in certain circumstances that affect amounts reported in the accompanying Condensed Consolidated Financial Statements. We evaluate the accounting policies and estimates we use to prepare financial statements on an ongoing basis. We base our estimates on historical experience and assumptions believed to be reasonable under the facts and circumstances. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements related to the accounting policies and estimates described in the text that follows. The application of these critical accounting policies involves the exercise of judgment and use of assumptions related to future uncertainties and, as a result, actual results could differ from these estimates. A description of our critical accounting policies is set forth in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2003. This description has been updated with respect to "Goodwill" as set forth below. For additional information regarding our accounting policies, see Note C to the Consolidated Financial Statements for the year ended December 31, 2003.

Goodwill - As of September 30, 2004, we had $327.1 million of goodwill that resulted from acquiring businesses. SFAS No. 142, "Goodwill and Other Intangible Assets," requires an annual assessment for potential impairment of goodwill and we have elected July 1 as our annual assessment date. During the third quarter of 2004, we completed the required "phase one" goodwill impairment assessment and determined that goodwill was not impaired as of July 1, 2004. We use the combination of two valuation methodologies, a market approach and an income 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. The income approach is based on projected future debt-free cash flow that is discounted to present value using discount factors that consider the timing and risk associated with the forecasted debt-free cash flow. The average fair values of the market approach and income approach exceeded the carrying value by 92% for the Plastic Compounds and Colors reporting unit and by 9% for the Formulators reporting unit. Using the lowest fair value determined by these two methodologies would have resulted in a fair value that exceeded the carrying value by 92% for the Plastic Compounds and Colors reporting unit and by 7% for the Formulators reporting unit. While we determined that there was no additional goodwill impairment as of the annual assessment on July 1, 2004, the future occurrence of a potential indicator of impairment, such as a significant adverse change in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key personnel or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed of, would result in our having to perform an interim assessment for some or all of our reporting units prior to the next required 2005 annual assessment.

The key assumptions used to prepare the July 1, 2004 valuations under the income approach for the Plastic Compounds and Colors reporting unit are a long-term sales growth rate of 3.0%, working capital to sales ratio of 8.5% and weighted average cost of capital of 13.0%, and for the Formulators reporting unit are a long-term sales growth rate of 3.0%, working capital to sales ratio of 10.8% and weighted average cost of capital of 15.0%. The key assumptions used to prepare these valuations under the market approach for each reporting unit were multiples of average sales, earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted to reflect differences between the reporting units and the comparable companies for effectiveness in asset utilization, total asset return, financial leverage and risk.

Internal Control Over Financial Reporting

The management of PolyOne Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We are currently assessing the effectiveness of our internal controls over financial reporting. In making this assessment, we are using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control —*

Integrated Framework. Based upon those criteria, and upon our assessment to date, we are not currently aware of any material weaknesses in our internal control system that would require disclosure either at this time or at December 31, 2004.

Cash Flows

Cash used by operating activities of continuing operations was $15.4 million for the nine months ended September 30, 2004 compared with $158.3 million for the same period in 2003. This swing of $142.9 million was principally driven by improved earnings, a decrease in cash payments for employee separation and plant phase-out costs, greater dividends and distributions received from equity affiliates reflecting their stronger earnings and significant improvements in the control of accounts receivable and of inventory management.

Income from continuing operations in the first nine months of 2004 was $29.4 million, which included $31.7 million of depreciation and amortization expense, compared with a loss from continuing operations in the first nine months of 2003 of $65.4 million, which included $38.6 million of depreciation and amortization expense.

During the first nine months of 2004, accounts receivable and inventories increased by $60.6 million and $25.7 million, respectively, due to the generally stronger global economic environment in the third quarter of 2004 compared to the fourth quarter of 2003, combined with seasonal strengthening. The accounts payable increase of $55.0 million was also due to this increased level of business activity. Accrued expenses and other increased by $42.3 million primarily from increased pension and interest expense accruals resulting from differences in the timing of the expense versus when cash payments are made. Pension contributions are typically made in September, whereas the majority of our interest costs are paid in the second and fourth quarters, while only modest interest payments are made in the first and third quarters. Additionally, the amount of receivables sold under the receivables sale facility was zero at September 30, 2004 compared with $70.7 million at December 31, 2003, reflecting the improved cash provided by operating activities and the temporary application of proceeds from divested businesses.

During the first nine months of 2003, accounts receivable increased by $128.0 million primarily reflecting stronger demand experienced in the third quarter of 2003 as compared to trough demand conditions experienced in late 2002. Inventories decreased by $1.2 million primarily from initiatives to improve working capital management in 2003. Accounts payable increased by $4.6 million primarily from differences in the timing of disbursements at the end of each period. Accrued expenses and other increased by $27.6 million primarily from increased interest expense accruals resulting from differences in the timing of the expense versus when cash payments are made, as discussed above. Additionally, the amount of receivables sold under the receivables sale facility decreased by $14.6 million from December 31, 2002 to September 30, 2003.

Cash provided by investing activities of continuing operations was $119.8 million in the first nine months of 2004 compared with cash used by investing activities of continuing operations of $11.5 million for the same period in 2003. Capital expenditures, which were primarily in support of manufacturing operations, totaled $13.0 million in the first nine months of 2004 and $22.7 million in the first nine months of 2003. Cash spent for businesses acquired in the first nine months of 2004 of $5.1 million was for the acquisition of the North American distribution business of ResinDirect LLC, of which $4.6 million was for inventories. This business is included in the Distribution segment. Cash spent for businesses acquired in the first nine months of 2003 was $15.8 million for the final payment associated with the December 2002 acquisition of Transformacion de Pigmentos y Colorantes, S.A. This business is included in the Performance Plastics segment. We received $106.0 million in cash upon the sale of our Elastomers and Performance Additives business in August 2004. In addition, cash received from the sale of assets in the first nine months of 2004 was $31.9 million, primarily from the sale of our European Melos rubber granules business, formerly included in the Performance Plastics segment, and from the sale of redundant assets. Cash received from the sale of assets in the first nine months of 2003 was $27.0 million, primarily from the sale of our 51% interest in Techmer PM, LLC, formerly included in the Performance Plastics segment, and from the sale of redundant assets.

Cash used by financing activities of continuing operations was $62.8 million in the first nine months of 2004 due primarily to the repurchase of $63.7 million of near-term maturity notes in the third quarter of 2004 with a portion of the proceeds received from the August 5, 2004 sale of the Elastomers and Performance Additives business. Cash provided by financing activities of continuing operations was $190.4 million in the first nine months of 2003 due primarily to the issuance of $300 million of 10.625% unsecured senior notes in the second quarter of 2003, partially offset by debt issuance costs of $14.7 million and a reduction in short-term debt of $90.1 million, principally associated with the senior notes that matured in September 2003.

Capital Resources and Liquidity

As of September 30, 2004, we had existing facilities to access available capital resources (receivables sale facility, secured revolving credit facility, uncommitted short-term credit lines and senior unsecured notes and debentures) totaling approximately $873.1 million. As of September 30, 2004, we had utilized $721.4 million of these facilities and approximately $151.7 million was available to be drawn while remaining in compliance with all facility covenant tests. As of December 31, 2003, approximately $95.5 million was available to be drawn on existing facilities. The following table summarizes available and outstanding facilities at September 30, 2004:

(In millions)	Outstanding	Available
Long-term debt	$717.4	$ —
Revolving credit facility	—	—
Receivables sale facility	—	151.7
Short-term bank debt	4.0	—
	$721.4	$151.7

Cash and cash equivalents totaled $114.7 million at September 30, 2004 compared to $48.7 million at December 31, 2003. As a result, cash, cash equivalents and available borrowings totaled $266.4 million at September 30, 2004, of which approximately $50 million is required for transactional cash.

Long-term Debt - At September 30, 2004, we had long-term debt totaling $717.4 million, with maturities ranging from 2004 to 2015. Current maturities of this long-term debt at September 30, 2004 were $44.4 million.

Revolving Credit Facility - During the third quarter of 2004, we amended our revolving credit facility to reduce the facility borrowing capacity from $50 million to $30 million to better align facility capacity with our needs for credit following the sale of the Elastomers and Performance Additives business, and because we would not have access to amounts above $30 million without triggering the security provisions of the indentures governing our senior unsecured notes and debentures, as discussed below. No amendments were made to any financial covenants. The revolving credit facility has a three-year term. The maximum amount that may be borrowed under the revolving credit facility is limited to an amount equal to 95% of the amount that may be borrowed and secured without triggering the security provisions of the indentures governing the existing senior unsecured notes and debentures and our guarantee of the SunBelt notes. The revolving credit facility makes available up to $30 million for the issuance of standby letters of credit. Obligations under the revolving credit facility are secured by substantially all of our domestic intellectual property and inventory and some of our domestic real property. As of September 30, 2004, we had not drawn on the revolving credit facility, although the facility served as a back-up facility for $15.6 million of outstanding letters of credit and for $6.0 million of loan guarantees, the majority of which related to our 50% Colombian equity joint venture.

Our revolving credit facility requires us to maintain certain Interest Coverage and Borrowed Debt-to-Adjusted EBITDA ratios. Further, the revolving credit facility limits payments for purposes such as capital expenditures, acquisitions and dividends. As of September 30, 2004, we were in compliance with these requirements. Our Interest Coverage Ratio, as defined under the agreement governing our credit facility, was 2.05 compared with a minimum requirement of 1.50. Our Borrowed Debt-to-Adjusted EBITDA Ratio, as defined under the agreement governing our credit facility, was 4.61 compared with a maximum of 7.50. The following table summarizes the current defined financial covenant ratios for each quarter in 2004 under the revolving credit facility:

	Interest Coverage Ratio (Minimum)	Borrowed Debt-to-Adjusted EBITDA Ratio (Maximum)
Agreement compliance:		
First quarter of 2004	0.75	13.00
Second quarter of 2004	1.00	10.25
Third quarter of 2004	1.50	7.50
Fourth quarter of 2004	1.90	5.75

As a result of our improved operating results, we expect to be in compliance with the Interest Coverage and Borrowed Debt-to-Adjusted EBITDA ratios through the remainder of 2004.

Receivables Sale Facility - As a result of the sale of our Elastomers and Performance Additives business in August 2004, during the third quarter of 2004, we amended our receivables sale facility to reduce the amount of eligible receivables available to be sold from $225 million to $175 million, as discussed in Note K to the Condensed Consolidated Financial Statements. Therefore, under the terms of our receivables sale facility, we are allowed to sell accounts receivable and realize proceeds of up to $175 million. However, the maximum amount of proceeds that may be received is limited to 85% of the amount of eligible domestic accounts receivable sold. The receivables sale facility also makes available up to $50 million for the issuance of standby letters of credit, of which $6.0 million was used at September 30, 2004. The facility requires us to maintain the same Interest Coverage ratios that are required under our revolving credit facility. The amount of eligible receivables available to be sold under the receivables sale facility will be impacted upon divestment of any of the businesses currently held for sale because each of the businesses currently sells its accounts receivable under the facility. We estimate that the facility's capacity would be reduced by approximately $20 to $25 million upon the sale of both the Specialty Resins and the Engineered Films businesses.

Of the capital resource facilities available to us as of September 30, 2004, the portion of the receivables sale facility that was actually sold provided security in connection with the transfer of ownership of these receivables. Each indenture governing our senior unsecured notes and debentures and our guarantee of the SunBelt notes allows for a specific level of secured debt, above which security must be provided on each such indenture and the guarantee of the SunBelt notes. The receivables sale facility does not constitute debt under the covenants associated with the senior unsecured notes and debentures and the guarantee of the SunBelt notes. As of September 30, 2004, we had not sold any accounts receivable and had guaranteed unconsolidated equity affiliate debt of $85.3 million of SunBelt.

Profitable operations in 2004 are expected to allow us to maintain the existing levels of available capital resources and to fund current operations, as well as the remainder of our previously announced restructuring initiatives. Expected sources of cash in 2004 include net income, working capital, borrowings under existing loan agreements and proceeds from the expected sale of the remaining discontinued operations. Expected uses of cash in 2004 include the repayment of long-term debt maturing during the year, interest expense, discounts on the sale of accounts receivable, cash taxes, contributions to qualified defined benefit pension plans, selective retirement of debt maturing after 2004, spending for previously announced restructuring initiatives and capital expenditures. Capital expenditures for 2004 are currently estimated at $25 to $30 million, while depreciation and amortization for 2003 totaled $51.4 million.

As discussed in Note A to the Condensed Consolidated Financial Statements, we entered into a definitive agreement on June 28, 2004 with an entity formed by an investor group led by Lion Chemical Capital, LLC and ACI Capital Co., Inc. to sell our Elastomers and Performance Additives business. The sale, which was completed on August 5, 2004, provided gross proceeds before associated fees and costs of approximately $120 million, of which $106 million was paid in cash on that date and $14 million is in the form of a six-year note from the buyer.

There is currently no minimum pension funding payment required for 2004. This differs from the 2004 minimum pension funding estimate of $16 million discussed in our Annual Report on Form 10-K for the year ended December 31, 2003 and from the estimate of $5 million discussed in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 due to recently passed U.S. legislation providing funding relief. We made a voluntary $3.9 million pension funding payment on October 15, 2004. Any additional funding we make in 2004 will depend upon the available cash flows of the business. After giving effect to the $3.9 million October 2004 payment, we currently estimate a minimum funding requirement in 2005 of approximately $28 million. Any additional 2004 funding contributions in excess of the required minimum will reduce funding required in 2005.

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

Cautionary Note on Forward-Looking Statements

In this quarterly report on Form 10-Q, statements that are not reported financial results or other historical information are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give current expectations or forecasts of future events and are not guarantees of future performance. They are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions; prospective changes in raw material costs, product pricing or product demand; future performance or results of current and anticipated market conditions and market strategies; sales efforts; expenses; the outcome of contingencies such as legal proceedings; and financial results. Factors that could cause actual results to differ materially include, but are not limited to:

- an inability to achieve or delays in achieving or achievement of less than the anticipated financial benefit from initiatives related to restructuring programs, including cost reduction and employee productivity goals;
- a delay or inability to achieve targeted debt level reductions through divestitures and/or other means;
- the effect on foreign operations of currency fluctuations, tariffs, nationalization, exchange controls, limitations on foreign investment in local businesses and other political, economic and regulatory risks;
- changes in U.S., regional or world polymer consumption growth rates affecting PolyOne's markets;
- changes in global industry capacity or in the rate at which anticipated changes in industry capacity come online in the polyvinyl chloride (PVC), chlor-alkali, vinyl chloride monomer (VCM) or other industries in which PolyOne participates;
- fluctuations in raw material prices, quality and supply and in energy prices and supply, in particular fluctuations outside the normal range of industry cycles;
- production outages or material costs associated with scheduled or unscheduled maintenance programs;
- costs or difficulties and delays related to the operation of joint venture entities;
- lack of day-to-day operating control, including procurement of raw materials, of equity or joint venture affiliates;
- partial control over investment decisions and dividend distribution policy of the OxyVinyls partnership and other minority equity holdings of PolyOne;
- an inability to launch new products and/or services within PolyOne's various businesses;
- the possibility of further goodwill impairment;
- an inability to maintain any required licenses or permits:
- an inability to comply with environmental laws and regulations;
- the cost of compliance with environmental laws and regulations, including any increased cost of complying with new or revised laws and regulations;
- unanticipated developments that could occur with respect to contingencies such as litigation and environmental matters, including any developments that would require any increase in our costs and/or reserves for such contingencies;
- an inability or delay beyond December 31, 2004, in finding buyers of discontinued operations or other non-core assets for reasonable and acceptable terms;
- an inability to access the revolving credit facility and/or the receivables sale facility as a result of breaching covenants due to not achieving anticipated earnings performance;
- any poor performance of our pension plan assets and any obligation on our part to fund PolyOne's pension plan;
- any delay and/or inability to bring the North American Color and Additives Masterbatch and the Engineered Materials product platforms to profitability;
- an inability to achieve anticipated earnings performance due to the divestment of a non-core business prior to December 31, 2004;
- an inability to raise prices or sustain price increases for products; or
- an inability to complete the sale of discontinued businesses due to problems or delays associated with legal proceedings, regulatory approvals and/or buyers receiving financing for the transaction or any other reasons.

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

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our reports on Form 10-Q, 8-K and 10-K to the Securities and Exchange Commission. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

PolyOne is exposed to market risk from changes in interest rates on debt obligations and from changes in foreign currency exchange rates. Information related to these risks and our management of the exposure is included in Item 7A "Qualitative and Quantitative Information about Market Risk" in PolyOne's Annual Report on Form 10-K for the year ended December 31, 2003. PolyOne periodically enters into interest rate swap agreements that convert fixed-rate obligations to floating rates. During July 2003, PolyOne terminated all outstanding interest rate swap agreements at a cash cost of $2.6 million. PolyOne then immediately entered into new interest rate swap agreements on seven of its fixed-rate obligations in the aggregate amount of $120.0 million. These exchange agreements are "perfectly effective" as defined by SFAS No. 133, "Accounting for Derivative Financial Instruments and Hedging Activities." During September 2004, PolyOne terminated one of the seven interest rate swap agreements at a cash cost of $0.3 million. At September 30, 2004, the six remaining agreements had a net fair value obligation of ($3.0) million. The weighted-average interest rate for these six agreements was 5.634%. There have been no material changes in the market risk faced by us from December 31, 2003 to September 30, 2004. We have updated the disclosure concerning our financing arrangements, which is included in Note J to the Condensed Consolidated Financial Statements included in this Quarterly Report.

Item 4. Controls and Procedures

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

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

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Part II - Other Information

Item 6. Exhibits

Form 10-Q Exhibit No.	Description of Exhibit
10.1	Amendment No. 3 and Waiver to Amended and Restated Credit Agreement, dated as of August 5, 2004, among PolyOne Corporation, Citicorp USA, Inc., and the other banks signatory thereto.
10.2	Amendment No. 2 to Receivables Purchase Agreement, dated as of August 5, 2004, among PolyOne Funding Corporation, as Seller, PolyOne Corporation, as Servicer, and the banks and other financial institutions party thereto, as purchasers.
31.1	Certification of Thomas A. Waltermire, President and Chief Executive Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of W. David Wilson, Vice President and Chief Financial Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Thomas A. Waltermire, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of W. David Wilson, Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

October 27, 2004	POLYONE CORPORATION
	/s/ W. David Wilson
	W. David Wilson Vice President and Chief Financial Officer (Authorized Officer and Principal Financial Officer)
	/s/ Michael J. Meier
	Michael J. Meier Corporate Controller (Principal Accounting Officer)

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PolyOne Corporation

Index to Exhibits

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EXHIBIT 10.1

EXECUTION COPY

AMENDMENT NO. 3 AND WAIVER TO

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of August 5, 2004

AMENDMENT NO. 3 AND WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT among POLYONE CORPORATION, an Ohio corporation (the "Borrower"), the banks, financial institutions and other institutional lenders parties to the Amended and Restated Credit Agreement referred to below (collectively, the "Lenders") and CITICORP USA, INC., as administrative agent (the "Agent") for the Lenders.

PRELIMINARY STATEMENTS:

(1) The Borrower, the Lenders and the Agent have entered into an Amended and Restated Credit Agreement dated as of May 6, 2003, as amended by Amendment No. 1 dated as of August 27, 2003 and Amendment No. 2 dated as of September 25, 2003 (such Agreement, as amended, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms defined in the Credit Agreement are used herein as therein defined).

(2) The Borrower has requested, and the Required Lenders have agreed, that certain provisions of the Credit Agreement be amended and waived as hereinafter set forth.

SECTION 1. Waiver to the Credit Agreement. Effective as of the date hereof, the Required Lenders hereby agree to waive, solely with respect to the DeForest Equipment Sale (as defined below), the requirement of Section 5.02(d)(z) of the Credit Agreement that, upon consummation of any sale permitted under Section 5.02(d)(iv), 75% of the proceeds of such sale are payable in cash to the seller. As used herein, "Deforest Equipment Sale" means the sale by the Borrower to Johnsonite Rubber of a used mixer with drop mill, take off mill, bale cutter, bale hoist and charge/weigh belts owned by the Borrower and located at the Borrower's DeForest Facility in Wisconsin.

SECTION 2. Amendment to the Credit Agreement. The Credit Agreement is, effective as of the date hereof and subject to the satisfaction of the conditions precedent set forth in Section 3 of this Amendment and Waiver, hereby amended as follows:

(a) Section 1.01 is amended by inserting the following new definitions therein in the appropriate alphabetical order:

"Elastomers Sale" means the sale or other disposition of all or substantially all of the Borrower's assets that constitute the Borrower's Elastomers and Performance Additives business unit.

"Geon Debenutres" means the 6.875% Debentures with an aggregate principal amount of $75,000,000 due December 15, 2005, issued by The Geon Company.

“M.A. Hanna Notes” means, collectively, the following:

(i) the 7.070% Medium Term Notes with an aggregate principal amount of $20,000,000 due June 26, 2006, issued by M.A. Hanna Company;

(ii) the 6.740% Medium Term Notes with an aggregate principal amount $20,000,000 due September 22, 2005, issued by M.A. Hanna Company; and

(iii) the 6.875% Medium Term Notes with an aggregate principal amount of $20,000,000 due December 1, 2004, issued by M.A. Hanna Company.

“Senior Notes” means the 10.625% Senior Notes with an aggregate principal amount of $300,000,000 due May 6, 2010, issued by the Borrower.

“2012 Notes” means the 8.875% Senior Notes with an aggregate principal amount of $200,000,000 due May 1, 2012, issued by the Borrower.

(b) Section 5.02(j) is hereby amended by deleting “and” at the end of clause (vi) thereof, renumbering clause (vii) thereof as clause (viii), and inserting a new clause (vii) immediately before the new clause (viii) to read in its entirety as follows:

“(vii) to the extent that the Borrower (a) consummates the Elastomers Sale, the Borrower may apply the net cash proceeds (as such amount shall be certified to the Agent by a duly authorized officer of the Borrower) received by the Borrower in connection therewith to prepay, redeem or otherwise repurchase, at the Borrower’s election, the Geon Debentures and/or the M.A. Hanna Notes, in an aggregate principal amount of such debt not to exceed $80,000,000 collectively or (b) sells or otherwise disposes of any assets (other than in connection with the Elastomers Sale) in accordance with the requirements of Section 5.02(d) (as certified to the Agent by a duly authorized officer of the Borrower), the Borrower may apply up to 70% of the net cash proceeds received by the Borrower in connection with any such sale or other disposition (as such amount shall be certified to the Agent by a duly authorized officer of the Borrower) to prepay, redeem or otherwise repurchase, at the election of the Borrower, any Geon Debentures and/or M.A. Hanna Notes outstanding after giving effect to the prepayment, redemption or repurchase contemplated by the preceding clause (a), the Senior Notes and/or the 2012 Notes; provided that, in the case of each of the foregoing clauses (a) and (b), both before and after giving effect to any such prepayment, redemption or repurchase, (x) each of the representations and warranties contained in Article IV of this Agreement, the other Loan Documents or in any certificate, document or financial or other statement furnished at any time under or in connection therewith is true and correct in all material respects as if made on and as of such date and except to the extent that such representations and warranties specifically relate to a specific date, in which case such representations and warranties shall be true and correct in all material respects as of such specific date and (y) no Default or Event of Default shall have occurred and be continuing on and as of such date, and”

(c) Schedule 5.02(d) is hereby amended by deleting the phrase “Section 5.02(b)” in the first sentence therein and replacing it with phrase “Section 5.02(d)”.

SECTION 3. Conditions to Effectiveness. This Amendment and Waiver shall become effective as of the date first above written when, and only when the Agent shall have received (i) counterparts of this Amendment and Waiver executed by the Borrower and the Required Lenders, (ii) notice from the Borrower pursuant to Section 2.05 of the Credit Agreement reducing the aggregate commitments to $30,000,000, (iii) projections by the Borrower in form and substance satisfactory to the Required Lenders, (iv) notice from the Borrower confirming the Elastomers Sale and (v) payment of an amendment fee for the ratable benefit of the Lenders equal to 0.10% of the aggregate Commitments after giving effect to the reduction of Commitments referred to in clause (ii) above. Notwithstanding the foregoing, Section 1 of this Amendment and Waiver shall become effective upon the Agent's receipt of counterparts of this Amendment and Waiver executed by the Borrower and the Required Lenders. This Amendment and Waiver is subject to the provisions of Section 8.01 of the Credit Agreement.

SECTION 4. Representations and Warranties of the Company. The Company represents and warrants as follows:

(a) The execution, delivery and performance by the Borrower of this Amendment and Waiver and the Credit Agreement, as amended hereby, and the consummation of the transactions contemplated hereby, are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not (i) contravene the Borrower's charter or code of regulations, (ii) violate any applicable law, rule, regulation, order, writ judgment, injunction, decree, determination or award, or (iii) breach or result in a default under, or result in the acceleration of (or entitle any party to accelerate) the maturity of any obligation of the Borrower under, or result in or require the creation of any Lien upon any property of the Borrower pursuant to the terms of any agreement or instrument binding on or affecting the Borrower or any of its properties other than in favor of the Collateral Trustee for the benefit of the Secured Parties.

(b) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery and performance by the Borrower of this Amendment and Waiver and the Credit Agreement, as amended hereby.

(c) This Amendment and Waiver and the Credit Agreement, as amended hereby, have been duly executed and delivered by the Borrower. This Amendment and Waiver and the Credit Agreement, as amended hereby, are the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally and to general equitable principles.

(d) The representations and warranties contained in the Loan Documents are correct on and as of the date of this Amendment and Waiver, as though made on and as of such date.

SECTION 5. Reference to and Effect on the Credit Agreement.

(a) On and after the effectiveness of this Amendment and Waiver, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Credit Agreement, and each reference in each of the other Loan Documents to “the Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended by this Amendment and Waiver.

(b) The Credit Agreement and each of the other Loan Documents, as specifically amended by this Amendment and Waiver, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed. Without limiting the generality of the foregoing, the Collateral Documents and the Collateral described therein do and shall continue to secure the payment of all Obligations of the Loan Parties under the Loan Documents, in each case as amended by this Amendment.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Agent under the Credit Agreement or any other Loan Document, nor constitute a waiver of any provision of the Credit Agreement.

SECTION 6. Costs and Expenses. The Borrower agrees to pay on demand all costs and expenses of the Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment and Waiver and the other instruments and documents to be delivered hereunder (including, without limitation, title insurance premiums and search fees and the reasonable fees and expenses of counsel for the Agent) in accordance with the terms of Section 8.04 of the Credit Agreement

SECTION 7. Execution in Counterparts. This Amendment and Waiver may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment and Waiver by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment and Waiver.

SECTION 8. Governing Law. This Amendment and Waiver shall be governed by, and construed in accordance with, the laws of the State of New York.

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

POLYONE CORPORATION

By ________________________________
Title:

CITICORP USA, INC.,
as Agent and as Lender

By ________________________________
Title:

NATIONAL CITY BANK,
as Issuing Bank and as Lender

By ________________________________
Title:

NATIONAL CITY BUSINESS CREDIT, INC.,
as Lender

By ________________________________
Title:

KEYBANK NATIONAL ASSOCIATION,
as Lender

By ________________________________
Title:

EXHIBIT 10.2

Amendment No. 2

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

W i t n e s s e t h:

Whereas, the Seller, the Servicer, the Purchasers, the Issuing Bank and the Agent are party to the Receivables Purchase Agreement and the undersigned Purchasers constitute the Required Purchasers;

Whereas, the Seller has requested that the Agent and the Purchasers constituting the Required Purchasers permit the Servicer to prepay, redeem or otherwise repurchase certain indebtedness with the net cash proceeds received by the Servicer from the sale or other disposition of certain assets of the Servicer, as more fully described in this Amendment;

Whereas, the Seller has requested that the Agent and the Purchasers constituting the Required Purchasers permit the Servicer to prepay, redeem or otherwise repurchase certain of its outstanding Debt with up to 70% of the net cash proceeds received by the Servicer from certain other permitted asset sales under the Receivables Purchase Agreement;

Whereas, the Seller has advised the Agent that it desires to reduce the aggregate amount of the Commitments available under the Receivables Purchase Agreement;

Whereas, the Seller has requested that the Agent and each of the Purchasers agree to amend the Receivables Purchase Agreement to reduce (w) the aggregate amount of the Commitments under the Facility, (x) the Applicable Margin, (y) the Applicable L/C Margin and (z) the Unused Commitment Fee Rate; and

Whereas, pursuant to *Section 11.01 (Amendments, Etc.)* of the Receivables Purchase Agreement, the consent of the Required Purchasers is required to amend the provisions of the Receivables Purchase Agreement as set forth herein; *provided*, that the Pricing Amendments (as defined below) require the consent of each Purchaser holding a Commitment;

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

Section 1. Certain Amendments to Receivables Purchase Agreement. Effective as of the Amendment Effective Date (as defined below), and subject the satisfaction (or due waiver) of the conditions set forth in *Section 3 (Conditions Precedent to Effectiveness of this Amendment*) hereof, the Receivables Purchase Agreement is hereby amended as follows:

(a) Section 1.01 of the Receivables Purchase Agreement is hereby amended by amending and restating the definition of "*Commitment*" to read in its entirety as follows:

"Commitment" means (i) from and after the Closing Date and prior to the Second Amendment Effective Date, (x) in respect of each Initial Purchaser, the commitment of such Purchaser to make Purchases and acquire other Capital Investments in the aggregate principal amount set forth as the "Commitment" under the name of such Initial Purchaser on the signature pages hereto and (y) in respect of each other Purchaser that became a Purchaser by entering into an Assignment and Acceptance, the amount set forth as the "Commitment" for such Purchaser in the Register maintained by the Agent pursuant to Section 9.01(c); and (ii) from and after the Second Amendment Effective Date, (x) in respect of each Purchaser party to this Agreement on the Second Amendment Effective Date after giving effect to the Second Amendment, the commitment of such Purchaser to make Purchases and acquire other Capital Investments in the aggregate principal amount set forth as the "Commitment" of such Purchaser on Schedule I to the Second Amendment and (y) in respect of each other Purchaser that became a Purchaser by entering into an Assignment and Acceptance from and after the Second Amendment Effective Date, the amount set forth as the "Commitment" for such Purchaser in the Register maintained by the Agent pursuant to Section 9.01(c); in the case of clauses (i) and (ii), as each such amount may be reduced from time to time as the result of any assignment of any Commitment or any portion thereof pursuant to Section 9.01 or as such amount may be reduced from time to time pursuant to Section 2.05.

(b) Section 1.01 of the Receivables Purchase Agreement is hereby amended by inserting the following definitions in such Section 1.01 in the appropriate place to preserve the alphabetical order of the definitions in such Section 1.01:

"Elastomers Sale" means the sale or other disposition, in a single transaction or series of related transactions (including the sale or other disposition of the Servicer's assets located at its DeForest, Wisconsin facility), of all or substantially all of the Servicer's assets which constitute the Servicer's elastomers business unit.

"Geon Notes" means the 6.875% Medium Term Notes with an aggregate principal amount of $75,000,000 due December 15, 2005, issued by Geon Company.

"MA Hanna Notes" means, collectively, the following:

(i) the 7.070% Medium Term Notes due June 26, 2006, issued by MA Hanna Company;

(ii) the 6.740% Medium Term Notes due September 22, 2005, issued by MA Hanna Company; and

(iii) the 6.875% Debentures due December 1, 2004 issued by MA Hanna Company.

"Second Amendment" means that certain Amendment No. 2 to this Agreement, dated as of August 5, 2004, among the Seller, the Servicer, the Agent, each of the Purchasers, the Issuing Bank and the Syndication Agent.

“Second Amendment Effective Date” means August 5, 2004.

“2012 Notes” means the 8.875% Senior Notes due May 1, 2012, issued by the Servicer.

(c) Clause (ii) of the definition of “Scheduled Other Debt Payment” in Section 1.01 of the Receivables Purchase Agreement is hereby amended by replacing each reference therein to “December 22, 2005” with a reference to “September 22, 2005”.

(d) Section 5.03(a) of the Receivables Purchase Agreement is hereby amended by replacing the phrase “Except as otherwise provided herein,” with the phrase “Except as required to consummate the Elastomers Sale or as otherwise provided herein,”.

(e) Section 5.03(k) of the Receivables Purchase Agreement is hereby amended and restated in its entirety to read as follows:

“(k) Sales, Etc., of Assets.

Except as required to consummate the Elastomers Sale or as otherwise contemplated by this Agreement, sell, lease, transfer or otherwise dispose of any assets.”

(f) Section 5.06(f) of the Receivables Purchase Agreement is hereby amended and restated in its entirety to read as follows:

“(f) Asset Sales. Sell, convey, transfer, lease or otherwise dispose of, any of its assets or any interest therein (including the sale or factoring at maturity or collection of any accounts), whether in a single transaction, or a series of related transactions, to any Person, or permit or suffer any other Person to acquire any interest in any of its assets (other than the sale or disposition of inventory in the ordinary course of business) unless (i) no Potential Event of Termination or Event of Termination is continuing or would result therefrom, (ii) such sale or other transfer is for Fair Market Value, (iii) 75% of the proceeds of such sale or transfer (or such series of related sales or transfers) are payable in cash to the Servicer upon the consummation of each such sale or transfer, and (iv) if the Fair Market Value of such asset is in excess of $25,000,000, the Board of Directors of the Servicer has approved such sale.”

(g) Section 5.08(c) of the Receivables Purchase Agreement is hereby amended by deleting the “and” at the end of *clause (vi)* thereof, renumbering *clause (vii)* thereof as *clause (viii)* and inserting a new *clause (vii)* immediately before new *clause (viii)* to read in its entirety as follows:

“(vii) to the extent that the Servicer (a) consummates the Elastomers Sale, the Servicer may apply the net cash proceeds (as such amount shall be certified to the Agent by a Responsible Officer of the Servicer) received by the Servicer in connection therewith to prepay, redeem or otherwise repurchase, at the Servicer’s election, the Geon Notes and/or the MA Hanna Notes, in an aggregate principal amount of such Debt not to exceed $80,000,000 collectively or (b) sells or otherwise disposes of any assets (other than in connection with the Elastomers Sale) in accordance with the requirements of Section 5.06(f) (as certified to the Agent by a Responsible Officer of the Servicer), the Servicer may apply up to 70% of the net cash proceeds received by the Servicer in connection with any such sale or other disposition (as such amount shall be certified to the Agent by a Responsible Officer of the Servicer) to prepay, redeem or otherwise repurchase, at the election of the Servicer, any Geon Notes and/or MA Hanna Notes outstanding after giving effect to the prepayment, redemption or repurchase contemplated by the preceding *clause (a)*, the Senior Notes and/or the 2012 Notes; *provided*, *that*, in the case of each of the foregoing *clauses (a)* and *(b)*, both before and after giving effect to any such prepayment, redemption or repurchase, (x) each of the representations and warranties contained in *Article IV (Representations and Warranties)* of the Receivables Purchase Agreement, the other Transaction Documents or in any certificate, document or financial or other statement furnished at any time under or in connection therewith is true and correct in all material respects as if made on and as of such date and except to the extent that such representations and warranties specifically relate to a specific date, in which case such representations and warranties shall be true and correct in all material respects as of such specific date and (y) no Potential Event of Termination or Event of Termination shall have occurred and be continuing on and as of such date, and".

Section 2. Pricing Amendments to Receivables Purchase Agreement. Section 1.01 of the Receivables Purchase Agreement is, effective as of the Reduction Effective Date (as defined below) and subject the satisfaction (or due waiver) of the conditions set forth in *Section 4* (*Conditions Precedent to Effectiveness of Pricing Amendments*) hereof, hereby amended by deleting the defined terms "*Applicable L/C Margin*", "*Applicable Margin*" and "*Unused Commitment Fee Rate*" in their respective entireties and inserting in lieu thereof, in proper alphabetical order, the following:

"Applicable L/C Margin" means, as of any date of determination, a per annum rate equal to the rate set forth below opposite the then applicable Average Monthly Excess Availability (determined on the last day of the most recently concluded calendar month):

Average Monthly Excess Availability	Applicable L/C Margin
Greater than $120,000,000	1.75%
Less than or equal to $120,000,000 and greater than $60,000,000	2.00%
Less than or equal to $60,000,000	2.25%

provided, however, that upon the occurrence and during the continuance of an Event of Termination, the "Applicable L/C Margin" shall be the sum of the highest rate set forth in the table above plus 2.00% per annum. Changes in the Applicable L/C Margin resulting from a change in the Average Monthly Excess Availability for any month shall become effective as to all Issuances on the first day of the next consecutive calendar month.

"Applicable Margin" means, as of any date of determination, a per annum rate equal to the rate set forth below opposite the then applicable Average Monthly Excess Availability (determined on the last day of the most recently concluded calendar month):

Average Monthly Excess Availability	Alternate Base Rate	Adjusted LIBO Rate
Greater than $120,000,000	1.00%	2.00%
Less than or equal to $120,000,000 and greater than $60,000,000	1.25%	2.25%
Less than or equal to $60,000,000	1.50%	2.50%

provided, however, that upon the occurrence and during the continuance of an Event of Termination, the "Applicable Margin" shall be the sum of the highest rate set forth in the table above (as may be converted pursuant to Section 2.16) plus 2.00% per annum. Changes in the Applicable Margin resulting from a change in the Average Monthly Excess Availability for any month shall become effective as to all Capital Investments on the first day of the next consecutive calendar month.

"Unused Commitment Fee Rate" means, as of any date of determination, a per annum rate equal to the rate set forth below opposite the then applicable Average Monthly Excess Availability (determined on the last day of the most recently concluded calendar month for which financial statements have been delivered):

Average Monthly Excess Availability	Unused Commitment Fee Rate
Greater than $120,000,000	0.625%
Less than or equal to $120,000,000 and greater than $60,000,000	0.500%
Less than or equal to $60,000,000	0.375%

provided, however, that upon the occurrence and during the continuance of an Event of Termination, the "Unused Commitment Fee Rate" shall be the highest rate set forth in the table above. Changes in the Unused Commitment Fee Rate resulting from a change in the Average Monthly Excess Availability for any month shall become effective on the first day of the next consecutive calendar month.

Section 3. Conditions Precedent to the Effectiveness of this Amendment. Subject to *Section 4 (Conditions Precedent to Effectiveness of Pricing Amendments)* hereof with respect to the Pricing Amendments (as defined below), this Amendment shall become effective as of the date first written above when, and only when, each of the following conditions precedent shall have been satisfied (the "***Amendment Effective Date***") or duly waived by the Agent:

(a) ***Certain Documents.***

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

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

(ii) a notice from the Seller, at least five (5) Business Days prior to the date of this Amendment and otherwise in form and substance satisfactory to the Agent, in accordance with the terms and conditions of *Section 2.05 (Termination or Reduction of the Commitments)* of the Receivables Purchase Agreement, pursuant to which the Seller shall have elected to permanently reduce the Commitments by an amount equal to $50,000,000 such that the aggregate amount of Commitments outstanding under the Receivables Purchase Agreement shall equal $175,000,000; and

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

(b) ***Fees and Expenses Paid.***

The Seller shall have paid to the Agent:

(i) on behalf of each Purchaser approving this Amendment on or prior to 5:00 pm on July 27, 2004, an amendment fee equal to one-tenth of one percent (0.10%) of the aggregate amount of the Commitments (after giving effect to this Amendment) of each consenting Purchaser and each other fee payable in connection with this Amendment; and

(ii) all other obligations of the Seller due under the Transaction Documents, after giving effect to this Amendment, on or before the later of the date hereof and the Amendment Effective Date and all costs and expenses of the Agent in connection with the preparation, reproduction, execution and delivery of this Amendment and all other Transaction Documents entered into in connection herewith (other than the reasonable fees and out-of-pocket expenses of counsel for the Agent in connection with this Amendment and the other Transaction Documents, in respect of which fees and out-of-pocket expenses the Agent shall present an invoice to the Seller and the Seller shall pay promptly (and in any event within five Business Days) after the Amendment Effective Date) and all other costs, expenses and fees due under any Transaction Document.

Section 4. Conditions Precedent to Effectiveness of Pricing Amendments. The amendments set forth in *Section 2 (Pricing Amendments to Receivables Purchase Agreement)* (the "***Pricing Amendments***") shall become effective when, and only when, the Amendment Effective Date shall have occurred and the Agent shall have received this Amendment, duly executed by the Seller, the Servicer, the Agent and each Purchaser, in form and substance satisfactory to the Agent and in sufficient copies for each Purchaser (the "***Reduction Effective Date***").

Section 5. Commitments. On and as of the Amendment Effective Date, the Commitments of each Purchaser shall be the aggregate principal amount set forth as the "*Commitment*" of such Purchaser on Schedule I to this Amendment.

Section 6. Representations and Warranties

On and as of the date hereof and as of each of the Amendment Effective Date and the Reduction Effective Date, after giving effect to this Amendment, each of the Seller (as to itself) and the Servicer (as to itself) hereby represents and warrants to the Agent and each Purchaser as follows:

(a) this Amendment has been duly authorized, executed and delivered by the Seller and the Servicer and constitutes a legal, valid and binding obligation of the Seller and the Servicer, enforceable against the Seller and the Servicer in accordance with its terms and the Receivables Purchase Agreement as amended by this Amendment and constitutes the legal, valid and binding obligation of the Seller and the Servicer, enforceable against the Seller and the Servicer in accordance with its terms;

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

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

(d) no litigation has been commenced against the Seller, the Servicer, or any Originator or any of their respective Subsidiaries seeking to restrain or enjoin (whether temporarily, preliminarily or permanently) the performance of any action by the Seller, the Servicer, or an Originator required or contemplated by this Amendment, the Receivables Purchase Agreement or any Transaction Document, in each case as amended or otherwise modified hereby (if applicable).

Section 7. Costs and Expenses

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

Section 8. Matters Relating to Certain Receivables

In connection with the sale or other disposition, in a single transaction or series of related transactions (including the sale or other disposition of the Servicer's assets located at its DeForest, Wisconsin facility), of all or substantially all of the Servicer's assets which constitute the Servicer's elastomers business unit (the "***Elastomers Sale***"), each of the Purchasers hereby (i) directs the Agent to assign and reconvey to Seller on behalf of the Purchasers all of the right, title and interest of the Purchasers in the Receivables Interests outstanding under the Receivables Purchase Agreement as of the date of the consummation of the Elastomers Sale which arise from the Receivables being sold in connection with the Elastomers Sale (such Receivables, the "***Elastomers Receivables***") and (ii) to take any other actions and do such other things as are necessary to effectuate the provisions of this *Section 8*.

Section 9. Amendment to Receivables Sale Agreement

Each of the Purchasers hereby (i) consents to the amendment of the Receivables Sale Agreement to permit the Elastomers Sale and otherwise on substantially the same terms and conditions as the amendments contained in *Section 1 (Certain Amendments to Receivables Purchase Agreement)* of this Amendment and (ii) directs the Agent to enter into such amendment on behalf of the Purchasers.

Section 10. Reference to the Effect on the Transaction Documents

(a) As of the Amendment Effective Date and the Reduction Effective Date, each reference in the Receivables Purchase Agreement to "*this Agreement,*" "*hereunder,*" "*hereof,*" "*herein,*" or words of like import, and each reference in the other Transaction Documents to the Receivables Purchase Agreement (including, without limitation, by means of words like "*thereunder,*" "*thereof*" and words of like import), shall mean and be a reference to the Receivables Purchase Agreement as amended or otherwise modified hereby, and this Amendment and the Receivables Purchase Agreement shall be read together and construed as a single instrument. Each of the table of contents and lists of Exhibits and Schedules of the Receivables Purchase Agreement shall be amended to reflect the changes made in this Amendment as of the Amendment Effective Date.

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

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

(d) This Amendment is a Transaction Document.

Section 11. Execution in Counterparts

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

Section 12. Governing Law

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

Section 13. Section Titles

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

Section 14. Notices

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

Section 15. Severability

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

Section 16. Successors

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

Section 17. Waiver of Jury Trial

Each of the parties hereto irrevocably waives trial by jury in any action or proceeding with respect to this Amendment or any other Transaction Document.

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

POLYONE FUNDING CORPORATION,
as Seller

By: ______________________________
Name:
Title:

POLYONE CORPORATION,
as Servicer

By: ______________________________
Name:
Title:

CITICORP USA, INC.,
as Agent and Purchaser

By: ______________________________
Name:
Title:

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

By: ______________________________
Name:
Title:

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

By: ______________________________
Name:
Title:

FLEET CAPITAL CORPORATION,
as a Purchaser

By: ______________________________
Name:
Title:

GMAC COMMERCIAL FINANCE LLC,
as a Purchaser

By: ______________________________
Name:
Title:

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

By: ______________________________
Name:
Title:

LASALLE BUSINESS CREDIT, LLC,
as an Initial Purchaser

By: ______________________________
Name:
Title:

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

By: ______________________________
Name:
Title:

ORIX FINANCIAL SERVICES, INC.,
as an Initial Purchaser

By: ______________________________
Name:
Title:

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

By: ______________________________
Name:
Title:

WEBSTER BUSINESS CREDIT CORPORATION,
an Initial Purchaser

By: ______________________________
Name:
Title:

Schedule I – Commitments

Purchaser	Commitment
Citicorp USA, Inc.	$ 32,781,690
National City Business Credit, Inc.	$ 32,781,689
The Cit Group/Business Credit, Inc.	$ 16,431,925
Fleet Capital Corporation	$ 16,431,925
GMAC Commercial Finance LLC	$ 16,431,925
LaSalle Business Credit, LLC	$ 11,666,667
Merrill Lynch Capital	$ 16,431,925
PNC Bank, N.A.	$ 12,323,944
U.S. Bank National Association	$ 9,859,155
Webster Business Credit Corporation	$ 9,859,155
Total:	**$175,000,000**

Exhibit 31.1

CERTIFICATION

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

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

   (c) 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 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.

October 27, 2004

/s/ Thomas A. Waltermire

Thomas A. Waltermire
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

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

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

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

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

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

   (c) 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 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.

October 27, 2004

/s/ W. David Wilson

W. David Wilson
Vice President and Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of PolyOne Corporation (the "Company") for the period ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas A. Waltermire, President and Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

/s/ Thomas A. Waltermire

Thomas A. Waltermire
President and Chief Executive Officer
October 27, 2004

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of PolyOne Corporation (the “Company”) for the period ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, W. David Wilson, Vice President and Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

/s/ W. David Wilson

W. David Wilson
Vice President and Chief Financial Officer
October 27, 2004

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.