United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

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

For the transition period from to .

Commission file number 1-16091

PolyOne Corporation
(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	34-1730488 (IRS 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

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

The aggregate market value of the registrant's outstanding common stock held by non-affiliates on June 29, 2007, determined using a per share closing price on that date of $7.19, as quoted on the New York Stock Exchange, was $623,115,000.

The number of shares of common stock outstanding as of February 27, 2008 was 93,157,719.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement with respect to the 2008 Annual Meeting of Shareholders.

PART I

ITEM 1. BUSINESS

Business Overview

PolyOne Corporation is a leading global provider of specialized polymer materials, services and solutions with operations in thermoplastic compounds, specialty polymer formulations, color and additive systems, thermoplastic resin distribution and specialty polyvinyl chloride (PVC) vinyl resins, with equity investments in manufacturers of caustic soda and chlorine, and PVC compound products and in a formulator of polyurethane compounds. When used in this Annual Report on Form 10-K, the terms “we,” “us,” “our” and the “Company” mean PolyOne Corporation and its subsidiaries.

We are incorporated in Ohio and our headquarters are in Avon Lake, Ohio. We employ approximately 4,800 people and have 56 manufacturing sites and 13 distribution facilities in North America, Europe, Asia and Australia, and joint ventures in North America and South America. We sell more than 35,000 different specialty and general purpose products to over 11,000 customers on 6 continents. In 2007, we had sales of $2.6 billion, 37% of which were to customers outside the United States.

We provide value to our customers through our ability to link our knowledge of polymers and formulation technology with our manufacturing and supply chain processes to provide an essential link between large chemical producers (our raw material suppliers) and designers, assemblers and processors of plastics (our customers). We believe that large chemical producers are increasingly outsourcing less-than-railcar business; polymer and additive producers need multiple channels to market; processors continue to outsource compounding; and international companies need suppliers with global reach. Our goal is to provide our customers with specialized material and service solutions through our global reach and product platforms, low-cost manufacturing operations, a fully integrated information technology network, broad market knowledge and raw material procurement leverage. Our end markets are primarily in the building materials, wire and cable, automotive, durable goods, packaging, electrical and electronics, medical and telecommunications markets, as well as many industrial applications.

PolyOne was formed on August 31, 2000 from the consolidation of The Geon Company (Geon) and M.A. Hanna (Hanna). Geon’s roots date back to 1927 when BFGoodrich scientist Waldo Semon produced the first usable vinyl polymer. In 1948, BFGoodrich created a vinyl plastic division that was subsequently spun off through a public offering in 1993, creating Geon, a separate publicly-held company. Hanna was formed in 1885 as a privately-held company and became publicly-held in 1927. In the mid-1980s, Hanna began to divest its historic mining and shipping businesses to focus on polymers. Hanna purchased its first polymer company in 1986 and completed its 26th polymer company acquisition in 2000.

Recent Developments

Sale of businesses and discontinued operations

In July 2007, we sold our 24% interest in Oxy Vinyls LP (OxyVinyls) for $261 million in cash. During the second quarter of 2007 an impairment of $14.8 million was recorded on our investment in OxyVinyls due to an other than temporary decline in value. This sale resulted in the reversal of an associated deferred tax liability, which reduced tax expense by $31.5 million for the year ended December 31, 2007. Proceeds from the sale were used for the redemption of the balance of our 10.625% senior notes as well as for the reduction of borrowings under short-term facilities. The redemption of the senior notes resulted in debt redemption premium costs and the write-off of unamortized debt issuance fees for 2007 of $15.6 million ($10.1 million after tax).

Purchase of businesses

In January 2008, we acquired 100% of the outstanding capital stock of GLS Corporation (GLS), a global provider of specialty thermoplastic elastomer compounds for consumer, packaging and medical applications.

In December 2007, we acquired the vinyl compounding business and assets of Ngai Hing PlastChem Company Ltd. (NHPC), a subsidiary of Ngai Hing Hong Company Limited, a publicly-held company listed on the Hong Kong Stock Exchange for $3.3 million, net of cash received.

In July 2007, in a transaction related to the sale of our interest in OxyVinyls, we purchased the remaining 10% minority interest in Powder Blends, LP, for $11 million in cash.

Polymer Industry Overview

Polymers are a class of organic materials that are generally produced by converting natural gas or crude oil derivatives into monomers, such as ethylene, propylene, vinyl chloride and styrene. These monomers are then polymerized into chains called polymers, or plastic resin, in its most basic form. Large petrochemical companies, including some in the petroleum industry, produce a majority of the monomers and base resins because they have direct access to the raw materials needed for production. Monomers make up the majority of the variable cost of manufacturing the base resin. As a result, the cost of a base resin tends to move in tandem with the industry market prices for monomers and the cost of raw materials and energy used during production. Resin selling prices can move in tandem with costs, but are largely driven by supply and demand balances. Through our equity interest in SunBelt Chlor-Alkali Partnership (SunBelt), we realize a portion of the economic benefits of a base resin producer for PVC resin, one of our major raw materials.

Thermoplastic polymers make up a substantial majority of the resin market and are characterized by their ability to be reshaped repeatedly into new forms after heat and pressure are applied. Thermoplastics offer versatility and a wide range of applications. The major types of thermoplastics include polyethylene, polyvinyl chloride, polypropylene, polystyrene, polyester and a range of specialized engineering resins. Each type of thermoplastic has unique qualities and characteristics that make it appropriate for use in a particular product.

Thermoplastic resins are found in a number of end-use products and in a variety of markets, including packaging, building and construction, wire and cable, automotive, medical, furniture and furnishings, durable goods, institutional products, electrical and electronics, adhesives, inks and coatings. Each type of thermoplastic resin has unique characteristics (such as flexibility, strength or durability) suitable for use in a particular end-use application. The packaging industry, the largest consumer of plastics, requires plastics that help keep food fresh and free of contamination while providing a variety of options for product display, and offering advantages in terms of weight and user-friendliness. In the building and construction industry, plastic provides an economical and energy efficient replacement for other traditional materials in piping applications, siding, flooring, insulation, windows and doors, as well as structural and interior or decorative uses. In the wire and cable industry, thermoplastics serve to protect by providing electrical insulation, flame resistance, durability, water resistance, and color coding to wire coatings and connectors. In the automotive industry, plastic has proved to be durable, lightweight and corrosion resistant while offering fuel savings, design flexibility and high performance. In the medical industry, plastics help save lives by safely providing a range of transparent and opaque thermoplastics that are used for a vast array of devices including blood and intravenous bags, medical tubing, masks, lead replacement for radiation shielding, clamps and connectors to bed frames, curtains and sheeting, and electronic enclosures. In the electronics industry, plastic enclosures and connectors not only enhance safety through electrical insulation, but thermally and electrically conductive plastics provide heat transferring, cooling, antistatic, electostatic discharge, and electromagnetic shielding performance for critical applications including integrated circuit chip packaging.

Various additives can be combined with a base resin to provide it with greater versatility and performance. These combinations are known as plastic compounds. Plastic compounds have advantages over metals, wood, rubber and other traditional materials, which have resulted in the replacement of these materials across a wide spectrum of applications that range from automobile parts to construction materials. Plastic compounds offer advantages compared to traditional materials that include processability, weight reduction, chemical resistance, flame retardance and lower cost. Plastics have a reputation for durability, aesthetics, ease of handling and recyclability.

PolyOne Segments

We operate within four reportable segments: Vinyl Business; International Color and Engineered Materials; PolyOne Distribution; and Resin and Intermediates. All Other is comprised of the remaining operating segments and includes North American Color and Additives, North American Engineered Materials, Producer Services and Specialty Inks and Polymer Systems operating segments. For more information about our segments, see Note R to the Consolidated Financial Statements, which is incorporated by reference into this Item 1.

Vinyl Business:

Our Vinyl Business operating segment is a global leader offering an array of products and services for vinyl coating, molding and extrusion processors. Our product offerings include: rigid, flexible and dry blend vinyl compounds; industry-leading dispersion, blending and specialty suspension grade vinyl resins; and specialty coating materials based largely on vinyl. These products are sold to a wide variety of manufacturers of plastic parts and consumer-oriented products. We also offer a wide range of services to the customer base utilizing these products to meet the ever changing needs of our multi-market customer base. These services include materials testing and component analysis, custom compound development, colorant and additive services, design assistance, structural analyses, process simulations and extruder screw design.

Much of the revenue and income for the Vinyl Business is generated in North America. However, production and sales in Asia and Europe constitute a minor but growing portion of this segment. In addition, PolyOne owns 50% of a joint venture producing and marketing vinyl compounds in Latin America.

Vinyl is one of the most widely used plastics, utilized in a wide range of applications in building and construction, wire and cable, consumer and recreation markets, automotive, packaging and healthcare. Vinyl resin can be combined with a broad range of additives, resulting in performance versatility, particularly when fire resistance, chemical resistance or weatherability is required. We believe we are well-positioned to meet the stringent quality, service and innovation requirements of this diverse and highly competitive marketplace.

Our Vinyl Business segment had total sales of $933.0 million, of which sales to external customers were $833.0 million, with operating income of $50.8 million in 2007 and total assets of $467.3 million as of December 31, 2007.

International Color and Engineered Materials:

Our International Color and Engineered Materials operating segment combines the strong regional heritage of our color and additive masterbatches and engineered materials operations to create global capabilities with plants, sales and service facilities located throughout Europe and Asia.

We operate 13 facilities in Europe (Belgium, Denmark, France, Germany, Hungary, Poland, Spain, Sweden and Turkey) and 5 facilities in Asia (China, Singapore and Thailand).

Working in conjunction with our North American Color and Additives and North American Engineered Materials operating segments, we provide solutions that meet our international customers' demands for both global and local manufacturing, service and technical support.

Our International Color and Engineered Materials segment had sales to external customers of $610.9 million, with operating income of $26.6 million in 2007 and total assets of $424.4 million as of December 31, 2007.

PolyOne Distribution:

Our PolyOne Distribution operating segment distributes more than 3,500 grades of engineering and commodity grade resins, including PolyOne-produced compounds, to the North American market. These products are sold to over 5,000 custom injection molders and extruders who, in turn, convert them into plastic parts that are sold to end-users in a wide range of industries. Representing over 20 major suppliers, we offer our customers a broad product portfolio, just-in-time delivery from multiple stocking locations, and local technical support.

Our PolyOne Distribution segment had total sales of $744.3 million, of which sales to external customers were $739.6 million, with operating income of $22.1 million in 2007 and total assets of $175.2 million as of December 31, 2007.

Resin and Intermediates:

We report the results of our Resin and Intermediates operating segment on the equity method. This segment consists almost entirely of our 50% equity interest in SunBelt and our former 24% equity interest in OxyVinyls, through its disposition date of July 6, 2007. SunBelt, a producer of chlorine and caustic soda, is a partnership with Olin Corporation. OxyVinyls, a producer of PVC resins, vinyl chloride monomer (VCM), and chlorine and caustic soda, was a partnership with Occidental Chemical Corporation. In 2007, SunBelt had production capacity of approximately 320 thousand tons of chlorine and 358 thousand tons of caustic soda. Most of the chlorine manufactured by SunBelt is consumed by OxyVinyls to produce PVC resin. Caustic soda is sold on the merchant market to customers in the pulp and paper, chemical, construction and consumer products industries.

Our Resin and Intermediates segment had operating income of $34.8 million in 2007, not including a $14.8 million impairment charge related to the disposition of our 24% interest in OxyVinyls, and had total assets of $15.6 million as of December 31, 2007. We also received $35.0 million of cash from dividends and distributions from our Resin and Intermediates segment equity affiliates in 2007, in addition to net proceeds of $261 million from the sale of our interest in OxyVinyls.

All Other:

All Other includes our North American Color and Additives, North American Engineered Materials, Producer Services and Specialty Inks and Polymer Systems operating segments.

Our North American Color and Additives operating segment is a leading provider of specialized colorants and additive concentrates that offers an innovative array of colors, special effects and performance-enhancing and eco-friendly solutions. Our color masterbatches contain a high concentration of color pigments and/or additives that are dispersed in a polymer carrier medium and are sold in pellet, liquid, flake or powder form. When combined with non pre-colored base resins, our colorants help our customers achieve a wide array of specialized colors and effects that are targeted at the demands of today's highly design-oriented consumer and industrial end markets. Our additive masterbatches encompass a wide variety of performance enhancing characteristics and are commonly categorized by the function that they perform, such as UV stabilization, anti-static, chemical blowing, antioxidant and lubricant, and processing enhancement.

Our colorant and additives masterbatches are used in most plastics manufacturing processes, including injection molding, extrusion, sheet, film, rotational molding and blow molding throughout the plastics industry, particularly in the packaging, automotive, consumer, outdoor decking, pipe and wire and cable markets. They are also incorporated into such end-use products as stadium seating, toys, housewares, vinyl siding, pipe, food packaging and medical packaging.

Our North American Engineered Materials operating segment is a leading provider of custom plastic compounding services and solutions for processors of thermoplastic materials across a wide variety of markets and end-use applications including applications currently employing traditional materials such as metal. Our product portfolio, one of the broadest in our industry, includes standard and custom formulated high-performance polymer compounds that we manufacture using a full range of thermoplastic compounds and elastomers, which are then combined with advanced polymer additive, reinforcement, filler, colorant and biomaterial technologies.

Our depth of compounding expertise helps us expand the performance range and structural properties of traditional engineering-grade thermoplastic resins that meet our customers' unique performance requirements. Our product development and application reach is further enhanced by the capabilities of our North American Engineered Materials Solutions Center, which produces and evaluates prototype and sample parts to help assess end-use performance and guide product development. Our manufacturing capabilities, which include a facility located in Avon Lake, Ohio, are targeted at meeting our customers' demand for speed, flexibility and critical quality.

Our Producer Services operating segment offers custom compounding services to resin producers and processors that design and develop their own compound recipes. We also offer a complete product line of custom black masterbatch products for use in the pressure pipe industry. Customers often require high quality, cost effective and confidential services. As a strategic and integrated supply chain partner, Producer Services offers resin producers a way to develop custom products for niche markets by using our compounding expertise and multiple manufacturing platforms.

Our Specialty Inks and Polymer Systems operating segment provides custom-formulated liquid systems that meet a variety of customer needs and chemistries, including vinyl, natural rubber and latex, polyurethane and silicone. Our products and services are designed to meet the specific requirements of our customers' applications by providing unique solutions to their market needs. Products also include proprietary fabric screen-printing inks, latexes, specialty additives and colorants. Specialty Inks and Polymer Systems serves diversified markets that include recreational and athletic apparel, construction, filtration, outdoor furniture and healthcare. We also have a 50% interest in BayOne, a joint venture between PolyOne and Bayer Corporation, which sells polyurethane systems into many of the same markets.

All Other had total sales of $487.8 million, of which sales to external customers were $459.2 million, with operating income of $10.0 million in 2007 and total assets of $296.5 million as of December 31, 2007.

Competition

The production of compounded plastics and the manufacture of custom and proprietary formulated color and additives systems for the plastics industry are highly competitive. Competition is based on speed, delivery, service, performance, product innovation, product recognition, quality and price. The relative importance of these factors varies among our products and services. We believe that we are the largest independent compounder of plastics and producer of custom and proprietary formulated color and additive masterbatch systems in the United States and Europe, with a growing presence in Asia. Our competitors range from large international companies with broad product offerings to local independent custom compounders whose focus is a specific market niche or product offering.

The distribution of polymer resin is also highly competitive. Speed, delivery, service, brand recognition, quality and price are the principal factors affecting competition. In less-than-truckload thermoplastic resin and compound distribution, we believe that we are the second largest independent thermoplastic resin distributor in North America. We compete against other national independent resin distributors in North America, along with other regional distributors. Growth in the thermoplastic resin and compound distribution market is directly correlated with growth in the base polymer resins market.

We believe that the strength of our company name and reputation, the broad range of product offerings from our suppliers and our speed and responsiveness, coupled with the quality of products and flexibility of our distribution network, allow us to compete effectively.

Raw Materials

The primary raw materials used by our manufacturing operations are PVC resin, VCM, polyolefin and other thermoplastic resins, plasticizers, inorganic and organic pigments, all of which are in adequate supply. We have long-term supply contracts with OxyVinyls under which the majority of our PVC resin and all of our VCM is supplied. These contracts will expire in 2013, although they contain two five-year renewal provisions that are at our option. We believe these contracts should assure the availability of adequate amounts of PVC resin and VCM. We also believe that the pricing under these contracts provides PVC resins and VCM to us at a competitive cost.

Patents and Trademarks

We own and maintain a large number of U.S. and foreign patents and trademarks that contribute to our competitiveness in the markets we serve because they protect our inventions and product names against infringement by others. Patents vary in duration up to 13 years, and trademarks have an indefinite life based upon continued use. While we view our patents and trademarks to be valuable because of the broad scope of our products and services and brand recognition we enjoy, we do not believe that the loss or expiration of any single patent or trademark would have a material adverse effect on our results of operations, financial position or the continuation of our business. Nevertheless, we have implemented management processes designed to protect our inventions and trademarks.

Seasonality and Backlog

Sales of our products and services are slightly seasonal as demand is generally slower in the first and fourth calendar quarters of the year. Because of the nature of our business, we do not believe that our backlog is a meaningful indicator of the level of our present or future business.

Working Capital Practices

The nature of our business does not require us to carry significant amounts of inventories to meet the delivery requirements for our products or services or assure ourselves of a continuous allotment of goods from suppliers. Our products are generally manufactured with a short turnaround time, and the scheduling of manufacturing activities from customer orders generally includes enough lead time to assure delivery of an adequate supply of raw materials. We offer payment terms to our customers that are competitive. We generally allow our customers to return merchandise if pre-agreed quality standards or specifications are not met; however, we employ quality assurance practices that seek to minimize customer returns.

Significant Customers

No customer accounts for more than 3% of our consolidated revenues, and neither we nor any of our operating segments would suffer a material adverse effect if we were to lose any single customer.

Research and Development

We have substantial technology development capabilities. Our efforts are largely devoted to developing new product formulations to satisfy defined market needs, providing quality technical services to evaluate alternative raw materials, assuring the continued success of our products for customer applications, providing technology to improve our products, processes and applications, and providing support to our manufacturing plants for cost reduction, productivity and quality improvement programs. We operate research and development centers that support our commercial development activities and manufacturing operations. These facilities are equipped with state-of-the-art analytical, synthesis, polymer characterization and testing equipment, along with pilot plants and polymer compounding operations that simulate specific production processes that allow us to rapidly translate new technologies into new products.

Our investment in product research and development was $21.6 million in 2007, $20.3 million in 2006 and $19.5 million in 2005. In 2008, we expect our investment in research and development to increase as we deploy greater resources to increase and accelerate material and service innovations.

Methods of Distribution

We sell products primarily through direct sales personnel, distributors, including our PolyOne Distribution segment, and commissioned sales agents. We primarily use truck carriers to transport our products to customers, although some customers pick up product at our operating facilities or warehouses. We also ship some of our manufactured products to customers by railroad cars.

Employees

As of February 27, 2008, we employed approximately 4,800 people. Approximately 90 employees were represented by labor unions under collective bargaining agreements that expire on May 31, 2008 (4 employees), July 31, 2010 (15 employees), October 31, 2010 (26 employees), November 30, 2010 (16 employees) and January 31, 2011 (29 employees) and approximately another 103 employees are currently in negotiations to enter into a collective bargaining agreement. We believe that relations with our employees are good, and we do not anticipate significant operating issues to occur as a result of current negotiations or when we renegotiate collective bargaining agreements as they expire.

Environmental, Health and Safety

We are subject to various environmental laws and regulations that apply to the production, use and sale of chemicals, emissions into the air, discharges into waterways and other releases of materials into the environment and the generation, handling, storage, transportation, treatment and disposal of waste material. We endeavor to ensure the safe and lawful operation of our facilities in the manufacture and distribution of products, and we believe we are in material compliance with all applicable laws and regulations.

We maintain a disciplined environmental and occupational safety and health compliance program and conduct periodic internal and external regulatory audits at our facilities to identify and categorize potential environmental exposures, including compliance issues and any actions that may be required to address them. This effort can result in process or operational modifications, the installation of pollution control devices or cleaning up grounds or facilities. We believe that we are in material compliance with all applicable requirements.

Based on September 2007 court rulings (see Note N to the Consolidated Financial Statements) in the case of Westlake Vinyls, Inc. v. Goodrich Corporation, et al. and a settlement agreement related to the former Goodrich Corporation (now Westlake Vinyls, Inc.) Calvert City facility, we recorded a charge during 2007 of $15.6 million for past remediation costs payable to Goodrich Corporation. We also adjusted our environmental reserve for future remediation costs, a portion of which already related to the Calvert City site, resulting in an additional charge of $28.8 million in 2007.

We incurred total environmental expense of $48.8 million in 2007, $2.5 million in 2006 and $0.2 million in 2005. Our environmental expenses in 2007 were largely driven by the charges stemming from the aforementioned Calvert City settlement and subsequent reserve adjustment. Environmental expense is presented net of insurance recoveries of $8.1 million in 2006 and $2.2 million in 2005. There were no insurance recoveries in 2007. The insurance recoveries all relate to inactive or formerly owned sites.

We expect environmental remediation expenditures will be approximately $14 million in 2008 and $6 million to $8 million per year thereafter.

We are strongly committed to safety as evidenced by the fact that our injury incidence rate was 1.14 per 100 full-time workers per year in 2007, an improvement from 1.33 in 2006. The 2006 average injury incidence rate for our NAICS Code (326 Plastics and Rubber Products Manufacturing) was 6.8.

We believe that compliance with all current governmental regulations will not have a material adverse effect on our results of operations or financial condition. The risk of additional costs and liabilities, however, is inherent in certain plant operations and certain products produced at these plants, as is the case with other companies in the plastics industry. Therefore, we may incur additional costs or liabilities in the future. Other developments, such as increasingly strict environmental, safety and health laws, regulations and related enforcement policies, discovery of unknown conditions, and claims for damages to property, persons or natural resources resulting from plant emissions or products could also result in additional costs or liabilities.

A number of foreign countries and domestic communities have enacted, or are considering enacting, laws and regulations concerning the use and disposal of plastic materials. Widespread adoption of these laws and regulations, along with public perception, may have an adverse impact on sales of plastic materials. Although many of our major markets are in durable, longer-life applications that could reduce the impact of these kinds of environmental regulations, more stringent regulation of the use and disposal of plastics may have an adverse effect on our business.

The European business community (EU) has adopted REACH, a legislative act to cover Registration, Evaluation, Authorization and Restriction of Chemicals. The goal of this legislation, which became effective in June 2007, is to minimize risk to human health and to the environment. We have a global team of experts to provide our customers with compliance solutions to adapt to these regulations. As these regulations evolve, we will endeavor to remain in compliance with REACH.

We have been notified by federal and state environmental agencies and by private parties that we may be a potentially responsible party (PRP) in connection with the investigation and remediation of a number of environmental waste disposal sites. While government agencies assert that PRPs are jointly and severally liable at these sites, in our experience, interim and final allocations of liability costs are generally made based on the relative contribution of waste. However, even when allocations of costs based on relative contribution of waste have been made, we cannot assure that our allocation will not increase if other PRPs do not pay their allocated share of these costs.

We also conduct investigations and remediation at several of our active and inactive facilities and have assumed responsibility for the resulting environmental liabilities from operations at sites formerly owned or operated by us or our predecessors. We believe that our potential continuing liability at these sites will not have a material adverse effect on our results of operations or financial position. In addition, we voluntarily initiate corrective and preventive environmental projects at our facilities. Based on current information and estimates prepared by our environmental engineers and consultants, we had reserves on our December 31, 2007 Consolidated Balance Sheet totaling $83.8 million to cover probable future environmental expenditures related to previously contaminated sites. This figure represents management's best estimate of costs for probable remediation, based upon the information and technology currently available and management'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 we could incur additional costs in excess of the amount accrued at December 31, 2007. Such costs, if any, cannot be currently estimated. We may revise our estimate of this liability as new regulations or technologies are developed or additional information is obtained.

International Operations

Our international operations are subject to a variety of risks, including currency fluctuations and devaluations, exchange controls, currency restrictions and changes in local economic conditions. While the impact of these risks is difficult to predict, any one or more of them could adversely affect our future operations. For more information about our international operations, see Note R to the Consolidated Financial Statements, which is incorporated by reference into this Item 1.

Available Information

Our Internet address is www.polyone.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available, free of charge, on our website or upon written request, as soon as reasonably practicable after we electronically file or furnish them to the SEC. These reports are also available on the SEC's website at www.sec.gov.

ITEM 1A. RISK FACTORS

The following are certain risk factors that could affect our business, results of operations and financial condition. These risk factors should be considered along with the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause our actual results or financial condition to differ materially from those projected in forward-looking statements. The risks that are discussed below are not the only ones we face. If any of the following risks occur, our business, results of operations or financial condition could be negatively affected.

In 2006, we developed an enterprise risk management process to manage risks we face in a holistic and integrated approach. The purpose of this process is to manage risks that can prevent us from achieving our strategic, operational and financial goals. It is important to understand that this process is designed to manage risks and not to eliminate risks. This risk management process is a component of our strategic planning process and as such, is reviewed at regular intervals with our Board of Directors and Audit Committee.

Demand for and supply of our products and services may be adversely affected by several factors, some of which we cannot predict or control, that could adversely affect our results of operations.

Several factors may affect the demand for and supply of our products and services, including:

- economic downturns in the significant end markets that we serve;
- product obsolescence, technological changes that unfavorably alter the value / cost proposition of our products and services;
- competition from existing and unforeseen polymer and non-polymer based products;
- declines in general economic conditions or reductions in industrial production growth rates, both domestically and globally, which could impact our customers ability to pay amounts owed to us;
- changes in environmental regulations that would limit our ability to sell our products and services in specific markets; and
- inability to obtain raw materials or supply products to customers due to factors such as supplier work stoppages, supply shortages, plant outages or regulatory changes that may limit or prohibit overland transportation of certain hazardous materials and exogenous factors, like severe weather.

If any of these factors occur, the demand for and supply of our products and services could suffer, which would adversely affect our results of operations.

Our manufacturing operations are subject to hazards and other risks associated with polymer production and the related storage and transportation of raw materials, products and wastes.

Our manufacturing operations are subject to the usual hazards and risks associated with polymer production and the related storage and transportation of raw materials, products and wastes. These hazards and risks include, but are not limited to:

- explosions, fires, inclement weather and natural disasters;
- mechanical failure resulting in protracted or short duration unscheduled downtime;
- regulatory changes that affect or limit the transportation of raw materials;
- inability to obtain or maintain any required licenses or permits;
- interruptions and environmental hazards such as chemical spills, discharges or releases of toxic or hazardous substances or gases into the environment or workplace; and
- storage tank leaks or other issues resulting from remedial activities.

The occurrence of any of these operating problems at our facilities may have a material adverse effect on the productivity and profitability of a particular manufacturing facility or on our operations as a whole, during and after the period of these operating difficulties. These operating problems may also cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage. We are subject to present and potential future claims with respect to workplace exposure, workers' compensation and other matters. Although we maintain property and casualty insurance of the types and in the amounts that we believe are customary for the industry, we are not fully insured against all potential hazards that are incident to our business.

Extensive environmental, health and safety laws and regulations impact our operations and assets, and compliance with these regulations could adversely affect our results of operations.

Our operations on and ownership of real property are subject to extensive environmental, health and safety laws and regulations at the national, state and local governmental levels. The nature of our business exposes us to risks of liability under these laws and regulations due to the production, storage, transportation, recycling or disposal and/or sale of materials that can cause contamination or personal injury if they are released into the environment or workplace. Environmental laws may have a significant effect on the costs of these activities involving raw materials, finished products and wastes. We may incur substantial costs, including fines, damages, criminal or civil sanctions, remediation costs, or experience interruptions in our operations for violations of these laws.

Also, federal and state environmental statutes impose strict, and under some circumstances, joint and several liability for the cost of investigations and remedial actions on any company that generated the waste, arranged for disposal of the waste, transported the waste to the disposal site or selected the disposal site, as well as on the owners and operators of these sites. Any or all of the responsible parties may be required to bear all of the costs of clean up, regardless of fault or legality of the waste disposal or ownership of the site, and may also be subject to liability for natural resource damages. We have been notified by federal and state environmental agencies and private parties that we may be a potentially responsible party in connection with several sites. We may incur substantial costs for some of these sites. It is possible that we will be identified as a potentially responsible party at more sites in the future, which could result in our being assessed substantial investigation or cleanup costs.

The European business community has adopted REACH, a legislative act to cover Registration, Evaluation, Authorization and Restriction of Chemicals. The goal of this legislation, which became effective in June 2007, is to minimize risk to human health and to the environment. We have a global team of experts to provide our customers with compliance solutions to adapt to these regulations. As these regulations evolve, we will endeavor to remain in compliance with REACH.

We also conduct investigations and remediation at some of our active and inactive facilities, and have assumed responsibility for environmental liabilities based on operations at sites formerly owned or operated by our predecessors or by us.

We accrue costs for environmental matters that have been identified when it is probable that these costs will be required and when they can be reasonably estimated. However, accruals for estimated costs, including, among other things, the ranges associated with our accruals for future environmental compliance and remediation, may be too low or we may not be able to quantify the potential costs. We may be subject to additional environmental liabilities or potential liabilities that have not been identified. We expect that we will continue to be subject to increasingly stringent environmental, health and safety laws and regulations. We anticipate that compliance with these laws and regulations will continue to require capital expenditures and operating costs, which could adversely affect our results of operations or financial condition.

Because our operations are conducted worldwide, they are inherently affected by risk.

As noted above in Item 1. "Business," we have extensive operations outside of the United States. Revenue from these operations (principally from Canada, Mexico, Europe and Asia) was 37% in 2007, 34% in 2006 and 33% in 2005 of our total revenue during these periods. Long-lived assets of our foreign operations represented 34% in 2007, 32% in 2006 and 31% in 2005 of our total long-lived assets.

International operations are subject to risks, which include, but not limited to, the following:

- changes in local government regulations and policies, including, but not limited to foreign currency exchange controls or monetary policy; repatriation of earnings; expropriation of property; duty or tariff restrictions; investment limitations; and tax policies;
- political and economic instability and disruptions, including labor unrest, civil strife, acts of war, guerilla activities, insurrection and terrorism;
- legislation that regulates the use of chemicals;
- disadvantages of competing against companies from countries that are not subject to U.S. laws and regulations, including the Foreign Corrupt Practices Act;
- difficulties in staffing and managing multi-national operations;
- limitations on our ability to enforce legal rights and remedies;
- reduced protection of intellectual property rights; and
- other risks arising out of foreign sovereignty over the areas where our operations are conducted.

Any of these risks could have an adverse effect on our international operations by reducing the demand for our products or reducing the prices at which we can sell our products, which could result in an adverse effect on our business, financial condition or results of operations. We may not be able to continue to operate in compliance with applicable customs, currency exchange control regulations, transfer pricing regulations or any other laws or regulations that we may be subject to. In addition, these laws or regulations may be modified in the future, and we may not be able to operate in compliance with those modifications.

We engage in acquisitions and joint ventures, and may encounter unexpected difficulties identifying, pricing or integrating those businesses.

Attainment of PolyOne's strategic plan objectives may require, in part, strategic acquisitions or joint ventures intended to complement or expand the Company's businesses globally or add product technology that accelerates the Company's specialization strategy, or both. Success will depend on the Company's ability to identify, price and complete these transactions or arrangements, and integrate the businesses acquired in these transactions as well as develop satisfactory working arrangements with the Company's strategic partners in the joint ventures. Unexpected difficulties in completing and integrating acquisitions with the Company's existing operations, and in managing strategic investments could occur. Furthermore, the Company may not realize the degree, or timing, of benefits initially anticipated which could adversely affect the Company's business and results of operations.

Our results of operations may be adversely affected by the results of operations of Sunbelt.

SunBelt is our largest equity investment. The earnings of this partnership may be significantly affected by changes in the commodity cycle for hydrocarbon feedstocks and for chlor-alkali products. If the profitability of SunBelt is adversely affected, we may receive less cash distributions from the partnership or we may be required to make cash contributions to the partnership, either of which could adversely affect our financial condition.

Natural gas, electricity, fuel and raw material costs, and other external factors beyond our control, as well as downturns in the home repair and remodeling and new home sectors of the economy, can cause wide fluctuations in our margins.

The cost of our natural gas, electricity, fuel and raw materials, and other costs, may not correlate with changes in the prices we receive for our products, either in the direction of the price change or in absolute magnitude. Natural gas and raw materials costs represent a substantial part of our manufacturing costs, and energy costs, in particular electricity and fuel, represent a component of the costs to manufacture building products. Most of the raw materials we use are commodities and the price of each can fluctuate widely for a variety of reasons, including changes in availability because of major capacity additions or significant facility operating problems. Other external factors beyond our control can cause volatility in raw materials prices, demand for our products, product prices, sales volumes and margins. These factors include general economic conditions, the level of business activity in the industries that use our products, competitors' actions, international events and circumstances, and governmental regulation in the United States and abroad. These factors can also magnify the impact of economic cycles on our business. While we attempt to pass through price increases in energy costs and raw materials, we have been unsuccessful in doing so in some circumstances in the past and there can be no reassurance that we can do so in the future.

Additionally, our products used in building and construction markets are impacted by changes in the North American home repair and remodeling sectors, as well as the new construction sector, which may be significantly affected by changes in economic and other conditions such as gross domestic product levels, employment levels, demographic trends and consumer confidence. These factors can lower the demand for and pricing of our building products, which could cause our net sales and net income to decrease.

We face competition from other polymer and chemical companies, which could adversely affect our sales and financial condition.

We actively compete with companies that produce the same or similar products, and in some instances with companies that produce different products that are designed for the same end uses. We encounter competition in price, delivery, service, performance, product innovation, product recognition and quality, depending on the product involved.

Because of the polymer and chemical industry consolidation, our competitors may become larger, which could make them more efficient, thereby reducing their cost of materials and permitting them to be more price competitive. Increased size could also permit them to operate in wider geographic areas and enhance their ability to compete in other areas such as research and development and customer service, which could also reduce our profitability.

We expect that our competitors will continue to develop and introduce new and enhanced products, which could cause a decline in the market acceptance of our products. In addition, our competitors could cause a reduction in the selling prices of some of our products as a result of intensified price competition. Competitive pressures can also result in the loss of major customers. An inability to compete successfully could have an adverse effect on our results of operations, financial condition and cash flows.

We may also experience increased competition from companies that offer products based on alternative technologies and processes that may be more competitive or better in price or performance, causing us to lose customers and result in a decline in our sales volume and earnings.

Additionally, some of our customers may already be or may become large enough to justify developing in-house production capabilities. Any significant reduction in customer orders as a result of a shift to in-house production could adversely affect our sales and operating profits.

A major failure of our information systems could harm our business.

We depend on integrated information systems to conduct our business. We may experience operating problems with our information systems as a result of system failures, viruses, computer “hackers” or other causes. Any significant disruption or slowdown of our systems could cause customers to cancel orders or cause standard business processes to become ineffective, which could adversely affect our results of operations.

Our business depends upon good relations with our employees.

We may experience difficulties in maintaining appropriate relations with unions and employees in certain locations. About 4% of our employees at continuing operations are represented by, or are in negotiations to be represented by, labor unions. In addition, problems or changes affecting employees in certain locations may affect relations with our employees at other locations. The risk of labor disputes, work stoppages or other disruptions in production could adversely affect us. If we cannot successfully negotiate or renegotiate collective bargaining agreements or if the negotiations take an excessive amount of time, there may be a heightened risk of a prolonged work stoppage. Any work stoppage could have a material adverse effect in the productivity and profitability of a manufacturing facility or in our operations as a whole.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no outstanding or unresolved comments from the staff of the SEC.

ITEM 2. PROPERTIES

As of February 27, 2008, we operated facilities in the United States and internationally. Our corporate office is located in Avon Lake, Ohio. We own substantially all of our facilities. During 2007, we made effective use of our productive capacity at our principal facilities. We believe that the quality and production capacity of our facilities is sufficient to maintain our competitive position for the foreseeable future. Following are the principal facilities of our segments:

Vinyl Business

Commerce, California
Long Beach, California
Kennesaw, Georgia
Henry, Illinois
Terre Haute, Indiana
Louisville, Kentucky
Plaquemine, Louisiana
Sullivan, Missouri
Pedricktown, New Jersey
Avon Lake, Ohio
North Baltimore, Ohio
Pasadena, Texas
Sussex, Wisconsin
Niagara Falls, Ontario, Canada
Orangeville, Ontario, Canada
St. Remi de Napierville, Quebec, Canada
Dongguan, China
Shenzhen, China
Cartagena, Colombia (joint venture)
Bolton, England
Hyde, England
Widnes, England

International Color and Engineered Materials

Assesse, Belgium
Pudong (Shanghai), China
Shenzhen, China
Suzhou, China
Glostrup, Denmark
Cergy, France
Tossiat, France
Bendorf, Germany
Gaggenau, Germany
Melle, Germany
Gyor, Hungary
Kutno, Poland
Jurong, Singapore
Barbastro, Spain
Pamplona, Spain
Angered, Sweden
Bangkok, Thailand
Istanbul, Turkey

Producer Services

Dyersburg, Tennessee
Clinton, Tennessee
Seabrook, Texas

North American Color and Additives

Glendale, Arizona
Suwanee, Georgia
Elk Grove Village, Illinois
St. Peters, Missouri
Norwalk, Ohio
Lehigh, Pennsylvania
Vonore, Tennessee
Toluca, Mexico

North American Engineered Materials

Avon Lake, Ohio
Macedonia, Ohio
Dyersburg, Tennessee
Valleyfield, Quebec, Canada
GLS Corporation facilities:
McHenry, Illinois
Suzhou, China

Resin and Intermediates

SunBelt joint venture — McIntosh, Alabama

Specialty Inks and Polymer Systems

Commerce, California
Kennesaw, Georgia
St. Louis, Missouri
Massillon, Ohio
Sussex, Wisconsin
Melbourne, Australia
Shenzhen, China
Widnes, England

PolyOne Distribution

Livermore, California
Rancho Cucamonga, California
Denver, Colorado
Lemont, Illinois
Ayer, Massachusetts
Chesterfield Township, Michigan
Eagan, Minnesota
Hazelwood, Missouri
Statesville, North Carolina
Massillon, Ohio
La Porte, Texas
Fife, Washington
Mississauga, Ontario, Canada

ITEM 3. LEGAL PROCEEDINGS

In addition to the matters regarding the environment described in Item 1 under the heading “Environmental, Health and Safety,” we are involved in various pending or threatened claims, lawsuits and administrative proceedings, all arising from the ordinary course of business concerning commercial, product liability, employment and environmental matters that seek remedies or damages. We believe that the probability is remote that losses in excess of the amounts we have accrued could be materially adverse to our financial condition, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

EXECUTIVE OFFICERS OF THE REGISTRANT

(Included pursuant to Instruction 3 to paragraph (b) of Item 401 of Regulation S-K)

The following lists information, as of February 27, 2008, about each of our executive officers, including his position with us as of that date and other positions held for at least the past five years. Executive officers are elected by our Board of Directors to serve one-year terms.

Stephen D. Newlin
Age: 55

Chairman, President and Chief Executive Officer, February 2006 to date. President – Industrial Sector of Ecolab Inc. (a global developer and marketer of cleaning and sanitizing specialty chemicals, products and services) from 2003 to 2006. Mr. Newlin served as President and a Director of Nalco Chemical Company (a manufacturer of specialty chemicals, services and systems) from 1998 to 2001 and was Chief Operating Officer and Vice Chairman from 2000 to 2001. Mr. Newlin serves on the Boards of Directors of Black Hills Corporation and The Valspar Corporation.

Bernard P. Baert
Age: 58

Senior Vice President and General Manager, Colors and Engineered Materials, Europe and Asia, May 2006 to date. Vice President and General Manager, Colors and Engineered Materials, Europe and Asia, September 2000, upon formation of PolyOne, to April 2006. General Manager, Color Europe, M.A. Hanna Company, 1997 to August 2000.

Michael E. Kahler
Age: 50

Senior Vice President, Commercial Development, May 2006 to date. President, Process Technology Division, Alfa Laval Inc. (a global provider of heat transfer, separation and fluid handling products and engineering solutions) from January 2004 to March 2006. Group Vice President, Nalco Chemical Company (a manufacturer of specialty chemicals, services and systems) from December 1999 to October 2002.

Thomas J. Kedrowski
Age: 49

Senior Vice President, Operations, September 2007 to date. Vice President of Strategy and Process Improvement, H.B. Fuller Company (a global manufacturer and marketer of adhesives and specialty chemical products) from November 2005 to April 2007. Vice President of Global Operations, H.B. Fuller Company from February 2002 to November 2005.

Michael L. Rademacher
Age: 57

Senior Vice President and General Manager, Distribution, May 2006 to date. Vice President and General Manager, PolyOne Distribution, September 2000, upon formation of PolyOne, to April 2006. Senior Vice President – Plastics Americas, M.A. Hanna Company, January 2000 to August 2000. Vice President and General Manager, Industrial Chemical and Solvents Division, Ashland Chemical Company (chemical manufacturing and distribution), 1998 to January 2000.

Robert M. Rosenau
Age: 53

Senior Vice President and General Manager, Vinyl Business, May 2006 to date. Vice President and General Manager, Vinyl Business, January 2003 to April 2006. General Manager, Extrusion Products, September 2000 to December 2002. General Manager, Custom Profile Compounds, The Geon Company, April 1998 to August 2000.

Kenneth M. Smith
Age: 53

Senior Vice President and Chief Information and Human Resources Officer, May 2006 to date. Chief Human Resources Officer, January 2003 to date, and Vice President and Chief Information Officer, September 2000, upon formation of PolyOne, to April 2006. Vice President, Information Technology, The Geon Company, May 1999 to August 2000, and Chief Information Officer, August 1997 to May 1999.

W. David Wilson
Age: 54

Senior Vice President and Chief Financial Officer, May 2006 to date. Vice President and Chief Financial Officer, September 2000, upon formation of PolyOne, to April 2006. Vice President and Chief Financial Officer, The Geon Company, May 1997 to August 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth the range of the high and low sale prices for our common stock, $.01 par value per share, as reported by the New York Stock Exchange, where the shares are traded under the symbol "POL," for the periods indicated.

	2007 Quarters				2006 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Common stock price:								
High	$ 8.60	$ 9.29	$ 7.59	$ 7.76	$ 8.76	$ 9.18	$ 9.89	$ 9.88
Low	$ 5.93	$ 6.93	$ 6.14	$ 5.99	$ 6.71	$ 7.70	$ 7.45	$ 6.31

As of February 27, 2008, there were 2,662 holders of record of our common stock.

Effective with the first quarter of 2003, we suspended payment of our quarterly dividend. Future declarations of dividends on common stock are at the discretion of the Board of Directors, and the declaration of any dividends will depend on, among other things, earnings, capital requirements and our financial condition. The Board of Directors has not declared any dividends on common stock since 2003. Additionally, the agreements that govern our receivables sale facility contain restrictions that could limit our ability to pay future dividends.

ITEM 6. SELECTED FINANCIAL DATA

(In millions, except per share data)	2007	2006	2005	2004	2003
Sales	$ 2,642.7	$ 2,622.4	$ 2,450.6	$ 2,267.7	$ 2,048.1
Operating income (loss)	$ 33.9	$ 190.6	$ 141.3	$ 129.1	$ (43.4)
Income (loss) before discontinued operations and change in method of accounting	$ 11.4	$ 125.6	$ 63.2	$ 28.3	$ (134.8)
Discontinued operations	—	(2.7)	(15.3)	(4.1)	(144.7)
Net income (loss)	$ 11.4	$ 122.9	$ 47.9	$ 24.2	$ (279.5)
Basic and diluted earnings (loss) per common share:					
Before discontinued operations and change in method of accounting	$ 0.12	$ 1.36	$ 0.69	$ 0.31	$ (1.48)
Discontinued operations	—	(0.03)	(0.17)	(0.05)	(1.59)
Basic and diluted earnings (loss) per common share	$ 0.12	$ 1.33	$ 0.52	$ 0.26	$ (3.07)
Dividends per common share	$ —	$ —	$ —	$ —	$ —
Total assets	$ 1,583.0	$ 1,780.8	$ 1,695.3	$ 1,753.1	$ 1,878.5
Long-term debt, net of current portion	$ 308.0	$ 567.7	$ 638.7	$ 640.5	$ 757.1

The selected financial data in the above table has been restated to reflect the adoption of FSP AUG AIR-1 during the first quarter of 2007. For more information, see Note C to the Consolidated Financial Statements.

In August 2004, we sold our Elastomers and Performance Additives business. This business was previously reported as a discontinued operation and is reflected as such in our historical results.

In February 2006, we sold 82% of our Engineered Films business. This business was previously reported as discontinued operations and is reflected as such in our historical results. The retained ownership of 18% is reported on the cost method of accounting and is reflected in the financial statements as such.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Purpose of Management's Discussion and Analysis (MD&A)

The purpose of the following discussion is to provide relevant information to investors so they can assess our financial condition and results of operations by evaluating the amounts and certainty of cash flows from our operations and from outside sources.

The three principal objectives of MD&A are: to provide a narrative explanation of financial statements that enables investors to see our company through the eyes of management; to enhance overall financial disclosure and provide the context within which financial information should be analyzed; and to provide information about the quality and potential variability of earnings and cash flows so that investors can judge the likelihood that past performance is indicative of future performance.

Business Overview

We are a leading global provider of specialized polymer materials, services and solutions with operations in thermoplastic compounds, specialty polymer formulations, color and additive systems, thermoplastic resin distribution and specialty vinyl resins, with equity investments in manufacturers of caustic soda and chlorine, and PVC compound products and in a formulator of polyurethane compounds. Headquartered in Avon Lake, Ohio, with 2007 sales of $2.6 billion, we have manufacturing sites and distribution facilities in North America, Europe, Asia and Australia and joint ventures in North America and South America. We currently employ approximately 4,800 people and sell more than 35,000 different specialty and general purpose products to over 11,000 customers on 6 continents. We provide value to our customers through our ability to link our knowledge of polymers and formulation technology with our manufacturing and supply chain to provide an essential link between large chemical producers (our raw material suppliers) and designers, assemblers and processors of plastics (our customers).

Recent Developments

Sale of businesses and discontinued operations

In July 2007, we sold our 24% interest in Oxy Vinyls LP (OxyVinyls) for $261 million in cash. During the second quarter of 2007 an impairment of $14.8 million was recorded on our investment in OxyVinyls due to an other than temporary decline in value. This sale resulted in the reversal of an associated deferred tax liability, which reduced tax expense by $31.5 million for the year ended December 31, 2007. Proceeds from the sale were used for the redemption of the balance of our 10.625% senior notes as well as for the reduction of borrowings under short-term facilities. The redemption of the senior notes resulted in debt redemption premium costs and the write-off of unamortized debt issuance fees for 2007 of $15.6 million ($10.1 million after tax).

Unless otherwise noted, disclosures contained in this Annual Report on Form 10-K relate to continuing operations. For more information about our discontinued operations, see Note B to the Consolidated Financial Statements.

Purchase of businesses

In January 2008, we acquired 100% of the outstanding capital stock of GLS Corporation, a global provider of specialty thermoplastic elastomer compounds for consumer, packaging and medical applications.

In December 2007, we acquired the vinyl compounding business and assets of Ngai Hing PlastChem Company Ltd. (NHPC), a subsidiary of Ngai Hing Hong Company Limited for $3.3 million, net of cash received.

In a transaction related to the sale of our interest in OxyVinyls, in July 2007, we purchased the remaining 10% minority interest in Powder Blends, LP for $11 million in cash.

Restructuring initiatives and facility closures

During the third quarter of 2007, we announced the closure of two manufacturing lines at our Avon Lake, Ohio facility. The transition was completed in the fourth quarter of 2007 and resulted in expenses related to employee separation and plant phaseout charges of $0.9 million.

During 2007, we recognized and paid $0.4 million in employee separation charges related to 33 employees involved in the restructuring of our manufacturing facility in St. Peters, Missouri, part of the North American Color and Additives operating segment.

In 2007, we recognized charges of $0.6 million related to three executive severance agreements.

The closure and exit from the Company's Commerce, California facility was completed in the first quarter of 2007, resulting in employee separation charges and plant phaseout charges of $0.2 million.

Sale of assets

As part of our restructuring initiatives and cost reduction plans, during 2007, we sold previously closed facilities and other assets for proceeds of $6.3 million and collected $3.1 million in cash related to assets sold in 2006.

Environmental remediation costs

In September 2007, we were informed of rulings by the United States District Court for the Western District of Kentucky on several pending motions in the case of Westlake Vinyls, Inc. v. Goodrich Corporation, et al., which has been pending since 2003. The Court held that we must pay the remediation costs at the former Goodrich Corporation (now Westlake Vinyls, Inc.) Calvert City facility, together with certain defense costs of Goodrich Corporation. The rulings also provided that we can seek indemnification for contamination attributable to Westlake Vinyls. We recorded a charge of $15.6 million and made payments, net of related receipts of $18.8 million, in 2007 for past remediation activities related to these Court rulings. We also adjusted our environmental reserve for future remediation costs, a portion of which already related to the Calvert City site, resulting in a charge of $28.8 million in 2007. See Note N to the Consolidated Financial Statements for additional information.

Results of Operations

<u>Summary of Consolidated Results:</u>

Aggregate sales increased 1% in 2007 compared to 2006. This increase was primarily due to 9% sales growth in Asia, higher prices driven by value adding selling activities of our commercial team to offset higher raw material and energy costs, and the impact of favorable exchange rates. Foreign exchange had a 2% favorable effect on sales. Within All Other North American Engineered Materials, Producer Services and the Specialty Inks and Polymer Systems operating segments all registered sales growth in 2007 versus 2006, which offset a 16% decline in sales in the North

American Color and Additives business due mainly to the pruning of low margin business. These items netted positively against the $92.1 million, or 9%, decline in sales in our Vinyl Business segment, mainly resulting from the slowdown in the residential construction market, and the 3% decrease in year-over-year shipments.

Income before discontinued operations declined $114.2 million in 2007, or $1.24 per share, compared to 2006.

Income from continuing operations before income taxes declined $152.7 million in 2007 compared to 2006. A table showing material items that comprise this decline is provided after the following table which sets forth key financial information from our statements of income for the years ended December 31, 2007, 2006 and 2005, respectively.

(In millions, except per share data)		2007		2006		2005
Sales	$	2,642.7	$	2,622.4	$	2,450.6
Operating income		33.9		190.6		141.3
Interest expense		(51.4)		(66.5)		(68.1)
Interest income		4.5		3.4		1.9
Premium on early extinguishment of long-term debt		(12.8)		(4.4)		—
Income (loss) before income taxes and discontinued operations	$	(32.4)	$	120.3	$	69.8
Income tax benefit (expense)		43.8		5.3		(6.6)
Income before discontinued operations		11.4		125.6		63.2
Loss from discontinued operations and loss on sale, net of income taxes		—		(2.7)		(15.3)
Net income	$	11.4	$	122.9	$	47.9
Basic and diluted earnings (loss) per common share:						
Before discontinued operations	$	0.12	$	1.36	$	0.69
Discontinued operations		—		(0.03)		(0.17)
Net income	$	0.12	$	1.33	$	0.52

Income (loss) before Income Taxes and Discontinued Operations

The following table sets forth the components of the variance for the years ended December 31, 2007 and 2006, respectively, as compared to the same periods in the prior year:

(In millions)	Variances — Favorable (Unfavorable)			
	2007 versus 2006		2006 versus 2005	
Operating segment performance:				
Vinyl Business	$	(17.7)	$	5.6
International Color and Engineered Materials		5.3		5.8
PolyOne Distribution		2.9		(0.3)
Resin and Intermediates		(68.1)		11.0
All Other		12.3		4.6
Corporate and eliminations:				
Write-down of certain assets of equity affiliate(a)		(1.6)		22.9
Impairment of intangibles and other investments(b)		(2.3)		0.2
Impairment of OxyVinyls equity investment(c)		(14.8)		—
Future environmental remediation costs(d)		(30.7)		(2.3)
Settlement of environmental costs related to Calvert City(e)		(15.6)		—
Settlement of legal issues and related reserves(f)		(23.9)		14.5
Employee separation and plant phaseout		(2.2)		5.5
All other and eliminations		0.7		(21.3)
Cost related to sale of OxyVinyls equity investment		(0.4)		—
Gain on sale of assets		(0.6)		3.1
Total Corporate and eliminations		(91.4)		22.6
Change in operating income		(156.7)		49.3
Premium on early extinguishment of debt(g)		(8.4)		(4.4)
Interest expense, net(h)		16.2		3.1
Other expense		(3.8)		2.5
Change in income (loss) from continuing operations before income taxes	$	(152.7)	$	50.5

(a) Our share of an asset write-down was recorded in the third quarter of 2007 against the carrying value of certain inventory, accounts receivable and intangible assets at our equity affiliate in Colombia. In 2005, we recognized a charge of $22.9 million related to the write-down of a previously idled OxyVinyls facility.

(b) An impairment of the carrying value of certain patents and technology agreements and investments of $2.5 million was recorded during 2007.

(c) Our 24% equity investment in OxyVinyls was adjusted at June 30, 2007 as the carrying value was higher than the fair value and the decrease was determined to be an other than temporary decline in value.

(d) Our accrual for costs related to future remediation at inactive or formerly owned sites was adjusted based on a U.S. District Court's ruling on several motions in the case of Westlake Vinyls, Inc v. Goodrich Corporation et al. and a settlement agreement entered into in connection with the case, which require us to pay remediation costs at the Calvert City facility.

(e) We recorded a $15.6 million expense for remediation costs and certain legal costs as a result of the court ruling mentioned above in note (d).

(f) The benefit of insurance, legal settlements and adjustments to related reserves was a charge of $0.6 million in 2007 as compared to a net benefit of $23.3 million during 2006.

(g) We repurchased all of our 10.625% senior notes through early extinguishment, repurchasing $58.6 million and $241.4 million in 2006 and 2007, respectively, at a premium of $4.4 million and $12.8 million, respectively.

(h) The early extinguishment of our 10.625% senior notes resulted in lower interest during 2007 as compared to a year ago. Included in interest expense was unamortized deferred note issuance cost of $0.8 million and $2.8 million during 2006 and 2007, respectively.

See the following operating segment discussion for a further explanation of our segments' operating results for the periods shown in the preceding table.

Selected Operating Costs:

Selected operating costs, expressed as a percentage of sales, are as follows:

	2007	2006	2005
Cost of sales	88.4%	87.1%	88.0%
Selling and administrative costs	9.1%	7.7%	7.5%

Cost of Sales — These costs include raw materials, plant conversion and distribution charges. As a percentage of sales, these costs increased in 2007 compared to 2006 primarily due to higher raw material costs not yet fully offset by price increases largely associated with the Vinyl Business and as a result of environmental remediation costs at inactive or formerly owned sites. For the year ended December 31, 2007, environmental related remediation costs were $48.8 million as compared to $2.5 million in 2006 (See Recent Developments section). The increased environmental remediation costs more than offset the declines in cost of sales on a percent basis being realized from the implementation of our specialization strategy. As a percentage of sales, these costs declined in 2006 compared to 2005 primarily from the full year effect of efforts to increase our selling prices to pass on higher raw material, distribution and utility costs, as well as the effect of our specialization strategy to increase new higher value business.

Selling and Administrative — These costs generally include selling, technology and general and administrative charges. Selling and administrative costs increased 19% or $39.2 million in 2007 as compared to 2006. In 2006, selling and administrative costs had a $23.3 million benefit from insurance, legal settlements and adjustments to related reserves. The remainder of the change in selling and administrative expense was due mainly to increased investment in commercial resources and capabilities, partially offset by lower incentive, pension and post-retirement benefit costs. Selling and administrative costs increased in 2006 compared to 2005 from higher share-based compensation and incentive costs and increased investment in commercial resources and capabilities, partially offset by a higher benefit in 2006 than 2005 from legal and other related settlements.

Other Components of Income and Expense:

Following are discussions of significant components of income and expense that are presented below the line "Operating income."

Interest Expense — The decrease in interest expense from year to year is largely the result of lower average borrowing levels. Payment of maturing debt and voluntary repurchases of debt are the main reasons for the continued decline in debt. Included in interest expense in 2007 and 2006 were charges of $2.8 million and $0.8 million, respectively, to write off deferred debt issuance costs related to the early extinguishment of long-term debt.

We repurchased $100.0 million of our 10.625% senior notes in June 2007 and repurchased the remaining $141.4 million of such senior notes in August 2007. In the second and fourth quarters of 2006, we repurchased $15.0 million and $43.6 million, respectively, of our 10.625% senior notes. The following table presents the quarterly average of short- and long-term debt for the past three years and the related interest expense:

(In millions)	2007	2006	2005
Short-term debt	$ 9.2	$ 5.6	$ 4.5
Current portion of long-term debt	20.5	12.5	35.2
Long-term debt	441.7	610.8	639.5
Quarterly average	$ 471.4	$ 628.9	$ 679.2
Interest expense	$ 51.4	$ 66.5	$ 68.1

Premium on Early Extinguishment of Long-term Debt — Cash expense from the repurchase of $241.4 million of our 10.625% senior notes in 2007 was $12.8 million. Cash expense from the repurchase of $58.6 million of our 10.625% senior notes in 2006 was $4.4 million.

Other Expense, Net — Finance costs associated with our receivables sale facility, foreign currency gains and losses, retained post-employment benefit costs from previously discontinued operations and other miscellaneous items are as follows:

(In millions)	2007	2006	2005
Currency exchange loss	$ (5.0)	$ (1.3)	$ (0.1)
Foreign exchange contracts gain	0.7	1.1	0.6
Discount on sale of trade receivables	(2.0)	(1.9)	(5.5)
Retained post-employment benefit costs related to previously discontinued operations	—	—	(1.3)
Other income (expense), net	(0.3)	(0.7)	1.0
Other expense, net	$ (6.6)	$ (2.8)	$ (5.3)

The decline in the discount on sale of trade receivables in 2006 compared to 2005 was primarily from the lower average balance of receivables that were sold during 2006.

Income Tax Benefit (Expense) — The income tax benefit (expense) for 2007, 2006 and 2005, including the impact of the sale of our interest in OxyVinyls and changes in the deferred tax valuation allowance, is summarized as follows:

(In millions)	2007	2006	2005
Tax benefit (expense) prior to OxyVinyls sale and valuation allowance	$ 12.3	$ (54.2)	$ (28.3)
Impact of sale of interest in OxyVinyls	31.5	—	—
Valuation allowance	—	59.5	21.7
Total tax benefit (expense)	$ 43.8	$ 5.3	$ (6.6)

In calculating the 2007 tax benefit prior to the impact of the sale of OxyVinyls, the difference in rates of foreign subsidiaries was the principal cause of the difference between the effective and statutory tax rate. Prior to the changes in the valuation allowance, the effect of the repatriation of foreign dividends was the principal cause of the difference between the effective and statutory tax rate for 2006 and 2005.

During the third quarter of 2007, as part of the sale of our 24% interest in OxyVinyls, we recognized a deferred tax benefit of $31.5 million that was related to the temporary difference between the tax basis and book basis of the investment.

In 2005, in accordance with the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," the valuation allowance was reduced $21.7 million for the use of net operating loss carryforwards. In 2006, the valuation allowance was reduced $44.3 million for the use of net operating loss carryforwards and $15.4 million associated with changes in accumulated other comprehensive income related to the pension and post-retirement health care liabilities. In addition, in 2006, as a result of the improved actual and projected earnings and the actual and projected use of the deferred tax assets, it was determined that it was more likely than not that the deferred tax assets would be realized and we reversed the remaining $15.1 million of the valuation allowance through the income statement. Income taxes in 2007 were recorded without regard to any domestic deferred tax valuation allowance.

Income taxes for the years ended December 31, 2007, 2006 and 2005 include foreign, state and federal alternative minimum tax. Income taxes are discussed in detail in Note P to the Consolidated Financial Statements.

Loss from Discontinued Operations, Net of Income Taxes — Discontinued operations are discussed in detail in Note B to the Consolidated Financial Statements. The loss from discontinued operations included a pre-tax benefit of $0.2 million in 2005 for employee separation and plant phaseout costs from restructuring initiatives and closing certain manufacturing facilities of the Engineered Films business.

As required by generally accepted accounting principles in the United States, the losses from discontinued operations, shown below, do not include any depreciation or amortization expense.

(In millions)	2006	2005
Sales:		
Engineered Films	$ 9.6	$ 119.6
Pre-tax income from operations:		
Engineered Films	$ 0.4	$ 0.5
Pre-tax charges to adjust net assets of businesses held for sale to projected net sale proceeds:		
Elastomers and Performance Additives	—	(0.7)
Engineered Films	(3.1)	(15.1)
	(2.7)	(15.3)
Income tax expense (net of valuation allowance)	—	—
Loss from discontinued operations	$ (2.7)	$ (15.3)

<u>Segment Information:</u>

Sales and Operating Income (Loss) — 2007 compared with 2006:

(In millions)	2007	2006	Change	% Change
Sales:				
Vinyl Business	$ 933.0	$ 1,025.1	$ (92.1)	(9.0)%
International Color and Engineered Materials	610.9	526.7	84.2	16.0%
PolyOne Distribution	744.3	732.8	11.5	1.6%
All Other	487.8	491.5	(3.7)	(0.8)%
Corporate and eliminations	(133.3)	(153.7)	20.4	13.3%
	$ 2,642.7	$ 2,622.4	$ 20.3	0.8%
Operating income (loss):				
Vinyl Business	$ 50.8	$ 68.5	$ (17.7)	
International Color and Engineered Materials	26.6	21.3	5.3	
PolyOne Distribution	22.1	19.2	2.9	
Resin and Intermediates	34.8	102.9	(68.1)	
All Other	10.0	(2.3)	12.3	
Corporate and eliminations	(110.4)	(19.0)	(91.4)	
	$ 33.9	$ 190.6	$ (156.7)	

	2007	2006	Change
Operating income (loss) as a percentage of sales:			
Vinyl Business	5.4%	6.7%	(1.3)% points
International Color and Engineered Materials	4.4%	4.0%	0.4% points
PolyOne Distribution	3.0%	2.6%	0.4% points
All Other	2.1%	(0.5)%	2.6% points
Total	1.3%	7.3%	(6.0)% points

A summary of Corporate and eliminations is as follows:

(In millions)	Year Ended December 31, 2007	Year Ended December 31, 2006
Future environmental remediation costs[a]	$ (33.2)	$ (2.5)
Impairment of OxyVinyls equity investment[b]	(14.8)	—
Settlement of environmental costs related to Calvert City[c]	(15.6)	—
Impairment of intangibles and other investments[d]	(2.5)	(0.2)
Employee separation and plant phaseout[e]	(2.2)	—
Write-down of certain assets of equity affiliate[f]	(1.6)	—
Cost related to sale of OxyVinyls equity investment	(0.4)	—
Settlement of legal issues and related reserves[g]	(0.6)	23.3
Gain on sale of assets[h]	2.5	3.1
All other and eliminations[i]	(42.0)	(42.7)
Total Corporate and eliminations	$ (110.4)	$ (19.0)

(a) In 2007, our accrual for costs related to future remediation at inactive or formerly owned sites was adjusted based on a U.S. District Court's ruling on several motions in the case of Westlake Vinyls, Inc. v. Goodrich Corporation et al. and a settlement agreement entered into in connection with the case, which require us to pay remediation costs at the Calvert City, Kentucky facility.

(b) Our 24% equity investment in OxyVinyls was adjusted at June 30, 2007 as the carrying value was higher than the fair value and the decrease was determined to be an other than temporary decline in value.

(c) In the third quarter of 2007, we recorded $15.6 million for remediation costs and certain legal costs related to the Calvert City facility.

(d) An impairment of the carrying value of certain patents and technology agreements and investments of $2.5 million was recorded during 2007.

(e) 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 and executive separation agreements.

(f) Our share of an asset write-down was recorded in the third quarter of 2007 against the carrying value of certain inventory, accounts receivable and intangible assets at our equity affiliate in Colombia.

(g) The benefit of insurance, legal settlements and adjustments to related reserves was a charge of $0.6 million for 2007 as compared to a net benefit of $23.3 million during the same period of 2006.

(h) The gains on sale of assets in 2007 and 2006 relate to the sale of previously closed facilities and other assets.

(i) All other and eliminations is comprised of intersegment eliminations and corporate general and administrative costs that are not allocated to segments.

Effective with the first quarter of 2007, the results of operations for PolyOne's business located in Singapore are managed and reported under the Vinyl Business operating segment. Historically, the results of this business were included in the International Color and Engineered Materials operating segment. Prior period results of operations for Singapore have been reclassified to conform to the 2007 presentation.

Effective with the fourth quarter of 2007, the former Polymer Coating Systems operating segment was split into two reporting units. The 50% interest in BayOne Urethane Systems, L.L.C., along with the inks and specialty colorants businesses formed a new operating segment, Specialty Inks and Polymer Systems, which is included in All Other. The remaining plastisols and coated fabrics businesses were subsumed into the Vinyl Business reportable segment. Segment information for prior periods has been reclassified to conform to the 2007 presentation.

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

Vinyl Business

Vinyl Business sales were $933.0 million in 2007, $92.1 million or 9% lower than 2006. The primary driver was the slowdown in the residential building and construction market, which affected demand for vinyl windows, pipe and fittings products, PVC flooring and appliances. Also, negatively affecting 2007 results was a growing presence of imported products in the end markets that use or that compete directly with our specialty resin product. Shipments in 2007 were down 11% versus 2006.

Operating income in 2007 decreased $17.7 million or 26% compared to 2006. The primary drivers of this decline were weak residential construction demand and margin compression due to the combination of downward pricing pressure in residential building and construction end markets and higher raw material and energy costs.

International Color and Engineered Materials

International Color and Engineered Materials 2007 sales increased $84.2 million, or 16%, to $610.9 million due primarily to strong growth in our Color and Additives businesses in Asia and Europe, favorable foreign exchange and modest growth in specialty engineered materials product lines in Europe. Asian sales across all product platforms grew 9% while Europe demonstrated sales growth of 6%. Favorable foreign exchange rates increased International Color and Engineered Materials sales by $51.2 million, or 10%. In Asia, colorant and additives sales grew 17%, particularly in specialty packaging applications utilizing liquid color product technology. Our Asian Engineered Materials business demonstrated sales growth of 3% in 2007 versus 2006 despite a second half 2007 slowdown in the growth of the electrical / electronics market.

Operating income increased $5.3 million in 2007 as compared to 2006. This 25% increase was driven by improved margins due to greater penetration of specialty applications in the Asian and European Color and Additive businesses, higher margins due to product mix improvements, value selling and price management and lower conversion costs. Foreign exchange had a favorable impact on operating income of $2.0 million.

PolyOne Distribution

Distribution sales increased $11.5 million, or 2%, as compared to 2006 due to relatively flat shipment volume combined with a 1.3% increase in average selling prices. Increased demand in the healthcare and automotive end markets offset declines in the appliance and building/construction sectors.

Operating income was $22.1 million, up 16% from 2006. This increase was due to higher sales, expanded gross margins resulting from a favorable sales mix and lower unit delivery costs. Selling and general administrative costs were slightly lower due to lower bad debt costs that offset higher investment in commercial resources.

Resin & Intermediates

2007 operating income declined 66%, or $68.1 million, versus 2006 as the slowdown in commercial and residential construction markets and downward margin pressure from rising feedstock costs severely impacted the results of OxyVinyls. In July 2007, we divested our 24% interest in OxyVinyls, which in the second half of 2006 contributed $18.4 million to segment earnings. SunBelt earnings were $6.3 million lower in 2007 compared to 2006 due to a 3% decline in sales that offset higher year-over-year ECU netbacks, which were up slightly more than 1%.

All Other

All Other includes the North American Color and Additives, North American Engineered Materials, Producer Services and Specialty Inks and Polymer Systems operating segments. Sales in aggregate were down 1% from 2006 due mainly to a 16% decline in North American Color and Additives' sales resulting from the pruning of unprofitable business and withdrawing from certain general purpose oriented applications. North American Engineered Materials sales grew 5% due to continued progress in capturing specialized applications in the electrical / electronics and medical end markets, as well as solid growth in wire and cable applications, where sales were up 7%. Producer Services sales were up 9% compared to 2006 primarily reflecting the full year impact of the DH Compounding acquisition which added $21.5 million of sales. Specialty Inks and Polymer Systems' sales grew 10% primarily due to the growth of our global inks business.

Aggregate operating income was $10.0 million in 2007 compared to a $2.3 million loss in 2006, an increase of $12.3 million. North American Color and Additives operating income increased $9.2 million due to a stronger product mix driven by the benefits of improved commercial disciplines, the pruning of unprofitable business and lower operating costs. Producer Services and Specialty Inks and Polymer Systems operating income also improved significantly in 2007 as compared to 2006. Both businesses delivered 30% or better improvements in operating income. In Producer Services, operating margins improved due to value added selling activities to enhance the profitability of the customer mix and the full year impact of the DH Compounding acquisition. Specialty Inks and Polymer Systems' profitability was up more than 30% reflecting a strong sales mix of Inks and Urethanes products.

Sales and Operating Income (Loss) — 2006 compared with 2005:

(In millions)	2006	2005	Change	% Change
Sales:				
Vinyl Business	$ 1,025.1	$ 1,022.1	$ 3.0	0.3%
International Color and Engineered Materials	526.7	465.4	61.3	13.2%
PolyOne Distribution	732.8	679.2	53.6	7.9%
All Other	491.5	435.0	56.5	13.0%
Corporate and eliminations	(153.7)	(151.1)	(2.6)	(1.7)%
	$ 2,622.4	$ 2,450.6	$ 171.8	7.0%
Operating income (loss):				
Vinyl Business	$ 68.5	$ 62.9	$ 5.6	
International Color and Engineered Materials	21.3	15.5	5.8	
PolyOne Distribution	19.2	19.5	(0.3)	
Resin and Intermediates	102.9	91.9	11.0	
All Other	(2.3)	(6.9)	4.6	
Corporate and eliminations	(19.0)	(41.6)	22.6	
	$ 190.6	$ 141.3	$ 49.3	

	2006	2005	Change
Operating income (loss) as a percentage of sales:			
Vinyl Business	6.7%	6.2%	0.5% points
International Color and Engineered Materials	4.0%	3.3%	0.7% points
PolyOne Distribution	2.6%	2.9%	(0.3)% points
All Other	(0.5)%	(1.6)%	1.1% points
Total	7.3%	5.8%	1.5% points

A summary of Corporate and eliminations is as follows:

(In millions)	Year Ended December 31, 2006	Year Ended December 31, 2005
Future environmental remediation costs(a)	$ (2.5)	$ (0.2)
Impairment of intangibles and other investments(b)	(0.2)	(0.4)
Gain on sale of assets(c)	3.1	—
Settlement of legal issues and related reserves(d)	23.3	8.8
Employee separation and plant phaseout(e)	—	(5.5)
Write-down of certain assets of equity affiliate(f)	—	(22.9)
All other and eliminations(g)	(42.7)	(21.4)
Total Corporate and eliminations	$ (19.0)	$ (41.6)

(a) These charges represent environmental remediation costs for facilities either no longer owned or closed in prior years including, remediation costs and certain legal costs

(b) Impairments of community development and internet investments were recorded during 2006 and 2005.

(c) The gain on sale of assets in 2006 relates to the sale of previously closed facilities.

(d) The benefit of insurance, legal settlements and adjustments to related reserves were benefits of $23.3 million and $8.8 million during 2006 and 2005, respectively.

(e) Employee separation charges of $2.5 million were recorded in 2005 related to the terms of a separation agreement between PolyOne and Thomas A. Waltermire. Plant phaseout charges in 2005 included a $2.5 million loss on the sale of facilities and equipment of previously idled operations.

(f) In 2005, we recognized a charge of $22.9 million related to the write-down of a previously idled OxyVinyls facility.

(g) All other and eliminations is comprised of intersegment eliminations and corporate general and administrative costs that are not allocated to segments.

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

<u>Vinyl Business</u>

Sales were flat in 2006 compared to 2005 as higher average selling prices offset 6% lower volume. Selling prices at the beginning of 2006 reflected the increases that we realized in the fourth quarter of 2005. Volume was down as a result of slower building and construction market demand in the second half of 2006 compared with the unusually high demand in the second half of 2005 due to the rebuilding activities that were created in the wake of Hurricanes Katrina and Rita. Also negatively impacting 2006 volume was greater competition from overseas suppliers who increased their market share, largely in flooring applications, in the second half of 2005.

Operating income increased $5.6 million, or 9%, to $68.5 million in 2006 as compared to 2005. Strong demand coupled with intensified value selling activities and pricing actions to recover rising energy and feedstock costs all contributed to expanding margins.

International Color and Engineered Materials

Sales reached $526.7 million in 2006 which represented a 13% increase over 2005. Sales in Asia grew 24% due to strong demand for our products in the appliance and electrical and electronics end markets, and 14% sales growth of our colorants and additives, particularly into specialty packaging applications. European sales were up 9% due to overall improvements in the economic environment in the Euro Zone, recapture of market share, penetration of higher margin specialty markets, and favorable foreign exchange impact which contributed approximately $4.8 million to the overall sales increase.

Operating income increased $5.8 million, or 37% from 2005, primarily as a result of a shift in mix to higher-margin products, strong sales growth, and increased margins due to value added selling activities. Differences in average currency exchange rates did not materially impact earnings.

Distribution

Sales were $732.8 million in 2006, an increase of 8% versus 2005 led by an increase in selling prices and a 1% increase in shipment volume. The increase in selling prices was driven by both passing through increases from our supplier base and from a slight shift in mix towards higher-priced engineered products. The small change in volume was a result of gains from our National Account programs more than offsetting softening demand in the Building and Construction and Automotive markets in the second half of 2006.

Operating income decreased $0.3 million in 2006 due to increased investment in commercial resources. Hurricanes Katrina and Rita caused a surge in demand in 2005 that temporarily increased selling prices and margins, both of which have returned to normalized levels in 2006 as demand has softened.

Resin and Intermediates

Resin and Intermediates operating income increased $11.0 million, or 12%, over 2005. OxyVinyls' equity earnings increased $4.0 million primarily due to higher industry average PVC resin and VCM price spreads over raw material costs. SunBelt's equity earnings increased $6.6 million due to higher selling prices for chlorine and caustic soda that were driven by strong demand.

All Other

All Other includes the North American Color and Additives, North American Engineered Materials, Producer Services and Specialty Inks and Polymer Systems operating segments. Sales in aggregate were $491.5 million in 2006, up 13% from 2005. All of the operating segments except for North American Color and Additives achieved sales growth in excess of 15%. In 2006, demand generated from the rebuilding activities in the aftermath of the hurricanes that impacted the US Gulf Coast drove strong improvements in year-over-year sales for our wire & cable and general purpose pipe products. In addition, we started to see positive results in our North American Engineered Materials business from our investments in commercial resources and the launch of new technology platforms, both of which contributed to a 19% increase in sales versus 2005. Specialty Inks and Polymer Systems's sales increased 15% in 2006 compared to 2005 from increased sales of higher-priced products such as inks and specialty colorants, the introduction of new products, higher selling prices and continued global growth. The remaining 50% interest in DH Compounding was acquired in fourth quarter 2006 and had a modest impact on sales growth.

Operating income in 2006 for All Other was ($2.3) million, but this result was a $4.6 million improvement compared to 2005. North American Color and Additives and North American Engineered Materials demonstrated 20% and 33% improvements, respectively, in operating income due to improved demand, aggressive margin improvement actions related to value-added pricing and cost structure improvements.

Impact of Inflation

Although inflation has slowed in recent years, we believe it remains a factor in our economy and we continually seek ways to lessen its impact. Toward that end, we deploy three primary mitigating strategies: a) within the context of competitive markets, we offset higher raw material and energy costs by increasing the prices of our products to customers over time; b) we are improving our ability to sell higher valued specialized materials, services and solutions to our customers where price is determined by value received by the customer rather than by changes to cost inputs; and c) we are implementing specific efficiency programs such as Lean Six Sigma, energy conservation initiatives, and inventory and distribution cost optimization programs, that are expected to lower our delivered cost of product to customers, helping to negate portions of the detrimental effect of inflation.

Additionally, we use the last-in, first-out (LIFO) method of accounting for 38% of our inventories and the first-in, first-out (FIFO) or average cost method for the remainder. Under the LIFO method, the cost of products sold that are reported in the financial statements approximates current costs, providing a better match of current period revenue and expenses. Charges to operations for depreciation represent the allocation of historical costs incurred over past years and are lower than if they were based on the current cost of the productive capacity that is being consumed.

Critical Accounting Policies and Estimates

Significant accounting policies are described more fully in Note C to the Consolidated Financial Statements. The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions about future events that affect the amounts reported in our financial statements and accompanying notes. We base our estimates on historical experience and assumptions that we believe are reasonable under the related facts and circumstances. The application of these critical accounting policies involves the exercise of judgment and use of assumptions for future uncertainties. Accordingly, actual results could differ significantly from these estimates. We believe that the following discussion addresses our most critical accounting policies, which are those that are the most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective and complex judgments.

Sales Discounts and Rebates — Sales discounts and rebates are offered to certain customers to promote customer loyalty and to encourage greater product sales. These programs provide customers with credits against their purchases if they attain pre-established volumes or revenue milestones for a specific period. We estimate the provision for rebates based on the specific terms of each agreement at the time of shipment and an estimate of the customer's future achievement of the respective volume or revenue milestones. The actual amounts earned can differ from these estimates. In the past, the actual amounts earned by our customers have not differed materially from our estimates.

Allowance for Doubtful Accounts — Allowances for doubtful accounts are determined based on estimates of losses related to customer receivable balances. In establishing the appropriate provisions for customer receivable balances, we make assumptions about their future collectibility. Our assumptions are based on an individual assessment of each customer's credit quality as well as subjective factors and trends, including the aging of receivable balances. We regularly analyze significant customer accounts and record a specific reserve to reduce the related receivable to the amount we reasonably believe is collectible when we become aware of a customer's inability to meet its financial obligations to us, such as in the case of a bankruptcy filing or deterioration in the customer's operating results or financial position. We also record reserves for all other customers based on a variety of factors, including the length of time the receivables are past due, the financial health of the customer, economic conditions and our historical experience. If circumstances related to specific customers change, our estimates of the collectibility of receivables may be adjusted further. In the past, the actual losses incurred have differed from our estimates primarily as a result of unforeseen bankruptcy filings by our customers.

Environmental Accrued Liability — Based upon estimates prepared by our environmental engineers and consultants, we have $83.8 million accrued at December 31, 2007 to cover probable future environmental remediation expenditures. We do not believe that any of these matters, either individually or in the aggregate, will have a material adverse effect on our capital expenditures, consolidated financial condition, results of operations or cash flow beyond the amount accrued. This accrual represents our best estimate of the remaining probable remediation costs based upon information and technology currently available and our view of the most likely remedy. Depending upon the results of future testing, the ultimate remediation alternatives undertaken, changes in regulations, new information, newly discovered conditions and other factors, it is reasonably possible that we could incur additional costs in excess of the amount accrued. However, such additional costs, if any, cannot currently be estimated. Our estimate of this liability may be revised as new regulations or technologies are developed or additional information is obtained. Changes during the past five years have primarily resulted from an increase in the estimate of future remediation costs at existing sites and payments made each year for remediation costs that were already accrued.

For more information about our environmental liabilities, see Note N to the Consolidated Financial Statements.

Asbestos-Related Claims — We have been named in various lawsuits involving multiple claimants and defendants for alleged asbestos exposure in the past by, among others, workers and contractors and their families at plants owned by us or our predecessors, or on board ships owned or operated by us or our predecessors. We have reserves totaling $0.2 million as of December 31, 2007 for asbestos-related claims that are probable and estimable. We believe that the probability is remote that losses in excess of the amounts we have accrued could be materially adverse to our financial condition, results of operations or cash flows. If the underlying facts and circumstances change in the future, we will modify our reserves, as appropriate. The amount of this accrual has not materially changed over the past several years.

Restructuring-Related Accruals — Since PolyOne was formed in 2000, we have recorded accruals for charges in connection with restructuring our businesses, as well as integrating acquired businesses. These accruals include estimates related to employee separation costs, the closure and/or consolidation of facilities, contractual obligations and the value of assets such as property, plant and equipment, and inventories. Actual amounts could differ from the original estimates, and have differed in the past primarily from differences between estimated and actual net proceeds received upon the sale of property, plant and equipment.

Restructuring-related accruals are reviewed on a quarterly basis and changes to these accruals are made when changes to plans occur. Changes to restructuring plans for existing businesses are recorded as employee separation and plant phaseout costs in the period when the change occurs.

For more information about our restructuring activities, see Note E to the Consolidated Financial Statements.

Goodwill — Under SFAS No. 142, "Goodwill and Other Intangible Assets," we are required to perform impairment tests of our goodwill and intangible assets. These tests must be done at least once a year, and more frequently if an event or circumstance indicates that an impairment or a decline in value may have occurred. We test for goodwill impairment on July 1 of each year. The goodwill impairment test is a two-step process, which requires us to make judgments about the assumptions that we use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit based on a number of factors, including projected future operating results and business plans, economic projections, anticipated future cash flows, comparable marketplace data from within a consistent industry grouping, and the cost of capital. We compare these estimated fair values with their carrying values, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an “implied fair value” of goodwill. The determination of a reporting unit’s “implied fair value” of goodwill requires us to allocate the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the “implied fair value” of goodwill, which is then compared to its corresponding carrying value.

We cannot predict what future events might adversely affect the reported value of our goodwill. These events include, but are not limited to, strategic decisions made in response to economic competitive conditions, the impact of the economic environment on our customer base, or a material negative change in relationships with significant customers.

For more information about our goodwill, see Note D to the Consolidated Financial Statements.

Income Taxes — Estimates of full year taxable income are used in the tax rate calculations for the legal entities and jurisdictions in which we operate throughout the year and these estimates may change during the year to reflect evolving facts and circumstances. During the year, we use judgment to estimate our income for the year. Because judgment is involved, the tax rate may increase or decrease significantly in any period.

To determine income or loss for financial statement purposes, we make estimates and judgments. These estimates and judgments occur in the calculation of certain tax liabilities and in determining the recoverability of deferred tax assets that result from temporary differences between the tax and financial statement recognition of revenue and expense. SFAS No. 109, “Accounting for Income Taxes,” also requires us to reduce the deferred tax assets by a valuation allowance if it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods.

In the process of determining our ability to recover our deferred tax assets, we consider all of the available positive and negative evidence, including our past operating results, the existence of cumulative losses in recent years and our forecast of future taxable income. To estimate future taxable income we develop assumptions including the amount of future state, federal and international pre-tax income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment to forecast future taxable income and are consistent with the plans and estimates that we use to manage our businesses.

In addition, the calculation of tax liabilities deals with uncertainties in applying complex tax regulations in a large number of jurisdictions. We recognize potential liabilities for anticipated tax audit issues based on our estimate of the extent to which additional taxes may be due. To the extent we prevail in matters for which accruals have been established, or are required to pay amounts in excess of recorded reserves, the effective tax rate in a given financial statement period may be materially impacted.

For more information about our income taxes, see Note P to the Consolidated Financial Statements.

Pensions and Post-retirement Benefits — Effective December 31, 2006, we adopted SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of Financial Accounting Standards Board (FASB) Statements No. 87, 88, 106 and 132(R).” This statement requires employers to recognize the overfunded or underfunded status of defined benefit post-retirement plans in their balance sheets. The overfunded or underfunded status is measured as the difference between the fair value of plan assets and the benefit obligation of the plans (the projected benefit obligation for pension plans and the accumulated post-retirement benefit obligation for other post-retirement plans). The change in the funded status of the plans must be recognized in the year in which the change occurs through accumulated other comprehensive income.

Prior to the adoption of SFAS No. 158, we accounted for our defined benefit post-retirement plans under SFAS No. 87, “Employers Accounting for Pensions,” and SFAS No. 106, “Employers Accounting for Postretirement Benefits Other Than Pensions.” SFAS No. 87 required that a liability (minimum pension liability) be recorded when the accumulated benefit obligation (ABO) liability exceeded the fair value of plan assets. Any adjustment to this liability was recorded as a non-cash charge to accumulated other comprehensive income within shareholders equity. SFAS No. 106 required that the liability that was recorded should represent the actuarial present value of all future benefits attributable to an employee’s service rendered to date. Under both SFAS No. 87 and No. 106, any change in the funded status was not immediately recognized. Instead, they were deferred and recognized ratably over future periods. Upon adoption of SFAS No. 158, we recognized the amounts of prior changes in the funded status of our post-retirement benefit plans through accumulated other comprehensive income. As a result, the net impact of accounting for SFAS No. 158 was an increase of $6.4 million on a pre-tax basis and a decrease of $0.4 million on an after-tax basis to our accumulated other comprehensive loss. In addition, we recorded an adjustment of $2.7 million to increase accumulated other comprehensive loss to record our proportionate share of OxyVinyls’ adoption of SFAS No. 158.

The adoption of SFAS No. 158 had no impact on our consolidated statements of income for the year ended December 31, 2006 or for any prior period. Also, the adoption of SFAS No. 158 did not affect any financial covenants contained in the agreements governing our debt and our receivables sale facility and is not expected to affect operating results in future periods.

We have several pension plans, of which only two continue to accrue benefits for certain U.S. employees. These two plans generally provide benefit payments using a formula that is based upon employee compensation and length of service. Length of service for determining benefit payments was frozen as of December 31, 2002. All U.S. defined-benefit pension plans are closed to new participants. Regarding our other subsidized post-employment benefit plans, only certain employees hired prior to December 31, 1999 are eligible to participate.

Included in our results of operations are significant pension and post-retirement benefit costs that we measure using actuarial valuations. Inherent in these valuations are key assumptions, including assumptions about discount rates and expected returns on plan assets. These assumptions are updated at the beginning of each fiscal year. We consider current market conditions, including changes in interest rates, when making these assumptions. Changes in pension and post-retirement benefit costs may occur in the future due to changes in these assumptions.

To develop our discount rate, we consider the yields of high-quality, fixed-income investments with maturities that correspond to the timing of our benefit obligations. To develop our expected return on plan assets, we consider our historical long-term asset return experience, the expected investment portfolio mix of plan assets and an estimate of long-term investment returns. To develop our expected portfolio mix of plan assets, we consider the duration of the plan liabilities and give more weight to equity investments than to fixed-income securities. Holding all other assumptions constant, a 0.5 percentage point increase or decrease in the discount rate would have increased or decreased our 2007 net pension and post-retirement expense by approximately $1.9 million. Likewise, a 0.5 percentage point increase or decrease in the expected return on plan assets would have increased or decreased our 2007 net pension cost by approximately $1.9 million.

Market conditions and interest rates significantly affect the value of future assets and liabilities of our pension and post-retirement plans. It is difficult to predict these factors due to the volatility of market conditions. Holding all other assumptions constant, a 0.5 percentage point increase or decrease in the discount rate would have increased or decreased accumulated other comprehensive income and the related pension and post-retirement liability by approximately $27.0 million as of December 31, 2007.

The rate of increase in medical costs that we assume for the next five years was held constant with prior years to reflect both our actual experience and projected expectations. The health care cost trend rate assumption has a significant effect on the amounts reported. Holding all other assumptions constant, a 0.5 percentage point increase or decrease in the health care cost trend rate would have increased or decreased our 2007 net periodic benefit cost by $0.2 million and our accumulated other comprehensive income and the related post-retirement liability by approximately $3.0 million as of December 31, 2007.

For more information about our pensions and post-retirement benefits, see Note M to the Consolidated Financial Statements.

FASB Interpretation No. 48 — We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109, Accounting for Income Taxes" (FIN 48), on January 1, 2007.

The net income tax assets recognized under FIN 48 did not differ from the net assets recognized before adoption, and, therefore, we did not record a cumulative effect adjustment related to the adoption of FIN 48. We are no longer subject to U.S. income tax examinations for periods preceding 2004, and with limited exceptions, for periods preceding 2002 for foreign, state and local tax examinations.

As of December 31, 2007, we have a $6.0 million liability for uncertain tax positions. This amount relates to items under examination by foreign tax authorities related to the valuation of assets. We do not agree with the proposed adjustments and have appealed the assessments. We do not anticipate that the disputes will be resolved in the next twelve months.

During the third quarter of 2007, a foreign jurisdiction initiated an audit related to transfer pricing and we accrued $1.0 million for the payment of income tax and interest. The issue was resolved during the fourth quarter of 2007 and we paid $0.3 million for income taxes and $0.5 million for interest.

We recognize interest and penalties related to unrecognized income tax benefits in the provision for income taxes. As of December 31, 2007, we have accrued $2.5 million of interest and penalties.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(In millions)	Unrecognized Tax Benefits 2007
Balance at January 1, 2007	$ 6.0
Additions based on tax positions related to the current year	
Additions for tax positions of prior years	0.5
Reductions for tax positions of prior years	(0.2)
Settlements	(0.3)
Balance at December 31, 2007	$ 6.0

FASB Staff Position AUG AIR-1 — In September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1, "Accounting for Planned Major Maintenance Activities" (FSP AUG AIR-1). FSP AUG AIR-1 prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods and is effective for the first fiscal year beginning after December 15, 2006. OxyVinyls, a former equity affiliate sold on July 6, 2007, adopted FSP AUG AIR-1 in the first quarter of 2007, on a retrospective basis, and used the deferral method of accounting for planned major maintenance for 2007.

The effect on OxyVinyls' consolidated balance sheet at January 1, 2007 from adopting FSP AUG AIR-1 was an increase of $38.3 million in other assets, a decrease of $12.3 million in accrued liabilities, an increase of $4.2 million in minority interest and an increase of $46.4 million in partners' capital. Our proportionate share of OxyVinyls' operations was 24%.

The adoption of FSP AUG AIR-1 represents a change in accounting principle and, under the guidance of this principle, must be applied retrospectively. Under these retrospective provisions, we have restated our historical financial statements to reflect the change in accounting for planned major maintenance activities of our former equity affiliate, OxyVinyls. For further discussion and illustration of the changes made to our financial statements, refer to Note C of the Consolidated Financial Statements.

Share-Based Compensation — Prior to January 1, 2006, as provided under SFAS No. 123, we applied Accounting Principles Board (APB) No. 25 and related interpretations to account for our share-based compensation plans. Under APB No. 25, compensation expense was recognized for stock option grants if the exercise price of the grant was below the fair value of the underlying stock at the measurement date. On January 1, 2006, we adopted SFAS No. 123(R), which requires us to recognize compensation expense based on the fair value on the date of the grant. We are using the modified prospective transition method, which does not require prior period financial statements to be restated. The impact on pre-tax earnings from adopting SFAS No. 123(R) for the year ended December 31, 2006 was a charge of $2.5 million.

The option-pricing model that we used to value the stock appreciation rights granted during 2007 and 2006 was a Monte Carlo simulation method. Under this method, the fair value of awards on the date of grant is an estimate and is affected by our stock price, as well as assumptions regarding a number of highly complex and subjective variables. Expected volatility was set at the average of the six-year historical weekly volatility for our common stock and the implied volatility rates for exchange-traded options. The expected term of options that were granted was set equal to halfway between the vesting and expiration dates for each grant. Dividends were not included in this calculation because we do not currently pay dividends. The risk-free rate of return for periods within the contractual life of the option is based on U.S. Treasury rates in effect at the time of the grant. Forfeitures were estimated at 3% per year based on our historical experience.

For more information on the adoption and impact of SFAS No. 123(R), see Note C and Note Q to the Consolidated Financial Statements.

Contingencies — We are subject to various investigations, claims and legal and administrative proceedings covering a wide range of matters that arise in the ordinary course of business activities. Any liability that may result from these proceedings that we judge to be probable and estimable has been accrued. The actual amounts resulting from these matters can differ from our estimates.

New Accounting Pronouncements —

SFAS No. 157 — In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement," which defines fair value, establishes the framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. In December 2007, The FASB issued a proposed FASB Staff Position (FSP FAS 157-b) that would delay the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis to fiscal years beginning after November 15, 2008. We adopted the non-deferred portion of SFAS No. 157 on January 1, 2008 and it did not have a material impact on our financial statements. We are evaluating the effect that adoption of the deferred portion of SFAS No. 157 will have on our financial statements in 2009, specifically in the areas of measuring fair value in business combinations and goodwill impairment tests.

SFAS No. 159 — In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which allows entities to voluntarily choose, at specified election dates, to measure many financial assets and liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We do not believe that the adoption of SFAS No. 159 will have a significant effect on our financial statements.

SFAS No. 141 (revised) — In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations," which establishes principles over the method entities use to recognize and measure assets acquired and liabilities assumed in a business combination and enhances disclosures on business combinations. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are evaluating the effect that adoption will have on our 2009 financial statements.

Cash Flows

The following discussion focuses on the material components of cash flows from operating, investing and financing activities.

(In millions)	2007	2006	2005
Cash flow summary			
Cash provided by operating activities	$ 67.2	$ 111.7	$ 63.7
Cash provided (used) by investing activities	215.3	(16.8)	(24.2)
Cash used in financing activities	(275.9)	(63.4)	(43.7)
	6.6	31.5	(4.2)
Effect of exchange rates on cash	6.6	1.9	(1.6)
Increase (decrease) in cash and equivalents	$ 13.2	$ 33.4	$ (5.8)

(In millions)	2007	2006	2005
Cash Flows from Operating Activities			
Net income	$ 11.4	$ 122.9	$ 47.9
Depreciation and amortization	57.4	57.1	50.7
Loss on disposition of discontinued businesses and related plant phaseout charge	—	3.1	15.6
Charges for environmental remediation, net of net payments	23.3	4.3	(9.6)
Deferred income tax provision (benefit)	(57.1)	(12.9)	2.0
Premium on early extinguishment of long-term debt	12.8	4.4	—
Stock compensation expense	4.3	4.5	(0.6)
Asset impairment charges	2.5	0.2	0.4
Companies carried at equity and minority interest:			
Impairment of investment in equity affiliates	14.8	—	—
Income from equity affiliates and minority interest	(42.5)	(112.0)	(79.9)
Distributions and distributions received	37.6	97.7	67.4
Pension and postretirement contributions	(26.9)	(13.9)	(17.8)
Change in assets and liabilities:			
Increase (decrease) from working capital	35.6	(33.8)	(1.3)
Increase (decrease) in sale of accounts receivable	—	(7.9)	7.9
Accrued expenses and other	(6.0)	(1.9)	(20.8)
Net cash used by discontinued operations	—	(0.1)	1.8
Net cash provided by operating activities	$ 67.2	$ 111.7	$ 63.7

Operating Activities — Cash provided by operations decreased by $44.5 million compared to 2006 due to lower operating earnings, lower earnings and distributions from equity affiliates, an increase in environmental remediation payments, and a $57.1 million benefit in deferred income taxes principally related to the OxyVinyls sale. Additionally, the impact of the change in working capital was a $69.4 million improvement comparing 2007 versus 2006. A more comprehensive discussion of working capital is provided below.

In 2006, net cash provided by operations increased by $48.0 million compared to 2005 primarily due to a significant increase in operating earnings, higher cash distributions from equity affiliates and lower accrued expenses. The change in operating earnings is discussed in Note R — Segments and at the beginning of this section MD&A. Equity affiliate cash distributions increased $30.3 million as our joint ventures in the chloro-vinyl chain saw their businesses elevate to peak earnings.

Working capital management

Our working capital management focus is on three metrics that we believe are the most critical to maximizing cash provided by operating activities. These three metrics measure the number of days of sales in receivables (DSO), and the days of cost of goods sold in inventories (DSI) and accounts payable (DSP). These metrics allow us to understand total dollar changes in the three principal components of working capital by isolating the effects of sales and production levels in the business versus management's efforts to drive more efficient use of company funds.

The following table presents a comparison of our year-end working capital metrics and the impact of changes in efficiency and volume on accounts receivable, inventories and accounts payable:

(In days)	2007	2006	2005
Accounts receivable DSO	54.5	53.1	49.8
Inventories DSI	39.5	42.2	37.6
Accounts payable DSP	(46.6)	(44.3)	(41.3)
Year-end net days	47.4	51.0	46.1
Change in net days from prior year end	3.6	(4.9)	3.7

The 2007 year-end working capital metrics netted to a 3.6 day improvement compared to 2006 as management's actions to reduce inventories due to a slower demand outlook and initiate vendor terms management programs offset a DSO increase of 1.4 days as customers slowed payments in light of current trends in the economy and credit market turmoil. The 2006 year-end working capital metrics netted to an unfavorable increase of 4.9 days compared to 2005 due to slower collections and higher inventories as compared to year-end 2005 when weather issues in the U.S. Gulf Coast created an unusually favorable impact on collections and inventories levels due to material shortages.

(In millions)	2007	2006
Cash provided (used) by:		
Accounts receivable	$ (8.9)	$ 23.0
Inventories	26.7	(39.6)
Accounts payable	17.8	(17.2)
	$ 35.6	$ (33.8)
Impact of change in net days	$ 18.7	$ (21.0)
Impact of change in sales and production levels	16.9	(12.8)
	$ 35.6	$ (33.8)

From December 31, 2006 to December 31, 2007, $35.6 million of cash was provided by a reduction in working capital investment due to lower year-end inventories, reflecting management actions, and higher outstanding payables. In addition, inventories were favorably impacted by a $9.9 million increase in our 2007 LIFO reserve versus 2006, which is due to the inflation in the cost of raw materials in 2007, and the impact of foreign exchange. The impact of LIFO and foreign exchange are shown in the impact of change in sales and production levels line item in the above table.

From December 31, 2005 to December 31, 2006, $33.8 million of cash was consumed in working capital investment driven by higher inventories and lower payables. Year-end 2005 demand was significantly above typical seasonal levels and caused a larger than expected reduction in inventories reflecting heightened customer demand following the severe storms in the U.S. Gulf Coast. Conversely, at the end of 2006, demand softened resulting in relatively higher year-end inventory levels. The decline in accounts payable was due to lower purchases during December 2006. The year-over-year change in LIFO was $14 million unfavorable.

(In millions)	2007	2006	2005
Cash Flows from Investing Activities			
Capital expenditures	$ (43.4)	$ (41.1)	$ (32.1)
Business acquisitions and related deposits, net of cash acquired	(11.2)	(1.5)	(2.7)
Proceeds from sale of assets	9.4	8.7	12.3
Proceeds from sale of investment in equity affiliate	260.5	—	—
Proceeds from sale of discontinued business, net	—	17.3	—
Net cash used by discontinued operations	—	(0.2)	(1.7)
Net cash provided (used) by investing activities	$ 215.3	$ (16.8)	$ (24.2)

Investing Activities — In 2007, we generated $215.3 million from investing activities, primarily from the proceeds that we received from the sale of our 24% interest in OxyVinyls. In a transaction related to the sale of our interest in OxyVinyls, we purchased the remaining 10% minority interest in Powder Blends, LP. Capital spending as a percentage of depreciation and amortization was 76%.

In 2006, we used $16.8 million for investing activities, primarily for capital spending in support of manufacturing operations. This use of cash was partially offset by the proceeds from the sale of our Engineered Films business. Capital spending in 2006 as a percentage of depreciation and amortization was 72%.

In 2005, we used $24.2 million for investing activities, reflecting capital spending in support of manufacturing operations, the purchase of the remaining 16% of Star Color, a Thailand-based color and additives business and the purchase of certain assets of Novatec Plastics Corporation. Star Color is included in our International Color and Engineered Materials segment, and Novatec's assets are included in our Vinyl Business segment. This capital spending was partially offset by proceeds that we received from the sale of previously closed facilities. Capital spending as a percentage of depreciation and amortization was 63% in 2005.

(In millions)	2007	2006	2005
Cash Flows from Financing Activities			
Change in short-term debt	$ (0.2)	$ (2.1)	$ 4.8
Repayment of long-term debt	(264.1)	(60.0)	(49.0)
Premium paid on early extinguishment of long-term debt	(12.8)	(4.4)	—
Proceeds from exercise of stock options	1.2	3.1	0.5
Net cash used by financing activities	$ (275.9)	$ (63.4)	$ (43.7)

Financing Activities — Cash used by financing activities in 2007, 2006 and 2005 was primarily for the extinguishment of debt.

Discontinued Operations — Cash flows from discontinued operations are presented separately on a single line in each section of the Consolidated Statements of Cash Flows. The absence of future cash flows from discontinued operations is not expected to materially affect future liquidity and capital resources.

Balance Sheets

The following discussion focuses on material changes in balance sheet line items from December 31, 2006 to December 31, 2007 that are not discussed in the preceding "Cash Flows" section.

Pension benefits — The $42.5 million decrease in pension benefits was a result of a higher discount rate at December 31, 2007 and strong asset performance.

Other non-current liabilities — The increase of $12.1 million was primarily due to an increase of $15.8 million in non-current environmental reserves. The remaining decrease in other non-current liabilities is comprised of other less significant account changes such as employment costs, insurance accruals and other reserves.

Capital Resources and Liquidity

Liquidity is defined as an enterprise's ability to generate adequate amounts of cash to meet both current and future needs. These needs include paying obligations as they mature, maintaining production capacity and providing for planned growth. Capital resources are sources of funds other than those generated by operations. We are not aware of any trends, demands, commitments, events, or uncertainties that are reasonably likely to result in our liquidity decreasing to the extent that it would have a material adverse effect on our financial condition.

As of December 31, 2007, we had existing facilities to access available capital resources (receivables sale facility, uncommitted short-term credit lines and senior unsecured notes and debentures) totaling $487.9 million. As of December 31, 2007, we had used $336.7 million of these facilities, and $151.2 million was available to be drawn while remaining in compliance with all covenants associated with these facilities. As of December 31, 2007, we also had a $79.4 million cash and cash equivalents balance that exceeded our typical operating cash requirements of $35 million to $40 million, adding to our available liquidity.

The following table summarizes our available and outstanding facilities at December 31, 2007:

(In millions)		Outstanding		Available
Long-term debt, including current maturities	$	330.6	$	—
Receivables sale facility		—		151.2
Short-term debt		6.1		—
	$	336.7	$	151.2

Long-Term Debt — At December 31, 2007, long-term debt totaled $330.6 million, with maturities ranging from 2008 to 2015. Current maturities of long-term debt at December 31, 2007 were $22.6 million. During 2007, we repurchased $241.4 million aggregate principal amount of our 10.625% senior notes due 2010 at a premium of $12.8 million. This premium is shown as a separate line item in the Consolidated Statements of Income. Unamortized deferred note issuance costs of $2.8 million were expensed due to this repurchase and are included in interest expense in the Consolidated Statements of Income. We also made a payment of $20.0 million of aggregate principal amount of our medium-term notes that matured during 2007. As part of our purchase of DH Compounding during the fourth quarter 2006, we issued a promissory note in the principal amount of $8.7 million, payable in 36 equal installments at a rate of 6% per annum. During 2007, we made principal payments totaling $2.8 million on this promissory note. For more information about our debt, see Note G to the Consolidated Financial Statements.

Guarantee and Agreement — We decided not to renew our revolving credit facility, and, accordingly, it expired on June 6, 2006. To replace some of the features of this expired facility, we entered into a definitive Guarantee and Agreement with Citicorp USA, Inc., on June 6, 2006. Under this Guarantee and Agreement, we guarantee the treasury management and banking services provided to us and our subsidiaries, such as subsidiary borrowings, interest rate swaps, foreign currency forwards, letters of credit, credit card programs and bank overdrafts. This guarantee is secured by our inventories located in the United States.

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

Borrowings under the revolving credit facility are based on the applicable LIBOR rate plus a fixed fee. On January 9, we borrowed $40 million under the agreement and entered into a floating to fixed interest rate swap to January 9, 2009 resulting in an effective interest rate of 8.4%. The credit agreement contains covenants that, among other things, restrict our ability to incur liens, and various other customary provisions, including affirmative and negative covenants, and representations and warranties.

Receivables Sale Facility — The receivables sale facility was amended in June 2007 to extend the maturity to June 2012 and to among other things, modify certain financial covenants and reduce the cost of utilizing the facility. In July 2007, the receivable sale facility was amended to include up to $25.0 million of Canadian receivables, which increased the facility size to $200.0 million. The maximum proceeds that we may receive are limited to 85% of the eligible domestic and Canadian accounts receivable sold. This facility also makes up to $40.0 million available for issuing standby letters of credit as a sub-limit within the $200.0 million facility, of which $11.4 million was used at December 31, 2007.

The facility requires us to maintain a minimum fixed charge coverage ratio (defined as Adjusted EBITDA less capital expenditures, divided by interest expense and scheduled debt repayments for the next four quarters) of at least 1 to 1 when availability under the facility is $40.0 million or less. As of December 31, 2007, the fixed charge coverage ratio was 1.4 to 1 and we had not sold any accounts receivable, resulting in availability under the facility of $151.2 million.

During January 2008, we sold $59.2 million of our undivided interest in accounts receivable.

Of the capital resource facilities available to us as of December 31, 2007, the portion of the receivables sale facility that was actually sold provided security for the transfer of ownership of these receivables. Each indenture governing our senior unsecured notes and debentures and our guarantee of the SunBelt notes allows a specific level of secured debt, above which security must be provided on each indenture and our guarantee of the SunBelt notes. The receivables sale facility and our guarantee of the SunBelt notes are not considered debt under the covenants associated with our senior unsecured notes and debentures. As of December 31, 2007, we had not sold any accounts receivable and had guaranteed $60.9 million of our SunBelt equity affiliate's debt.

The following table summarizes our obligations under long-term debt, operating leases, standby letters of credit, interest obligations, pension and post-retirement obligations, guarantees and purchase obligations as of December 31, 2007:

	Payment Due by Period									
(In millions)		Total		Less than 1 Year		1-3 Years		4-5 Years		More than 5 Years
Contractual Obligations										
Long-term debt	$	330.6	$	22.6	$	40.3	$	217.7	$	50.0
Operating leases		64.9		17.4		26.1		11.1		10.3
Standby letters of credit		11.4		11.4		—		—		—
Interest obligations(1)		120.6		26.6		48.4		34.3		11.3
Pension and post-retirement obligations(2)		205.8		33.2		55.3		49.6		67.7
Guarantees		60.9		6.1		12.2		12.2		30.4
Purchase obligations		7.9		3.6		4.3		—		—
Total	$	802.1	$	120.9	$	186.6	$	324.9	$	169.7

(1) Interest obligations are stated at the rate of interest that is defined by the debt instrument and take into effect any impact of rate swap agreements, assuming that the debt is paid at maturity.

(2) Pension and post-retirement obligations relate to our U.S. and international pension and other post-retirement plans. Based upon our interpretation of the new pension regulations, there will be minimum funding requirements in 2008 of approximately $18.2 million for our U.S. qualified defined benefit pension plans. Obligations are based on the plans' current funded status and actuarial assumptions, and include funding requirements projected to be made to our qualified pension plans, projected benefit payments to participants in our other post-employment benefit plans, and projected benefit payments to participants in our non-qualified pension plans through 2017.

We expect that profitable operations in 2008 will enable us to maintain existing levels of available capital resources and meet our cash requirements. Expected sources of cash in 2008 include net income, additional borrowings under existing loan agreements, cash distributions from equity affiliates and proceeds from the sale of previously closed facilities and redundant assets. Expected uses of cash in 2008 include interest expense and discounts on the sale of accounts receivable, cash taxes, a contribution to a defined benefit pension plan, debt retirements upon maturity, environmental remediation at inactive and formerly owned sites and capital expenditures. Capital expenditures are currently estimated to be between $50 and $60 million in 2008, primarily to support strategic growth initiatives and manufacturing operations.

Based on current projections, we believe that we should be able to continue to manage and control working capital, discretionary spending and capital expenditures and that cash provided by operating activities, along with available borrowing capacity under our receivables sale facility, should allow us to maintain adequate levels of available capital resources to fund our operations and meet debt service and minimum pension funding requirements for both the short- and long-term.

Related-Party Transactions

We purchase a substantial portion of our PVC resin and all of our VCM raw materials under supply agreements with OxyVinyls. We formerly held a 24% equity ownership in OxyVinyls. This ownership was sold on July 6, 2007 after which we no longer report related party transactions with OxyVinyls. Net amounts owed to OxyVinyls, primarily for raw material purchases, totaled $17.3 million at December 31, 2006. Our total purchases of raw materials from OxyVinyls were $152 million during the six months ended June 30, 2007 and $369 million during the year ended December 31, 2006.

Off-Balance Sheet Arrangements

Receivables sale facility — We sell our accounts receivable to PolyOne Funding Corporation (PFC), a wholly-owned, bankruptcy-remote subsidiary. At December 31, 2007, accounts receivable totaling $175.8 million were sold to PFC and, as a result, they are reflected as a reduction of accounts receivable in our Consolidated Balance Sheets. PFC in turn sells an undivided interest in these accounts receivable to certain investors and realizes proceeds of up to $200 million. The maximum proceeds that PFC may receive under the facility is limited to 85% of the eligible accounts receivable sold to PFC. At December 31, 2007, PFC had not sold any of its undivided interests in accounts receivable. We retained an interest in the $175.8 million of trade receivables sold by us to PFC. As a result, this retained interest is included in accounts receivable on our Consolidated Balance Sheet at December 31, 2007. We believe that available funding under our receivables sale facility provides us increased flexibility to manage working capital requirements and is an important source of liquidity. For more information about our receivables sale facility, see Note I to the Consolidated Financial Statements.

Guarantee of indebtedness of others — As discussed in Note N to the Consolidated Financial Statements, we guarantee $60.9 million of unconsolidated equity affiliate debt of Sunbelt in connection with the construction of a chlor-alkali facility in McIntosh, Alabama. This debt guarantee matures in 2017.

Letters of credit — We maintain approximately $11.4 million of letters of credit under the receivables sale facility. These letters of credit are issued by the bank in favor of third parties and are mainly related to insurance claims and interest rate swap agreements.

We have no other off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Outlook

Our 2008 outlook for global GDP calls for overall growth in 2008, but down about 0.5% points from the 2007 level. In North America, our outlook for 2008 GDP and industrial production growth is for a steeper year-to-year decline compared to our global outlook. Our outlooks for GDP and industrial production in North America assume continued weakness and volatility in financial markets as well as restrained demand growth from reduced consumer and business confidence. The export outlook remains vibrant, based on the co-factors of a weak dollar and the strong growth in developing nations. Current U.S. leading indicators for manufacturing and employment growth do not point toward a recession, but do anticipate weakening conditions through early 2008.

PolyOne's primary North American markets are expected to remain in decline. The housing sector is expected to weaken further with our 2008 projection for housing starts down to approximately 1 million units, or approximately 25% less than 2007 levels, and the lowest level since 1991. Automobile and light truck sales are also projected to decline moderately from 2007 levels to below 16 million units and to the lowest level since 1997.

Eurozone economic activity is also expected to slow in 2008, with our outlook for 2008 GDP growth down from 2007 levels. Slower growth in the U.K., Germany and Spain are the leading factors that will affect us, with France projecting only a slight decline from 2007 levels largely as a result of consumer spending. Partially counterbalancing the slowing in Western Europe, Eastern Europe

GDP growth, although decelerating, is projected to reach approximately 5%.

Industrial production growth in China is expected to remain strong with growth of approximately 1.5 times GDP growth, even though GDP is anticipated to decline moderately to a level slightly below 10% from a rate of over 11% in 2007. India's economy is expected to continue robust expansion although GDP is expected to decline slightly year-to-year. GDP growth in our other key Asian markets is projected between 5% and 7%.

Oil and natural gas prices are not expected to decrease substantially during 2008, with prices continuing to be sensitive to shocks and perceived or real supply volatility. Moreover, high energy and hydrocarbon feedstock costs underpin anticipated year-over-year increases in most chloro-vinyl raw materials. Ethylene and PVC resin pricing are expected to increase compared to 2007. Additionally, during 2008, significant PVC resin capacity is expected to become operational as North American producers bring announced expansion on line.

In summary, the economy is expected to affect PolyOne in several significant ways during 2008. Softness in North American construction, particularly residential, and automotive will affect products and services sold into those markets for most if not all of 2008. Continued strong growth is expected for our operations in Asia, especially China and India, and also for emerging markets for our materials and services. Relatively strong growth in our operations in Eastern Europe should continue. Western European markets will experience lower growth rates due to the strong euro and high energy costs. Globally, growth markets such as electronics and medical and new eco-friendly solutions through metal replacement or new biopolymer materials will be targeted and pursued aggressively.

We anticipate 2008 total Company sales growth in the range of 10% to 12%, including sales from our recent GLS and NHPC acquisitions, despite the likelihood of incremental degradation in the North American residential construction market. While near term economic conditions should remain challenging, we expect full-year earnings growth in 2008. Growth in our non-vinyl businesses, operating improvements and lower interest expense underpin current expectations. Beyond the broader economic conditions, raw material and energy costs remain a fluid dynamic that clearly could impact the magnitude and direction of our preliminary viewpoint.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

In this Annual Report on Form 10-K, 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 and/or sales. In particular, these include statements relating to future actions; prospective changes in raw material costs, product pricing or product demand; future performance; 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:

- 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 polymer consumption growth rates within the U.S., Europe or Asia or other countries where PolyOne conducts business;
- changes in global industry capacity or in the rate at which anticipated changes in industry capacity come online in the polyvinyl chloride (PVC), chlor-alkali, vinyl chloride monomer (VCM) or other industries in which PolyOne participates;
- fluctuations in raw material prices, quality and supply and in energy prices and supply, in particular fluctuations outside the normal range of industry cycles;
- production outages or material costs associated with scheduled or unscheduled maintenance programs;
- the cost of compliance with environmental laws and regulations, including any increased cost of complying with new or revised laws and regulations;
- unanticipated developments that could occur with respect to contingencies such as litigation and environmental matters, including any developments that would require any increase in our costs and/or reserves for such contingencies;
- an inability to achieve or delays in achieving or achievement of less than the anticipated financial benefit from initiatives related to cost reductions and employee productivity goals;
- an inability to raise or sustain prices for products or services;
- an inability to maintain appropriate relations with unions and employees in certain locations in order to avoid business disruptions;
- any change in any agreements with product suppliers to PolyOne Distribution that prohibits PolyOne from continuing to distribute a supplier's products to customers;
- the successful integration of acquired businesses, including GLS Corporation;

- the possibility that the degradation in the North American residential construction market is more severe than anticipated;
- other factors affecting our business beyond our control, including, without limitation, changes in the general economy, changes in interest rates and changes in the rate of inflation; and
- other factors described in this Annual Report on Form 10-K under Item 1A, "Risk Factors."

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law. You are advised, however, to consult any further disclosures we make on related subjects in our reports on Forms 10-Q, 8-K and 10-K furnished to the SEC. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest rate exposure — We periodically enter into interest rate swap agreements that modify our exposure to interest rate risk by converting some of our fixed-rate obligations to floating rates. At December 31, 2007, we maintained interest rate swap agreements on five of our fixed-rate obligations in the aggregate amount of $80.0 million with a net fair value liability of $1.7 million. At December 31, 2006, we maintained interest rate swap agreements on six of our fixed-rate obligations in the aggregate amount of $100.0 million with a net fair value liability of $5.1 million. The weighted-average interest rate for these agreements was 8.8% at December 31, 2007 and 9.3% at December 31, 2006. During January 2008, four of these interest rate swap agreements in the aggregate amount of $70.0 million were unwound. There were no material changes in the market risk that we faced during 2007. For more information about our interest rate exposure, see Note C to the Consolidated Financial Statements.

Foreign currency exposure — We enter into intercompany lending transactions that are denominated in various foreign currencies and are subject to financial exposure from foreign exchange rate movement from the date a loan is recorded to the date it is settled or revalued. To mitigate this risk, we enter into foreign exchange contracts. Gains and losses on these contracts generally offset gains or losses on the assets and liabilities being hedged, and are recorded as other income or expense in the Consolidated Statements of Income. We do not hold or issue financial instruments for trading purposes. For more information about our foreign currency exposure, see Note T to the Consolidated Financial Statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements and Financial Statement Schedule

MANAGEMENT'S REPORT

The management of PolyOne Corporation is responsible for preparing the consolidated financial statements and disclosures included in this Annual Report on Form 10-K. The financial statements and disclosures included in this Annual Report fairly present in all material respects the financial position, results of operations, shareholders' equity and cash flows of PolyOne Corporation as of and for the year ended December 31, 2007.

Management is responsible for establishing and maintaining disclosure controls and procedures designed to ensure that the information required to be disclosed by the company is captured and reported in a timely manner. Management has evaluated the design and operation of the company's disclosure controls and procedures at December 31, 2007 and found them to be effective.

Management is also responsible for establishing and maintaining a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that provide reasonable assurance that: PolyOne Corporation's accounting records accurately and fairly reflect the transactions and dispositions of the assets of the company; unauthorized or improper acquisition, use or disposal of company assets will be prevented or timely detected; the company's transactions are properly recorded and reported to permit the preparation of the company's financial statements in conformity with generally accepted accounting principles; and the company's receipts and expenditures are made only in accordance with authorizations of management and the board of directors of the company.

Management has assessed the effectiveness of PolyOne's internal control over financial reporting as of December 31, 2007 and has prepared Management's Annual Report On Internal Control Over Financial Reporting contained on page 64 of this Annual Report. This report concludes that internal control over financial reporting is effective and that no material weaknesses were identified.

/s/ Stephen D. Newlin	/s/ W. David Wilson
Stephen D. Newlin Chairman, President and Chief Executive Officer	W. David Wilson Senior Vice President and Chief Financial Officer

February 27, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders PolyOne Corporation

We have audited PolyOne Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). PolyOne Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting" which is included in Item 9A. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PolyOne Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PolyOne Corporation and subsidiaries as of December 31, 2007, and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 of PolyOne Corporation and our report dated February 27, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
February 27, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders PolyOne Corporation

We have audited the accompanying consolidated balance sheets of PolyOne Corporation and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. The financial statements of Oxy Vinyls, LP (a limited partnership in which the Company had a 24% interest) have been audited by other auditors whose report has been furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to 2006 and 2005 amounts included for Oxy Vinyls, LP, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PolyOne Corporation and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note C to the consolidated financial statements, the Company adopted SFAS No. 123(R), "Share-Based Payment" applying the modified prospective transition method effective January 1, 2006. As discussed in Note C to the consolidated financial statements, the Company adopted the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" effective December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PolyOne Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
February 27, 2008

Consolidated Statements of Income

(In millions, except per share data)	Year Ended December 31, 2007	2006	2005
Sales	$ 2,642.7	$ 2,622.4	$ 2,450.6
Operating costs and expenses:			
Cost of sales	2,337.3	2,284.1	2,155.7
Selling and administrative	241.8	202.6	182.8
Depreciation and amortization	57.4	57.1	50.7
Income from equity affiliates and minority interest	27.7	112.0	79.9
Operating income	33.9	190.6	141.3
Interest expense	(51.4)	(66.5)	(68.1)
Interest income	4.5	3.4	1.9
Premium on early extinguishment of long-term debt	(12.8)	(4.4)	—
Other expense, net	(6.6)	(2.8)	(5.3)
Income (loss) before income taxes and discontinued operations	(32.4)	120.3	69.8
Income tax benefit (expense)	43.8	5.3	(6.6)
Income before discontinued operations	11.4	125.6	63.2
Loss from discontinued operations and loss on sale, net of income taxes	—	(2.7)	(15.3)
Net income	$ 11.4	$ 122.9	$ 47.9
Basic and diluted earnings (loss) per common share:			
Before discontinued operations	$ 0.12	$ 1.36	$ 0.69
Discontinued operations	—	(0.03)	(0.17)
Basic and diluted earnings per common share	$ 0.12	$ 1.33	$ 0.52
Weighted average shares used to compute earnings per common share:			
Basic	92.8	92.4	91.9
Diluted	93.1	92.8	92.0
Dividends declared per share of common stock	$ —	$ —	$ —

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(In millions, except per share data)	December 31, 2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 79.4	$ 66.2
Accounts receivable (less allowance of $4.8 in 2007 and $5.9 in 2006)	340.8	316.4
Inventories	223.4	240.8
Deferred income tax assets	20.4	18.1
Other current assets	19.8	27.8
Total current assets	683.8	669.3
Property, net	449.7	442.4
Investment in equity affiliates	19.9	287.2
Goodwill	288.8	287.0
Other intangible assets, net	6.7	9.4
Deferred income tax assets	69.9	21.1
Other non-current assets	64.2	64.4
Total assets	$ 1,583.0	$ 1,780.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt	$ 6.1	$ 5.2
Accounts payable, including amounts payable to related party (see Note N)	250.5	221.0
Accrued expenses	94.4	93.1
Current portion of long-term debt	22.6	22.5
Total current liabilities	373.6	341.8
Long-term debt	308.0	567.7
Post-retirement benefits other than pensions	81.6	83.6
Pension benefits	82.6	125.1
Other non-current liabilities	87.5	75.4
Minority interest in consolidated subsidiaries	0.3	5.5
Total liabilities	933.6	1,199.1
Commitments and Contingencies (see Note N)		
Shareholders' equity		
Preferred stock, 40.0 shares authorized, no shares issued	—	—
Common stock, $0.01 par, 400.0 shares authorized, 122.2 shares issued in 2007 and 2006	1.2	1.2
Additional paid-in capital	1,065.0	1,065.7
Retained deficit	(48.5)	(59.9)
Common stock held in treasury, 29.1 shares in 2007 and 29.4 shares in 2006	(319.7)	(326.2)
Accumulated other comprehensive loss	(48.6)	(99.1)
Total shareholders' equity	649.4	581.7
Total liabilities and shareholders' equity	$ 1,583.0	$ 1,780.8

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(In millions)	Year Ended December 31, 2007	2006	2005
Operating activities			
Net income	$ 11.4	$ 122.9	$ 47.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	57.4	57.1	50.7
Loss on disposition of discontinued businesses and related plant phaseout charge	—	3.1	15.6
Charges for environmental remediation	48.8	2.5	0.2
Cash receipts (payments) for environmental remediation, net of insurance recoveries	(25.5)	1.8	(9.8)
Deferred income tax provision (benefit)	(57.1)	(12.9)	2.0
Premium on early extinguishment of long-term debt	12.8	4.4	—
Stock compensation expense (benefit)	4.3	4.5	(0.6)
Asset impairment charges	2.5	0.2	0.4
Companies carried at equity and minority interest:			
Impairment of investment in equity affiliate	14.8	—	—
Income from equity affiliates	(42.5)	(112.0)	(79.9)
Dividends and distributions received	37.6	97.7	67.4
Contributions to pensions and other postretirement plans	(26.9)	(13.9)	(17.8)
Changes in assets and liabilities:			
Accounts receivable	(8.9)	23.0	(23.6)
Inventories	26.7	(39.6)	9.3
Accounts payable	17.8	(17.2)	13.0
Increase (decrease) in sale of accounts receivable	—	(7.9)	7.9
Accrued expenses and other	(6.0)	(1.9)	(20.8)
Net cash provided (used) by discontinued operations	—	(0.1)	1.8
Net cash provided by operating activities	67.2	111.7	63.7
Investing activities			
Capital expenditures	(43.4)	(41.1)	(32.1)
Business acquisitions and related deposits, net of cash acquired	(11.2)	(1.5)	(2.7)
Proceeds from sale of discontinued business, net	—	17.3	—
Proceeds from sale of assets	9.4	8.7	12.3
Proceeds from sale of investment in equity affiliate	260.5	—	—
Net cash used by discontinued operations	—	(0.2)	(1.7)
Net cash provided (used) by investing activities	215.3	(16.8)	(24.2)
Financing activities			
Change in short-term debt	(0.2)	(2.1)	4.8
Repayment of long-term debt	(264.1)	(60.0)	(49.0)
Premium on early extinguishment of long-term debt	(12.8)	(4.4)	—
Proceeds from the exercise of stock options	1.2	3.1	0.5
Net cash used by financing activities	(275.9)	(63.4)	(43.7)
Effect of exchange rate changes on cash	6.6	1.9	(1.6)
Increase (decrease) in cash and cash equivalents	13.2	33.4	(5.8)
Cash and cash equivalents at beginning of year	66.2	32.8	38.6
Cash and cash equivalents at end of year	$ 79.4	$ 66.2	$ 32.8

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

(In millions, except per share data; shares in thousands)	Common Shares: Common Shares	Common Shares: Common Shares Held in Treasury	Shareholders' Equity: Total	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Common Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)
Balance January 1, 2005	122,192	30,480	$ 352.1	$ 1.2	$ 1,067.2	$ (237.2)	$ (339.0)	$ (140.1)
Cumulative effect of adoption of FSP AUG AIR-1 as of January 1, 2005			6.5			6.5		
Comprehensive income:								
Net income			47.9			47.9		
Translation adjustment			(9.3)					(9.3)
Adjustment of minimum pension liability, net of tax benefit of $1.0			(2.4)					(2.4)
Total comprehensive income			36.2					
Stock-based compensation and benefits and exercise of options		(225)	0.1		(0.8)		1.9	(1.0)
Balance December 31, 2005	122,192	30,255	$ 394.9	$ 1.2	$ 1,066.4	$ (182.8)	$ (337.1)	$ (152.8)
Comprehensive income:								
Net income			122.9			122.9		
Translation adjustment			12.1					12.1
Adjustment of minimum pension liability, net of tax expense of $0.3			44.6					44.6
Total comprehensive income			179.6					
Adjustment to initially apply SFAS No. 158, net of tax benefit of $6.8			(2.3)					(2.3)
Stock-based compensation and benefits and exercise of options		(871)	9.5		(0.7)		10.9	(0.7)
Balance December 31, 2006	122,192	29,384	$ 581.7	$ 1.2	$ 1,065.7	$ (59.9)	$ (326.2)	$ (99.1)
Comprehensive income:								
Net income			11.4			11.4		
Translation adjustment			28.3					28.3
Adjustments related to SFAS No. 158:								
Prior service credit recognized during year, net of tax of $1.9			(4.0)					(4.0)
Net actuarial gain occurring during year, net of tax benefit of $12.2			26.2					26.2
Total comprehensive income			61.9					
Stock-based compensation and benefits and exercise of options		(325)	5.8		(0.7)		6.5	—
Balance December 31, 2007	122,192	29,059	$ 649.4	$ 1.2	$ 1,065.0	$ (48.5)	$ (319.7)	$ (48.6)

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note A. DESCRIPTION OF BUSINESS

PolyOne Corporation (PolyOne or Company) is an international polymer services company with operations in thermoplastic compounds, specialty polymer formulations, color and additive systems, thermoplastic resin distribution and specialty polyvinyl chloride (PVC) resins. PolyOne also has equity investments in manufacturers of caustic soda and chlorine, and PVC compound products and in a formulator of polyurethane compounds.

PolyOne's operations are located primarily in the United States, Europe, Canada, Asia and Mexico. PolyOne operations are reflected in four reportable segments: Vinyl Business, International Color and Engineered Materials, PolyOne Distribution and Resin and Intermediates. All Other is comprised of the remaining operating segments and includes North American Color and Additives, North American Engineered Materials, Producer Services and Specialty Inks and Polymer Systems. See Note R for more information.

In February 2006, PolyOne sold 82% of its Engineered Films business for $26.7 million. This business is presented in discontinued operations in these financial statements. PolyOne maintains an 18% ownership interest in this business, which is reflected in the 2007 financial statements on the cost basis of accounting.

In October 2006, PolyOne purchased the remaining 50% of its equity investment in DH Compounding Company from a wholly-owned subsidiary of The Dow Chemical Company for $10.2 million. DH Compounding Company is consolidated in the Consolidated Balance Sheet as of December 31, 2006, and the results of operations are included in the Consolidated Statement of Income beginning October 1, 2006. DH Compounding is included in the Producer Services operating segment.

In July 2007, PolyOne sold its 24% interest in Oxy Vinyls LP (OxyVinyls) for $261 million in cash. In a related transaction, PolyOne purchased the remaining 10% minority interest in Powder Blends, LP for $11 million in cash.

In December 2007, PolyOne completed the acquisition of the vinyl compounding business and assets of Ngai Hing PlastChem Company Ltd. (NHPC), a subsidiary of Ngai Hing Hong Company Limited, a publicly-held company listed on the Hong Kong stock exchange, for $3.3 million, net of cash received.

In January 2008, PolyOne acquired 100% of the outstanding capital stock of GLS Corporation, a global provider of specialty thermoplastic elastomer compounds for consumer, packaging and medical applications. See Note U "Subsequent Event" for more information.

Unless otherwise noted, disclosures contained in these financial statements relate to continuing operations.

Note B. DISCONTINUED OPERATIONS

In October 2003, PolyOne announced that its future focus would be on its global plastics compounding, color and additive masterbatch and PolyOne Distribution businesses to improve profitability and strengthen its balance sheet because management believed these businesses have the strongest market synergies and potential for long-term success. Consequently, the Elastomers and Performance Additives, Engineered Films and Specialty Resins businesses were targeted for divestment. In December 2003, PolyOne's board of directors authorized management to complete and execute plans to sell these businesses. As a result, these businesses qualified for accounting treatment as discontinued operations as of December 31, 2003 under Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

In December 2005, PolyOne announced that the Specialty Resins divestment process was unlikely to result in a sale of the business at acceptable terms. As a result, its financial results were reclassified from discontinued operations to continuing operations. No adjustments to the carrying value were required when it was reclassified to continuing operations.

During 2005, PolyOne recorded additional charges of $15.1 million to further reduce the net assets held for sale of the Engineered Films business to reflect its net realizable value based upon current estimates.

In February 2006, PolyOne sold 82% of the Engineered Films business to an investor group consisting of members of the operating segment's management team and Matrix Films, LLC for gross proceeds of $26.7 million before associated fees and costs. A cash payment of $20.5 million was received on the closing date and the remaining $6.2 million was in the form of a five-year note from the buyer. PolyOne retained an 18% ownership interest in the company. Under EITF 03-13, "Applying the Conditions in Paragraph 42 of Financial Accounting Standards Board (FASB) Statement No. 144 in Determining Whether to Report Discontinued Operations," when a business is sold with a retained interest, the cost method of accounting is appropriate if the disposal group qualifies as a component of an entity, the selling entity has no significant influence or continuing involvement in the new entity, and the operations and cash flows of the business being sold will be eliminated from the ongoing operations of the company selling it. The Engineered Films business qualified as a component of an entity and PolyOne will have no significant influence or continuing involvement in the new entity. Activities that would be considered continuing cash flows (consisting of warehousing services and short-term transitional services) amount to less than one percent of the new entity's corresponding costs, and for that reason are not considered significant. The operations and cash flows of the business being sold will be eliminated from the ongoing operations of PolyOne. PolyOne also considered the provisions of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," and determined that the new entity is not a variable interest entity subject to consolidation. As a result, the retained minority interest investment in the Engineered Films business is reported on the cost method of accounting.

During 2006, PolyOne recognized charges of $3.1 million to adjust the carrying value of the net assets of the Engineered Films Business to the net proceeds received, to recognize costs that were not able to be recognized until the business was sold due to the contingent nature of the costs, and for costs related to the pension benefits of the business.

The following table summarizes the results of discontinued operations. As required by generally accepted accounting principles in the United States, the results of discontinued operations, as presented below, do not include any depreciation or amortization expense.

(In millions)	2006	2005
Sales:		
Engineered Films	$ 9.6	$ 119.6
Pre-tax income from operations:		
Engineered Films	$ 0.4	$ 0.5
Pre-tax loss on disposition of businesses:		
Elastomers and Performance Additives	—	(0.7)
Engineered Films	(3.1)	(15.1)
	(2.7)	(15.3)
Income tax expense, net of valuation allowance	—	—
Loss from discontinued operations	$ (2.7)	$ (15.3)

Note C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation — The Consolidated Financial Statements include the accounts of PolyOne and its subsidiaries. All majority-owned affiliates over which PolyOne has control are consolidated. Investments in affiliates and joint ventures in which PolyOne's ownership is 50% or less, or in which PolyOne does not have control but has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method. Intercompany transactions are eliminated. Transactions with related parties, including joint ventures, are in the ordinary course of business.

Cash and Cash Equivalents — PolyOne considers all highly liquid investments purchased with a maturity of less than three months to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

Allowance for Doubtful Accounts — PolyOne evaluates the collectibility of trade receivables based on a combination of factors. PolyOne regularly analyzes significant customer accounts and, when PolyOne becomes aware of a specific customer's inability to meet its financial obligations to PolyOne, such as in the case of a bankruptcy filing or deterioration in the customer's operating results or financial position, PolyOne records a specific reserve for bad debt to reduce the related receivable to the amount PolyOne reasonably believes is collectible. PolyOne also records bad debt reserves for all other customers based on a variety of factors including the length of time the receivables are past due, the financial health of the customer, economic conditions and historical experience. If circumstances related to specific customers change, PolyOne's estimates of the recoverability of receivables could be adjusted further.

Concentrations of Credit Risk — Financial instruments that subject PolyOne to potential credit risk are trade accounts receivable, foreign exchange contracts and interest rate swap agreements. Concentration of credit risk for trade accounts receivable is limited due to the large number of customers constituting PolyOne's customer base and their distribution among many industries and geographic locations. PolyOne is exposed to credit risk with respect to forward foreign exchange contracts and interest rate swap agreements in the event of non-performance by the counter-parties to these financial instruments. Management believes that the risk of incurring material losses related to this credit risk is remote. PolyOne does not require collateral to support the financial position of its credit risks.

Sale of Accounts Receivable — PolyOne follows the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." As a result, trade accounts receivable that are sold are removed from the balance sheet at the time of sale.

Inventories — Inventories are stated at the lower of cost or market. Approximately 38% and 45% of PolyOne's inventories at December 31, 2007 and 2006 are valued using the last-in, first-out (LIFO) cost method. Inventories not valued by the LIFO method are valued using the first-in, first-out (FIFO) or average cost method.

Property and Depreciation — Property, plant and equipment is recorded at cost, net of depreciation and amortization that is computed using the straight-line method over the estimated useful life of the assets, which ranges from three to 15 years for machinery and equipment and up to 40 years for buildings. Computer software is amortized over periods not exceeding ten years. Property, plant and equipment is generally depreciated on accelerated methods for income tax purposes. Depreciation and amortization expense are excluded from cost of goods sold and presented separately in the Consolidated Statements of Income. Repair and maintenance costs are expensed as incurred.

Impairment of Long-Lived Assets — As required by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," PolyOne reviews long-lived assets for impairment when circumstances indicate that the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment charge is recognized when the estimated undiscounted future cash flows associated with the asset or group of assets are less than their carrying value. If an impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded for the difference between the carrying value and the fair value. Fair values are determined based on quoted market values, discounted cash flows, internal appraisals or external appraisals, as applicable. Assets to be disposed of are carried at the lower of their carrying value or estimated net realizable value.

Goodwill and Other Intangible Assets — Goodwill is the excess of the purchase price paid over the fair value of the net assets of the acquired business. Goodwill is subject to annual impairment testing and the Company has selected July 1 as the annual impairment testing date. Other intangible assets, which consist primarily of non-contractual customer relationships, sales contracts, patents and technology, are amortized over their estimated useful lives. The remaining lives range from three to 13 years.

Derivative Financial Instruments — SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires that all derivative financial instruments, such as foreign exchange contracts and interest rate swap agreements, be recognized in the financial statements and measured at fair value, regardless of the purpose or intent in holding them. Changes in the fair value of derivative financial instruments are recognized in the period when the change occurs in either net income or shareholders' equity (as a component of accumulated other comprehensive income or loss), depending on whether the derivative is being used to hedge changes in fair value or cash flows. PolyOne's interest rate swaps qualify as fair value hedges in accordance with SFAS No. 133.

PolyOne is exposed to foreign currency changes and interest rate fluctuations in the normal course of business. PolyOne has established policies and procedures that manage these exposures through the use of financial instruments. By policy, PolyOne does not enter into these instruments for trading purposes or speculation.

PolyOne enters into foreign currency exchange forward contracts with major financial institutions to reduce the effect of fluctuating exchange rates, primarily on foreign currency inter-company lending transactions. These contracts are not treated as hedges and, as a result, are marked to market, with the resulting gains and losses recognized as other income or expense in the Consolidated Statements of Income. Realized gains and losses on these contracts offset the foreign exchange gains and losses on the underlying transactions. PolyOne's forward contracts have original maturities of one year or less.

From time to time, PolyOne also enters into interest rate swap agreements that modify the exposure to interest risk by converting fixed-rate debt to a floating rate. The interest rate swap and instrument being hedged are marked to market in the balance sheet. The net effect on PolyOne's operating results is that interest expense on the portion of fixed-rate debt being hedged is recorded based on the variable rate that is stated within the swap agreement. No other cash payments are made unless the contract is terminated prior to its maturity. In this case, the amount paid or received at settlement is established by agreement at the time of termination and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract. Any gains or losses incurred upon the early termination of interest rate swap contracts are deferred within the hedged item and recognized over the remaining life of the contract. See Note T for more information.

Revenue Recognition — Revenue is recognized when title and the risks and rewards of ownership of the product is transferred to the customer, usually at the Company's shipping point or when the service is performed.

Shipping and Handling Costs — Shipping and handling costs are included in cost of sales.

Equity Affiliates — PolyOne accounts for its investments in equity affiliates under Accounting Principles Board (APB) Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." PolyOne recognizes its proportionate share of the income of equity affiliates. Losses of equity affiliates are recognized to the extent of PolyOne's investment, advances, financial guarantees and other commitments to provide financial support to the investee. Any losses in excess of this amount are deferred and reduce the amount of future earnings of the equity investee recognized by PolyOne. At December 31, 2007 and 2006, there were no deferred losses related to equity investees.

PolyOne recognizes impairment losses in the value of investments that management judges to be other than temporary. See Note F for more information.

Environmental Costs — PolyOne expenses costs that are associated with managing hazardous substances and pollution in ongoing operations on a current basis. Costs associated with the remediation of environmental contamination are accrued when it becomes probable that a liability has been incurred and PolyOne's proportionate share of the amount can be reasonably estimated.

Research and Development Expense — Research and development costs, which were $21.6 million in 2007, $20.3 million in 2006 and $19.5 million in 2005, are charged to expense as incurred.

Income Taxes — Deferred tax liabilities and assets are determined based upon the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the tax rate and laws currently in effect.

Comprehensive Income — Accumulated other comprehensive loss at December 31, 2007 and 2006 are as follows:

(In millions)	2007	2006
Foreign currency translation adjustments	$ 20.3	$ (8.0)
Employee post-retirement benefit plans	(68.9)	(91.1)
	$ (48.6)	$ (99.1)

Foreign Currency Translation — Revenues and expenses are translated at average currency exchange rates during the related period. Assets and liabilities of foreign subsidiaries and equity investees are translated using the exchange rate at the end of the period. PolyOne's share of the resulting translation adjustment is recorded as accumulated other comprehensive income or loss in shareholders' equity. Gains and losses resulting from foreign currency transactions, including intercompany transactions that are not considered permanent investments, are included in net income.

Marketable Securities — Marketable securities are classified as available for sale and are presented at current market value. Net unrealized gains and losses on marketable securities available for sale are reflected in accumulated other comprehensive income or loss in shareholders' equity.

Share-Based Compensation — As of December 31, 2007, PolyOne had one active share-based employee compensation plan, which is described more fully in Note Q. Prior to January 1, 2006, PolyOne accounted for share-based compensation under the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25). Under APB No. 25, compensation cost for stock options was measured as the excess, if any, of the quoted market price of PolyOne common stock at the date of the grant over the amount an option holder must pay to acquire the common stock. Compensation cost for stock appreciation rights (SARs) was recognized upon vesting as the amount by which the quoted market value of the shares of PolyOne common stock covered by the grant exceeded the SARs specified value. On January 1, 2006, PolyOne adopted SFAS No. 123(revised 2004), "Share-Based Payment," using the modified prospective transition method. SFAS No. 123(R) requires the Company to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Consolidated Statements of Income. Under the modified prospective transition method, compensation cost recognized during the year ended December 31, 2006 includes (a) compensation cost for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, plus (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). In accordance with the modified prospective transition method, the Consolidated Financial Statements for prior periods have not been restated to reflect, nor do they include, the impact of SFAS No. 123(R). Total share-based compensation cost for the years ended December 31, 2007 and 2006, respectively, was $4.3 million and $4.5 million pre-tax.

The adoption of SFAS No. 123(R) on January 1, 2006 resulted in compensation cost for the year ended December 31, 2006 of $2.5 million on a pre-tax basis, or $0.03 per diluted share, more than what it would have been under APB No. 25.

SFAS No. 123(R) requires that the benefits of tax deductions in excess of compensation cost recognized be reported as a financing cash flow, rather than as an operating cash flow as was previously required. This requirement reduces net operating cash flows and increases net financing cash flows.

The following table illustrates the effect on net income and earnings per share as if PolyOne had applied the fair value recognition provisions of SFAS No. 123 to share-based employee compensation using the fair value estimate computed by the Black-Scholes-Merton option-pricing model for the year ended December 31, 2005. The Black-Scholes-Merton option-pricing model was developed to estimate the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models use highly subjective assumptions, including expected share price volatility.

(In millions, except per share data)		Year Ended December 31, 2005
Net income, as reported	$	47.9
Add: Total share-based employee compensation (benefit) included in reported net income, net of tax		(0.6)
Deduct: Total share-based employee compensation expense determined under the fair value-based method for all awards, net of tax		(4.1)
Pro forma net income	$	43.2
Net earnings per share:		
Basic and diluted — as reported	$	0.52
Basic and diluted — pro forma	$	0.47

SFAS No. 158 — On December 31, 2006, the Company adopted SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans — an Amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 requires an employer that is a business entity and sponsors one or more single employer benefit plans to (1) recognize the funded status of the benefit in its statement of financial position, (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost, (3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position and (4) disclose additional information in the notes to financial statements about certain effects on net periodic benefit costs for the next fiscal year that arise from delayed recognition of gains or losses, prior service costs or credits, and transition assets or obligations. The adoption of SFAS No. 158 resulted in an increase of $6.4 million on a pre-tax basis and a $0.4 million decrease on an after-tax basis on the Company's accumulated other comprehensive loss. PolyOne also recorded an adjustment of $2.7 million to increase accumulated other comprehensive loss to record its proportionate share of OxyVinyls' adoption of SFAS No. 158. The adoption of SFAS No. 158 had no effect on the Company's compliance with the financial covenants contained in the agreements governing its debt and its receivables sales facility, and is not expected to affect the Company's operating results in future periods.

New Accounting Pronouncements —

FASB Interpretation No. 48 — PolyOne adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109, Accounting for Income Taxes" (FIN 48) on January 1, 2007.

The net income tax assets recognized under FIN 48 did not differ from the net assets recognized before adoption, and, therefore, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48.

PolyOne is no longer subject to U.S. income tax examinations for periods preceding 2004, and with limited exceptions, for periods preceding 2002 for foreign, state and local tax examinations.

As of December 31, 2007, PolyOne has a $6.0 million liability for uncertain tax positions. This amount relates to items under examination by foreign tax authorities related to the valuation of assets. PolyOne does not agree with the proposed adjustments and has appealed the assessments. PolyOne does not anticipate that the disputes will be resolved in the next twelve months.

During the third quarter of 2007, a foreign jurisdiction initiated an audit related to transfer pricing and the Company accrued $1.0 million for the payment of income tax and interest. The issue was resolved during the fourth quarter of 2007 and the Company paid $0.3 million for income taxes and $0.5 million for interest.

PolyOne recognizes interest and penalties related to unrecognized income tax benefits in the provision for income taxes. As of December 31, 2007, PolyOne has accrued $2.5 million of interest and penalties.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(In millions)	Unrecognized Tax Benefits 2007
Balance at January 1, 2007	$ 6.0
Additions based on tax positions related to the current year	
Additions for tax positions of prior years	0.5
Reductions for tax positions of prior years	(0.2)
Settlements	(0.3)
Balance at December 31, 2007	$ 6.0

FASB Staff Position AUG AIR-1 — In September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1, "Accounting for Planned Major Maintenance Activities" (FSP AUG AIR-1). FSP AUG AIR-1 prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods and is effective for the first fiscal year beginning after December 15, 2006. OxyVinyls adopted FSP AUG AIR-1 in the first quarter of 2007, on a retrospective basis, and is now using the deferral method of accounting for planned major maintenance. The effect on OxyVinyls' consolidated balance sheet at January 1, 2007 from adopting FSP AUG AIR-1 was an increase of $38.3 million in other assets, a decrease of $12.3 million in accrued liabilities, an increase of $4.2 million in minority interest and an increase of $46.4 million in partners' capital. PolyOne's proportionate share of its former equity investment in OxyVinyls' operations was 24%.

The adoption of FSP AUG AIR-1 represents a change in accounting principle and, under the guidance of this principle, must be applied retrospectively. Under these retrospective provisions, PolyOne has restated its historical financial statements to reflect the change in accounting for planned major maintenance activities of its former equity affiliate. The following tables illustrate the retrospective changes in PolyOne's respective financial statements:

Consolidated Statements of Income

(In millions, except per share data)	Year Ended December 31, 2006			Year Ended December 31, 2005		
	As Originally Filed	Adjustment	Restated	As Originally Filed	Adjustment	Restated
Income from equity affiliates and minority interest	$ 111.6	$ 0.4	$ 112.0	$ 78.9	$ 1.0	$ 79.9
Income tax benefit (expense)	6.0	(0.7)	5.3	(6.6)	—	(6.6)
Income before discontinued operations	125.9	(0.3)	125.6	62.2	1.0	63.2
Net income	123.2	(0.3)	122.9	46.9	1.0	47.9
Basic and diluted earnings per common share						
Before discontinued operations	$ 1.36	$ —	$ 1.36	$ 0.68	$ 0.01	$ 0.69
Basic and diluted earnings per share	1.33	—	1.33	0.51	0.01	0.52

Consolidated Balance Sheets

(In millions)	December 31, 2006		
	As Originally Filed	Adjustment	Restated
Investment in equity affiliates	$ 276.1	$ 11.1	$ 287.2
Deferred income tax assets	25.0	(3.9)	21.1
Total assets	1,773.6	7.2	1,780.8
Retained deficit	(67.1)	7.2	(59.9)
Shareholders' equity	574.5	7.2	581.7

The cumulative effect of the adoption of FSP AUG AIR-1 as of January 1, 2005 is a reduction to retained deficit and an increase to shareholders' equity of $6.5 million.

Consolidated Statements of Cash Flows

(In millions)	Year Ended December 31, 2006			Year Ended December 31, 2005		
	As Originally Filed	Adjustment	Restated	As Originally Filed	Adjustment	Restated
Net income	$ 123.2	$ (0.3)	$ 122.9	$ 46.9	$ 1.0	$ 47.9
Income from equity affiliates and minority interest	(111.6)	(0.4)	(112.0)	(78.9)	(1.0)	(79.9)
Provision (benefit) for deferred income taxes	(13.6)	0.7	(12.9)			

Statement of Financial Accounting Standards No. 157 — In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement," which defines fair value, establishes the framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. In December 2007, the FASB issued a proposed FASB Staff Position (FSP FAS 157-b) that would delay the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis to fiscal years beginning after November 15, 2008. The Company adopted the non-deferred portion of SFAS No. 157 on January 1, 2008 and it did not have a material impact on the Company's financial statements. The Company is evaluating the effect that adoption of the deferred portion of SFAS No. 157 will have on our financial statements in 2009, specifically in the areas of measuring fair value in business combinations and goodwill impairment tests.

SFAS No. 159 — In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which allows entities to voluntarily choose, at specified election dates, to measure many financial assets and liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 will have no impact on the Company's financial statements.

SFAS No. 141 (revised 2007) — In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations," which establishes principles over the method entities use to recognize and measure assets acquired and liabilities assumed in a business combination and enhances disclosures on business combinations. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is evaluating the effect that adoption will have on its 2009 financial statements.

Use of Estimates — The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make extensive use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during these periods. Significant estimates in these Consolidated Financial Statements include sales discounts and rebates, restructuring charges, allowances for doubtful accounts, estimates of future cash flows associated with assets, asset impairments, useful lives for depreciation and amortization, loss contingencies, net realizable value of inventories, environmental and asbestos-related liabilities, income taxes and tax valuation reserves, goodwill and the determination of discount and other rate assumptions used to determine pension and post-retirement employee benefit expenses. Actual results could differ from these estimates.

Reclassification — Certain amounts for 2006 and 2005 have been reclassified to conform to the 2007 presentation. During 2007, PolyOne changed its reportable segments. As a result, PolyOne's segment disclosures for 2006 and 2005 have been restated to conform with the changes made in 2007.

Note D. GOODWILL AND INTANGIBLE ASSETS

There were no changes in the carrying amount of goodwill, other than for new acquisitions, during the years ended December 31, 2007 and 2006.

As of December 31, 2007, PolyOne had $288.8 million of goodwill that resulted from acquiring businesses. SFAS No. 142 requires that goodwill and intangible assets with indefinite lives be tested for impairment at least once a year. Carrying values are compared with fair values, and when the carrying value exceeds the fair value, the carrying value of the impaired asset is reduced to its fair value. PolyOne has elected July 1 as its annual assessment date.

Goodwill as of December 31, 2007 and 2006, by operating segment, was as follows:

(In millions)	December 31, 2006	December 31, 2007
Vinyl Business	$ 181.4	$ 179.6
International Color and Engineered Materials	72.0	72.0
Specialty Inks and Polymer Systems	33.8	33.8
PolyOne Distribution	1.6	1.6
Total	$ 288.8	$ 287.0

PolyOne uses a combination of two valuation methods, a market approach and an income approach, to estimate the fair value of its reporting units. Absent an indication of fair value from a potential buyer or similar specific transactions, the Company believes that the use of these two methods provides reasonable estimates of a reporting unit's fair value. Fair value computed by these two methods is arrived at using a number of factors, including projected future operating results and business plans, economic projections, anticipated future cash flows, comparable marketplace data within a consistent industry grouping, and the cost of capital. There are inherent uncertainties, however, related to these factors and to management's judgment in applying them to this analysis. Nonetheless, management believes that the combination of these two methods provides a reasonable approach to estimate the fair value of PolyOne's reporting units. Assumptions for sales, earnings and cash flows for each reporting unit were consistent between these two methods.

The market approach estimates fair value by applying sales, earnings and cash flow multiples (derived from comparable publicly-traded companies with similar investment characteristics of the reporting unit) to the reporting unit's operating performance adjusted for non-recurring items. Management believes that this approach is appropriate because it provides a fair value estimate using multiples from entities with operations and economic characteristics comparable to PolyOne's reporting units. The key estimates and assumptions that are used to determine fair value under this approach include trailing twelve- and thirty-six month results and a control premium applied to the market multiples to adjust the enterprise value upward for a 100% ownership interest, where applicable.

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

SFAS No. 142 requires that this assessment be performed at the "reporting unit" level. At July 1, 2007, PolyOne had three reporting units, consistent with PolyOne's operating segments, that had a significant amount of goodwill: Vinyl Compounds, International Color and Engineered Materials, and Polymer Coating Systems. Under the provisions of SFAS No. 142, these three reporting units were tested for impairment as of July 1, 2007. The average fair values of the market approach and income approach exceeded the carrying value of Vinyl Business, International Color and Engineered Materials, and Polymer Coating Systems by 52%, 8% and 24%, respectively, as of July 1, 2007.

As a result of the reorganization of the Company's segments discussed further in Notes A and R, on October 1, 2007, PolyOne had four reporting units that had a significant amount of goodwill: Vinyl Compounds, Specialty Coatings, International Color and Engineered Materials and Specialty Inks and Polymer Systems. PolyOne performed an interim assessment of goodwill on the two new reporting units — Specialty Coatings and Specialty Inks and Polymer Systems. The average fair values of the market approach and income approach exceeded the carrying value of Specialty Coatings and Specialty Inks and Polymer Systems by 17% and 31%, respectively, as of October 1, 2007.

Even though PolyOne determined that there was no additional goodwill impairment as of the July 1, 2007 annual assessment nor as of the October 1, 2007 interim assessment, 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, a material negative change in relationships with significant customers, strategic decisions made in response to economic or competitive conditions, 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 require an interim assessment for some or all of the reporting units prior to the next required annual assessment on July 1, 2008.

Information regarding other intangible assets follows:

	As of December 31, 2007			
(In millions)	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Non-contractual customer relationships	$ 8.6	$ (6.7)	$ —	$ 1.9
Sales contract	11.4	(10.0)	—	1.4
Patents, technology and other	4.7	(2.7)	1.4	3.4
Total	$ 24.7	$ (19.4)	$ 1.4	$ 6.7

	As of December 31, 2006			
(In millions)	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Non-contractual customer relationships	$ 8.6	$ (6.1)	$ —	$ 2.5
Sales contract	9.6	(9.1)	—	0.5
Patents, technology and other	8.0	(2.9)	1.3	6.4
Total	$ 26.2	$ (18.1)	$ 1.3	$ 9.4

There were no indefinite-lived intangible assets as of December 31, 2007 and 2006.

Amortization of other intangible assets was $2.1 million for the year ended December 31, 2007, $2.1 million for the year ended December 31, 2006 and $2.7 million for the year ended

December 31, 2005. Amortization expense for each of the next five years is expected to be approximately $1.5 million per year.

The carrying values of intangible assets and other investments are adjusted to fair value based on estimated net future cash flows as a result of an evaluation done each year end, or more often when indicators of impairment exist. During 2007, an impairment charge of $2.5 million was recorded against the carrying value of certain patents and technology agreements and is included in "Selling and administrative" in the Consolidated Statements of Income. No impairment charges were recorded in 2006 or 2005.

Note E. EMPLOYEE SEPARATION AND PLANT PHASEOUT

Since the formation of PolyOne in 2000, management has undertaken several restructuring initiatives to improve profitability and, as a result, PolyOne has incurred employee separation and plant phaseout costs.

Employee separation costs include salary continuation benefits, medical coverage and outplacement assistance and are based on a formula that takes into account each individual employee's base compensation and length of service. These costs are recorded in the Consolidated Statements of Income on the lines "Cost of sales" and "Selling and administrative." PolyOne maintains a severance plan that provides specific benefits to all employees (except those who are 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 each specific agreement. The amount is determined separately for each employee and is recognized at the date the employee is notified if the expected 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 expected termination date if the termination date is more than 60 days after the notification date.

Plant phaseout costs include the impairment of property, plant and equipment at manufacturing facilities, and the resulting write-down of the carrying value of these assets to fair value, which represents management's best estimate of the net proceeds to be received for the assets to be sold or scrapped, less any costs to sell. These costs are recorded in the Consolidated Statements of Income on the lines "Cost of sales" and "Selling and administrative." Plant phaseout costs also include cash facility closing costs and lease termination costs. Assets transferred to other PolyOne facilities are transferred at net book value.

Plant phaseout costs associated with discontinued operations are included in the Consolidated Statements of Income on the line "Loss from discontinued operations and loss on sale, net of income taxes." Plant phaseout costs for continuing operations relate to the Vinyl Business, North American Color and Additives, and North American Engineered Materials operating segments, and for discontinued operations relate to the Engineered Films and the Elastomers and Performance Additives businesses. Employee separation and plant phaseout costs associated with continuing operations are reflected on the line "Corporate and eliminations" in Note R, "Segment Information."

2005 Activity — Employee separation and plant phaseout costs for 2005 were $5.5 million of which $3.6 million and $1.9 million was included in Costs of sales and Selling and administrative in the Consolidated Statements of Income, respectively.

Operating income includes a $2.5 million charge to be paid pursuant to the terms of an October 6, 2005 separation agreement (2005 Separation Agreement) between PolyOne and Thomas A. Waltermire as the President, Chief Executive Officer and a Director. The amounts accrued at December 31, 2005 are expected to be paid out through 2008.

The $2.5 million loss on the sale of facilities and equipment of previously idled operations reflects the amount in excess of the estimate at December 31, 2004 when the carrying value of these assets was reduced to estimated future net proceeds.

Operating income was also reduced by $0.5 million from the November 2005 announcement to close the Company's Manchester, England plastic color additives facility by the end of the first quarter of 2006. Of the 44 employees affected by the facility closing, 22 were terminated by December 31, 2005. An additional charge of $0.6 million for employee separation was recognized in 2006 as the plant phaseout was completed.

Loss from discontinued operations reflects a $0.2 million benefit relative to employee separation costs as a result of adjusting estimates when the activities were completed.

2006 Activity — Cost of sales includes a $0.5 million charge related to the November 2006 announcement to move the latex product manufacturing business located at the Company's Commerce, California facility to its Massillon, Ohio location to better serve customers. The six employees affected by this relocation were terminated by February 28, 2007.

Cost of sales also includes an additional $0.6 million charge to complete the separation of the 22 remaining employees from the November 2005 announcement to close the Manchester, England color additives facility.

Fully offsetting these charges was a net gain of $1.1 million, $0.9 million of which was included in Cost of sales and $0.2 million in Selling and administrative, from the sale of facilities that were previously identified as part of the Company's plant phaseout activities.

During 2006, the Company paid $1.2 million under the 2005 Separation Agreement.

2007 Activity — Employee separation and plant phaseout costs for 2007 were $2.2 million of which $1.4 million and $0.8 million was included in Costs of sales and Selling and administrative in the Consolidated Statements of Income, respectively.

During 2007, the Company recognized and paid $0.4 million in employee separation charges related to 33 employees involved in the restructuring of its manufacturing facility in St. Peters, Missouri, part of the North American Color and Additives operating segment.

The closure and exit from the Company's Commerce, California facility was completed in the first quarter of 2007, during which the Company paid $0.1 million in employee separation charges and $0.1 million in plant phase-out costs.

During 2007, charges related to three executive severance agreements in the amount of $0.6 million were recognized. During 2007, the Company paid $0.9 million for executive severance. Accrued executive severance costs at December 31, 2007 are $1.0 million and are expected to be paid over the next 12 months.

In September 2007, PolyOne announced the closure of two manufacturing lines at its Avon Lake, Ohio facility. Non-cash charges of $0.5 million were recorded to adjust the carrying value of certain assets to their net realizable value. In addition, during the third quarter of 2007, severance costs of $0.4 million for seven employees at the Avon Lake and other facilities were recorded of which $0.1 million were paid in 2007 and the remaining $0.3 million of costs are expected to be paid over the next 12 months.

In addition, during 2007, $0.3 million of other non-cash charges were incurred as the Company adjusted previous carrying values of assets held for sale.

Note F. FINANCIAL INFORMATION OF EQUITY AFFILIATES

On July 6, 2007, PolyOne sold its 24% interest in OxyVinyls, a manufacturer and marketer of PVC resins, for cash proceeds of $261 million.

The following table presents OxyVinyls' summarized financial results for the periods indicated:

(In millions)	Six Months Ended June 30, 2007	2006	2005
OxyVinyls:			
Net sales	$ 1,107.4	$ 2,476.0	$ 2,502.0
Operating income	$ 11.6	$ 274.8	$ 200.3
Partnership income (loss) as reported by OxyVinyls	$ (2.0)	$ 246.2	$ 134.0
PolyOne's ownership of OxyVinyls	24%	24%	24%
PolyOne's proportionate share of OxyVinyls' earnings (loss)	(0.5)	59.1	32.2
Amortization of the difference between PolyOne's investment and its underlying share of OxyVinyls' equity	0.3	0.6	0.6
Earnings (loss) of equity affiliate recorded by PolyOne	$ (0.2)	$ 59.7	$ 32.8

Summarized balance sheet as of December 31: (In millions)	2006
Current assets	$ 382.4
Non-current assets	1,293.1
Total assets	1,675.5
Current liabilities	238.8
Non-current liabilities	294.5
Total liabilities	533.3
Partnership capital	$ 1,142.2

OxyVinyls' income during 2005 includes a charge for the impairment of a previously idled chlor-alkali facility, of which PolyOne's share was $22.9 million.

The Company recorded an impairment of $14.8 million on its OxyVinyls investment during the second quarter of 2007 due to an other than temporary decline in value. It is included in the Income from equity affiliates and minority interest caption in the Consolidated Statement of Income. The impairment is not reflected in the equity affiliate earnings above because it is excluded as a measure of segment operating income or loss that is reported to and reviewed by the chief operating decision maker (See Note R — Segment Information).

SunBelt Chlor-Alkali Partnership (SunBelt) is the most significant of PolyOne's equity investments and is reported within the Resin and Intermediates segment. PolyOne owns 50% of SunBelt. The remaining 50% of SunBelt is owned by Olin SunBelt Inc., a wholly owned subsidiary of the Olin Corporation.

Summarized financial information for SunBelt follows:

(In millions)	2007	2006	2005
SunBelt:			
Net sales	$ 180.6	$ 186.7	$ 167.0
Operating income	$ 91.3	$ 104.3	$ 92.2
Partnership income as reported by SunBelt	$ 82.0	$ 94.6	$ 81.3
PolyOne's ownership of SunBelt	50%	50%	50%
Earnings of equity affiliate recorded by PolyOne	$ 41.0	$ 47.3	$ 40.7

Summarized balance sheet as of December 31: (In millions)	2007	2006
Current assets	$ 27.8	$ 25.1
Non-current assets	109.6	113.7
Total assets	137.4	138.8
Current liabilities	21.0	22.1
Non-current liabilities	109.7	121.9
Total liabilities	130.7	144.0
Partnership interest (deficit)	$ 6.7	$ (5.2)

OxyVinyls purchases chlorine from SunBelt under an agreement that expires in 2094. The agreement requires OxyVinyls to purchase all of the chlorine that is produced by SunBelt up to a maximum of 250,000 tons per year at market price, less a discount. OxyVinyls' chlorine purchases from SunBelt were

$33.9 million in 2007 through its disposition date of July 6, 2007 and $72.2 million for the year ended December 31, 2006.

On October 1, 2006, PolyOne purchased the remaining 50% interest in DH Compounding Company from a subsidiary of The Dow Chemical Company. DH Compounding Company is now fully consolidated in the financial statements of PolyOne. Prior to the acquisition of DH Compounding Company, it was accounted for as an equity affiliate and was reflected in All Other together with BayOne Urethane Systems, L.L.C equity affiliate (owned 50% and included in the Specialty Inks and Polymer Systems operating segment). The Vinyl Business operating segment includes the Geon/Polimeros Andinos equity affiliate (owned 50%).

Combined summarized financial information for these equity affiliates follows. The amounts shown represent the entire operations of these businesses. DH Compounding is included in the following table up to the time of its consolidation into PolyOne on October 1, 2006. An asset write-down of $1.6 million was recorded in the third quarter of 2007 against the carrying value of certain inventory, accounts receivable and intangible assets of our Geon/Polimeros equity affiliate in Colombia. The impairment is not reflected in the following equity affiliate earnings because it is excluded as a measure of segment operating income or loss that is reported to and reviewed by the chief operating decision maker (See Note R — Segment Information).

(In millions)	2007	2006
Net sales	$ 116.8	$ 122.9
Operating income	$ 8.1	$ 12.0
Net income	$ 6.5	$ 10.7

(In millions)	2007	2006
Summarized balance sheet as of December 31:		
Current assets	$ 37.0	$ 30.7
Non-current assets	14.6	14.0
Total assets	$ 51.6	$ 44.7
Current liabilities	$ 32.2	$ 28.7
Non-current liabilities	3.1	2.7
Total liabilities	$ 35.3	$ 31.4

Note G. FINANCING ARRANGEMENTS

Long-term debt at December 31 consisted of the following:

(In millions)	2007	2006
10.625% senior notes due 2010	$ —	$ 241.4
8.875% senior notes due 2012	199.2	199.1
7.500% debentures due 2015	50.0	50.0
Medium-term notes — interest rates from 6.52% to 7.16% with a weighted average rate of 6.76% and 6.83% at December 31, 2007 and 2006, respectively — due between 2008 and 2011	76.1	91.7
6.0% promissory note due in equal monthly installments through 2009	5.3	8.0
Total long-term debt	$ 330.6	$ 590.2
Less current portion	22.6	22.5
Total long-term debt, net of current portion	$ 308.0	$ 567.7

Aggregate maturities of long-term debt for the next five years are: 2008 — $22.6 million; 2009 — $21.5 million; 2010 — $18.8 million; 2011 — $18.5 million; 2012 — $199.2 million; and thereafter — $50.0 million.

During 2006, PolyOne issued a promissory note in the principal amount of $8.7 million, payable in 36 equal installments at a rate of 6% per annum. This promissory note resulted from the purchase of the remaining 50% interest in DH Compounding Company. For further discussion of this purchase, see Note A.

During 2007 and 2006, PolyOne repurchased $241.4 million and $58.6 million aggregate principal amounts of its 10.625% senior notes at premiums of $12.8 million and $4.4 million, respectively. The premium is shown as a separate line item in the Consolidated Statements of Income. Unamortized deferred note issuance costs of $2.8 million and $0.8 million were expensed due to this repurchase and are included in interest expense in the Consolidated Statements of Income in 2007 and 2006, respectively. Also, during 2007 and 2006, $20.0 million and $0.7 million of aggregate principal amount of PolyOne's medium-term notes became due and were paid, respectively.

As of December 31, 2007, PolyOne's secured borrowings were not at levels that would trigger the security provisions of the indentures governing its senior notes and debentures and its guarantee of the SunBelt notes. See Note N.

Guarantee Agreement — PolyOne decided not to renew its revolving credit facility, and, accordingly, it expired on June 6, 2006. To replace some of the features of this expired facility, PolyOne entered into a definitive Guarantee and Agreement with Citicorp USA, Inc. on June 6, 2006. Under this Guarantee and Agreement, PolyOne guarantees the treasury management and banking services provided to it and its subsidiaries, such as subsidiary borrowings, interest rate swaps, foreign currency forwards, letters of credit, credit card programs and bank overdrafts. This guarantee is secured by PolyOne's inventories located in the United States.

The weighted-average interest rate on short-term borrowings was 6.0% at December 31, 2007 and 4.9% at December 31, 2006. Total interest paid on long-term and short-term borrowings was $45.7 million in 2007, $62.2 million in 2006 and $63.5 million in 2005.

PolyOne is exposed to market risk from changes in interest rates on debt obligations. PolyOne periodically enters into interest rate swap agreements that modify its exposure to interest rate risk by converting fixed-rate obligations to floating rates. At December 31, 2007, PolyOne maintained interest rate swap agreements on five of its fixed-rate obligations in the aggregate amount of $80.0 million with a net fair value liability of $1.7 million. At December 31, 2006, PolyOne maintained interest rate swap agreements on six of its fixed-rate obligations in the aggregate amount of $100.0 million with a net fair value liability of $5.1 million. The weighted-average interest rate for these agreements was 8.8% at December 31, 2007 and 9.3% at December 31, 2006. During January 2008, four of these interest rate swap agreements in the aggregate amount of $70.0 million were unwound.

The following table shows the interest rate impact of the swap agreements during 2007 and 2006:

	Effective Interest Rate during 2007	Effective Interest Rate during 2006
$80.0 million of medium-term notes with a weighted-average interest rate of 6.76%	9.5%	—
$100.0 million of medium-term notes with a weighted-average interest rate of 6.83%	—	8.8%

Note H. LEASING ARRANGEMENTS

PolyOne leases certain manufacturing facilities, warehouse space, machinery and equipment, automobiles and railcars under operating leases. Rent expense was $20.9 million in 2007, $20.5 million in 2006 and $19.3 million in 2005.

Future minimum lease payments under non-cancelable operating leases with initial lease terms longer than one year at December 31, 2007 were as follows: 2008 — $17.4 million; 2009 — $14.3 million; 2010 — $11.8 million; 2011 — $6.4 million; 2012 — $4.7 million; and thereafter — $10.3 million.

Note I. SALE OF ACCOUNTS RECEIVABLE

Accounts receivable at December 31 consist of the following:

(In millions)	2007	2006
Trade accounts receivable	$ 169.8	$ 160.7
Retained interest in securitized accounts receivable	175.8	161.6
Allowance for doubtful accounts	(4.8)	(5.9)
	$ 340.8	$ 316.4

Under the terms of its receivables sale facility, PolyOne may sell up to $200.0 million of its accounts receivable to PolyOne Funding Corporation (PFC), a wholly owned, bankruptcy-remote subsidiary. PFC, in turn, may sell an undivided interest in these accounts receivable to certain investors. As of December 31, 2007, $151.2 million was available. The receivables sale facility was amended in June 2007 to extend the maturity of the facility to June 2012 and to, among other things, modify certain financial covenants and reduce the cost of utilizing the facility. In July 2007, the Company entered into a Canadian receivables purchase agreement which increased the facility by $25.0 million to $200.0 million.

At December 31, 2007 and 2006, accounts receivable totaling $175.8 million and $161.6 million, respectively, were sold by PolyOne to PFC. The maximum proceeds that PFC may receive under the facility is limited to 85% of the eligible accounts receivable that are sold to PFC. At December 31, 2007 and December 31, 2006 PFC had not sold any of its undivided interests in accounts receivable.

PolyOne retained an interest in the difference between the amount of trade receivables sold by PolyOne to PFC and the undivided interest sold by PFC as of December 31, 2007 and 2006. As a result, the interest retained by PolyOne is $175.8 million and $161.6 million and is included in accounts receivable on the Consolidated Balance Sheets at December 31, 2007 and 2006, respectively.

The receivables sale facility also makes up to $40.0 million available for the issuance of standby letters of credit as a sub-limit within the $200.0 million limit under the facility, of which $11.4 million was used at December 31, 2007. Continued availability of the receivables sale facility depends upon compliance with a fixed charge coverage ratio covenant related primarily to operating performance that is set forth in the related agreements. As of December 31, 2007, PolyOne was in compliance with these covenants.

PolyOne receives the remaining proceeds from collection of the receivables after a 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 0.25% and 0.50%, 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 expense, net in the Consolidated Statements of Income.

Note J. INVENTORIES

Components of inventories are as follows:

(In millions)	December 31, 2007	December 31, 2006
At FIFO or average cost, which approximates current cost:		
Finished products and in process	$ 169.5	$ 165.4
Raw materials and supplies	100.1	111.7
	269.6	277.1
Reserve to reduce certain inventories to LIFO cost basis	(46.2)	(36.3)
	$ 223.4	$ 240.8

Note K. PROPERTY

(In millions)	December 31, 2007	December 31, 2006
Land and land improvements	$ 40.3	$ 39.8
Buildings	271.8	263.2
Machinery and equipment	903.6	854.9
	1,215.7	1,157.9
Less accumulated depreciation and amortization	(766.0)	(715.5)
	$ 449.7	$ 442.4

Depreciation expense was $55.3 million in 2007, $55.0 million in 2006 and $48.0 million in 2005.

Note L. OTHER BALANCE SHEET LIABILITIES

	Accrued Expenses December 31,		Non-current Liabilities December 31,	
(In millions)	2007	2006	2007	2006
Employment costs	$ 46.4	$ 49.5	$ 13.1	$ 12.7
Environmental	13.5	5.0	70.3	54.5
Taxes	2.8	7.6	—	—
Post-retirement benefits	9.9	9.3	—	—
Interest	3.6	6.9	—	—
Pension	4.7	4.5	—	—
Employee separation and plant phaseout	1.3	1.5	—	—
Insurance accruals	0.3	0.1	2.1	1.7
Other	11.9	8.7	2.0	6.5
	$ 94.4	$ 93.1	$ 87.5	$ 75.4

Note M. EMPLOYEE BENEFIT PLANS

PolyOne has several pension plans, of which only two continue to accrue benefits for certain U.S. employees. These two plans generally provide benefit payments using a formula that is based upon employee compensation and length of service. Length of service for determining benefit payments was frozen as of December 31, 2002. All U.S. defined-benefit pension plans were closed to new participants as of December 31, 1999.

PolyOne also sponsors several unfunded defined-benefit post-retirement plans that provide subsidized health care and life insurance benefits to certain retirees and a closed group of eligible employees. As of April 1, 2006, all post-retirement health care plans are contributory. Retiree contributions are adjusted periodically, and these plans contain other cost-sharing features such as a maximum cap on the Company's cost, deductibles and cost sharing. Life insurance plans are generally non-contributory. Only certain employees hired prior to December 31, 1999 are eligible to participate in the Company's subsidized post-retirement health care and life insurance plans.

PolyOne uses December 31 as the measurement date for all of its plans. Effective December 31, 2007, PolyOne adopted the RP-2000 projected by scale AA to 2008 mortality table to better estimate the future liabilities under its defined-benefit pension plans.

As discussed in Note C, the Company adopted the provisions of SFAS No. 158 as of December 31, 2006 and, accordingly, recognized an increase of $6.4 million on a pre-tax basis and a decrease of $0.4 million on an after-tax basis to its accumulated other comprehensive loss for the unfunded status of its pension and post-retirement health care benefit plans. In addition, PolyOne recorded an adjustment of $2.7 million to increase accumulated other comprehensive loss to record its proportionate share of OxyVinyls' adoption of SFAS No. 158. The Company also recognized the prior service cost and net actuarial gains and losses of these plans in accumulated other comprehensive income. Future changes to the funded status of these plans will be recognized through accumulated other comprehensive income (AOCI) in the year the change occurs.

The following table illustrates the impact of the adoption of SFAS No. 158 on a pre-tax basis at December 31, 2006:

(In millions)	Pension Benefits	Health Care Benefits
Before application of SFAS No. 158:		
Assets		
Prepaid cost	$ 61.6	$ —
Intangible assets	0.1	—
Deferred income taxes	35.2	32.3
Liabilities and shareholders' equity		
Liability for pension benefits	167.5	109.6
AOCI	(124.4)	—
Total shareholders' equity	(124.4)	—
Adjustments:		
Assets		
Prepaid cost	$ (60.9)	$ —
Intangible assets	(0.1)	—
Deferred income taxes	0.6	6.2
Liabilities and shareholders' equity		
Liability for pension benefits	(37.9)	(16.7)
AOCI	(23.1)	16.7
Change in AOCI related to adoption of SFAS No. 158 of equity affiliate	—	(2.7)
Total shareholders' equity	(23.1)	14.0
After application of SFAS No. 158:		
Assets		
Prepaid cost	$ 0.7	$ —
Intangible assets	—	—
Deferred income taxes	35.8	38.5
Liabilities and shareholders' equity		
Liability for pension benefits	129.6	92.9
AOCI	(147.5)	16.7
Change in AOCI related to adoption of SFAS No. 158 of equity affiliate	—	(2.7)
Total shareholders' equity	(147.5)	14.0

The following tables present the change in benefit obligation, change in plan assets and components of funded status for defined-benefit pension and post-retirement health care benefit plans. Actuarial assumptions that were used are also included.

(In millions)	Pension Benefits 2007	Pension Benefits 2006	Health Care Benefits 2007	Health Care Benefits 2006
Change in benefit obligation:				
Projected benefit obligation — beginning of year	$ 514.9	$ 536.6	$ 92.9	$ 102.6
Service cost	1.1	1.1	0.4	0.4
Interest cost	30.1	29.4	5.2	5.1
Participant contributions	—	—	5.6	6.3
Benefits paid	(36.8)	(36.5)	(12.1)	(14.9)
Plan amendments/settlements	0.1	1.1	—	—
Change in discount rate and other	(22.3)	(16.8)	(0.5)	(6.6)
Projected benefit obligation — end of year	$ 487.1	$ 514.9	$ 91.5	$ 92.9
Projected salary increases	18.0	23.0	—	—
Accumulated benefit obligation	$ 469.1	$ 491.9	$ 91.5	$ 92.9
Change in plan assets:				
Plan assets — beginning of year	$ 386.0	$ 370.0	$ —	$ —
Actual return on plan assets	30.9	46.2	—	—
Company contributions	20.4	5.3	6.5	8.6
Plan participants' contributions	—	—	5.6	6.3
Benefits paid	(36.8)	(36.5)	(12.1)	(14.9)
Other	0.8	1.0	—	—
Plan assets — end of year	$ 401.3	$ 386.0	$ —	$ —
Under-funded status at end of year	$ (85.8)	$ (128.9)	$ (91.5)	$ (92.9)

Plan assets of $401.3 million and $386.0 million at December 31, 2007 and 2006, respectively, relate to PolyOne's funded pension plans that have an accumulated benefit obligation (ABO) of $428.7 million and $443.3 million at December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, PolyOne is 90% and 83% funded, respectively, in regards to these plans and their respective projected benefit obligation.

Amounts included in the Consolidated Balance Sheets are as follows:

(In millions)	Pension Benefits 2007	Pension Benefits 2006	Health Care Benefits 2007	Health Care Benefits 2006
Other non-current assets	$ 1.5	$ 0.7	$ —	$ —
Current liabilities	$ 4.7	$ 4.5	$ 9.9	$ 9.3
Long-term liabilities	$ 82.6	$ 125.1	$ 81.6	$ 83.6

Amounts recognized in AOCI:

(In millions)	Pension Benefits 2007	Pension Benefits 2006	Health Care Benefits 2007	Health Care Benefits 2006
Net loss	$ 115.3	$ 148.1	$ 22.2	$ 25.1
Prior service credit	(0.5)	(0.6)	(36.0)	(41.8)
Equity affiliate	—	—	—	2.7
	$ 114.8	$ 147.5	$ (13.8)	$ (14.0)

Change in AOCI under SFAS No. 158:

(In millions)	Pension Benefits 2007	Pension Benefits 2006	Health Care Benefits 2007	Health Care Benefits 2006
AOCI in prior year	$ 147.5	$ 169.0	$ (14.0)	$ —
Prior service credit recognized during year	0.1	—	5.8	—
Net loss recognized during the year	(9.9)	—	(1.7)	—
Net loss occurring in the year	(22.9)	—	(1.5)	—
Decrease prior to SFAS No. 158	—	(44.9)	—	—
Increase (decrease) due to adoption of SFAS No. 158		23.1	—	(16.7)
Increase due to Equity affiliate's adoption of SFAS No. 158	—	—	—	2.7
Decrease related to sale of sale of equity affiliate	—	—	(2.7)	—
Other adjustments	—	0.3	0.3	—
AOCI in current year	$ 114.8	$ 147.5	$ (13.8)	$ (14.0)

As of December 31, 2007 and 2006, PolyOne had plans with a projected benefit obligation and an accumulated benefit obligation in excess of the related plan assets. Information for these plans follows:

(In millions)	Pension Benefits 2007	Pension Benefits 2006	Health Care Benefits 2007	Health Care Benefits 2006
Projected benefit obligation	$ 471.1	$ 512.8	$ 91.5	$ 92.9
Accumulated benefit obligation	453.2	490.0	91.5	92.9
Fair value of plan assets	383.8	383.3	—	—

	Pension Benefits 2007	Pension Benefits 2006	Pension Benefits 2005	Health Care Benefits 2007	Health Care Benefits 2006	Health Care Benefits 2005
Weighted-average assumptions used to determine benefit obligation at December 31:						
Discount rate	6.78%	6.07%	5.66%	6.61%	6.02%	5.56%
Rate of compensation increase	3.5%	3.5%	3.5%	—	—	—
Assumed health care cost trend rates at December 31:						
Health care cost trend rate assumed for next year	—	—	—	10%	11%	11%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	—	—	—	5.00%	5.25%	5.25%
Year that the rate reaches the ultimate trend rate	—	—	—	2015	2013	2012

Assumed health care cost trend rates have an effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following impact:

(In millions)	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost	$ 0.4	$ (0.3)
Effect on post-retirement benefit obligation	6.6	(5.5)

An expected return on plan assets of 8.5% will be used to calculate the 2008 pension expense. The expected long-term return rate on pension assets was determined after considering the historical experience of long-term asset returns by asset category, the expected investment portfolio mix by category of asset and estimated future long-term investment returns.

The following table summarizes the components of net period benefit cost that was recognized during each of the years in the three-year period ended December 31, 2007. Actuarial assumptions that were used are also included.

(Dollars in millions)	Pension Benefits 2007	Pension Benefits 2006	Pension Benefits 2005	Health Care Benefits 2007	Health Care Benefits 2006	Health Care Benefits 2005
Components of net periodic benefit costs:						
Service cost	$ 1.1	$ 1.1	$ 1.3	$ 0.4	$ 0.4	$ 0.4
Interest cost	30.1	29.4	28.9	5.2	5.1	5.9
Expected return on plan assets	(31.8)	(30.2)	(31.7)	—	—	—
Amortization of net loss	9.6	13.3	13.0	1.7	1.6	1.2
Curtailment and settlement charges	0.3	—	0.4	—	—	—
Amortization of prior service credit	(0.1)	—	—	(5.8)	(5.8)	(4.5)
	$ 9.2	$ 13.6	$ 11.9	$ 1.5	$ 1.3	$ 3.0

	Pension Benefits 2007	Pension Benefits 2006	Pension Benefits 2005	Health Care Benefits 2007	Health Care Benefits 2006	Health Care Benefits 2005
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:						
Discount rate	6.07%	5.66%	5.58%	6.02%	5.56%	5.43%
Expected long-term return on plan assets	8.50%	8.50%	8.75%	—	—	—
Rate of compensation increase	3.5%	3.5%	3.5%	—	—	—
Assumed health care cost trend rates at December 31:						
Health care cost trend rate assumed for next year	—	—	—	10%	10%	10%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	—	—	—	5.25%	5.25%	5.25%
Year that the rate reaches the ultimate trend rate	—	—	—	2013	2012	2011

The amortization amounts expected to be recognized during the year ended December 31, 2008 are as follows:

(In millions)	Pension Benefits	Health Care Benefits
Amount of net prior service credit	$ (0.1)	$ (5.7)
Amount of net loss	$ 6.0	$ 1.3

PolyOne's pension asset investment strategy is to diversify the asset portfolio among and within asset categories to enhance the portfolio's risk-adjusted return. PolyOne's expected portfolio asset mix also considers the duration of plan liabilities and historical and expected returns of the asset investments. PolyOne's pension asset investment allocation guidelines are to invest 40% to 75% in equity securities, 15% to 40% in debt securities (including cash equivalents) and 8% to 22% in alternative investments. These alternative investments include funds of multiple asset investment strategies and funds of hedge funds. PolyOne adjusts its investment allocations during the year through re-balancing the portfolio as the Company makes contributions to the pension assets and determines which investment classes should be liquidated to fund pension obligations.

PolyOne's weighted-average asset allocations at December 31, 2007 and 2006 were as follows:

Asset Category	Plan Assets at December 31, 2007	Plan Assets at December 31, 2006
Equity securities	64%	62%
Debt securities	15	17
Other	21	21
	100%	100%

The estimated future benefit payments for PolyOne's pension and health care plans are as follows:

(In millions)	Pension Benefits	Health Care Benefits	Medicare Part D Subsidy
2008	$ 35.8	$ 9.9	$ 1.6
2009	36.2	10.1	1.7
2010	36.8	10.1	1.7
2011	36.5	10.1	1.8
2012	36.8	10.0	1.8
2013 through 2017	192.8	45.6	7.9

The Company currently estimates that 2008 employer contributions will be $23.3 million to all qualified and nonqualified pension plans and $9.9 million to all health care benefit plans. The Company anticipates that it will make a payment of approximately $18.2 million to its U.S. qualified defined-benefit plans in 2008. This amount is included in the total estimate of $23.3 million to all of the Company's qualified and non-qualified pension plans.

PolyOne sponsors a voluntary retirement savings plan (RSP). Under the provisions of this plan, eligible employees receive defined Company contributions of 2% of their eligible earnings plus they are eligible for Company matching contributions based on the first 6% of their eligible earnings contributed to the plan. In addition, PolyOne may make discretionary contributions to this plan for eligible employees based on a specific percentage of each employee's compensation.

Following are PolyOne's contributions to the RSP:

(In millions)	2007	2006	2005
Retirement savings match	$ 5.7	$ 5.4	$ 5.1
Defined retirement benefit	4.9	4.7	4.8
	$ 10.6	$ 10.1	$ 9.9

Note N. COMMITMENTS AND RELATED-PARTY INFORMATION

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

In September 2007, PolyOne was informed of rulings by the United States District Court for the Western District of Kentucky on several pending motions in the case of Westlake Vinyls, Inc. v. Goodrich Corporation, et al., which has been pending since 2003. The Court held that third-party defendant PolyOne must pay the remediation costs at the former Goodrich Corporation (now Westlake Vinyls, Inc.) Calvert City facility, together with certain defense costs of Goodrich Corporation. The rulings also provided that PolyOne can seek indemnification for contamination attributable to Westlake Vinyls.

The environmental obligation at the site arose as a result of an agreement by PolyOne's predecessor, The Geon Company, at the time of its spin-off from Goodrich Corporation in 1993, to indemnify Goodrich Corporation for environmental costs at the site. Neither PolyOne nor The Geon Company ever owned or operated the facility. Following the Court rulings, the parties to the litigation entered into settlement negotiations and agreed to settle all claims regarding past environmental costs incurred at the site. Subject to applicable insurance recoveries, PolyOne recorded a charge of $15.6 million and made payments, net of related receipts of $18.8 million, in 2007 for past remediation activities related to these Court rulings.

Based on these same Court rulings and the settlement agreement, PolyOne adjusted its environmental reserve for future remediation costs, a portion of which already related to the Calvert City site, resulting in a charge of $28.8 million in 2007. The confidential settlement agreement provides a mechanism to allocate future remediation costs at the Calvert City facility to Westlake Vinyls, Inc. PolyOne will adjust its environmental reserve in the future, consistent with any such future allocation of costs.

Based on estimates prepared by its environmental engineers and consultants, PolyOne had accruals, totaling $83.8 million at December 31, 2007 and $59.5 million at December 31, 2006 to cover probable future environmental expenditures relating to previously contaminated sites. These accruals are included in "Accrued expenses" and "Other non-current liabilities" on the Consolidated Balance Sheets. The accrual represents PolyOne's best estimate of the remaining probable remediation costs, based upon information and technology that is 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 December 31, 2007. However, such additional costs, if any, cannot be currently estimated. PolyOne's estimate of this liability may be revised as new regulations or technologies are developed or additional information is obtained. These remediation costs are expected to be paid over the next 30 years. Including the $15.6 million charge related to the settlement agreement and the $28.8 million reserve adjustment discussed above, for 2007, 2006 and 2005, PolyOne incurred environmental expense of $48.8 million, $2.5 million and $0.2 million, respectively, of which $48.8 million in 2007, $2.5 million in 2006 and $0.9 million in 2005 related to inactive or formerly owned sites. Environmental expense is presented net of insurance recoveries of $8.1 million in 2006 and $2.2 million in 2005 and is included in "Cost of sales" on the Consolidated Statements of Income. There were no insurance recoveries during 2007. The insurance recoveries all relate to inactive or formerly owned sites.

Guarantees — PolyOne guarantees $60.9 million of SunBelt's outstanding senior secured notes in connection with the construction of a chlor-alkali facility in McIntosh, Alabama. This debt matures in 2017.

Related-Party Transactions — PolyOne purchases a substantial portion of its PVC resin and all of its vinyl chloride monomer (VCM) raw materials under supply agreements with OxyVinyls. PolyOne has also entered into various service agreements with OxyVinyls. PolyOne sold its 24% equity interest in OxyVinyls on July 6, 2007. Net amounts owed to OxyVinyls, primarily for raw material purchases, totaled $17.3 million at December 31, 2006 and $28.0 million at December 31, 2005. Purchases of raw materials from OxyVinyls were $368 million during 2005 and $369 million during 2006 and $152 million for the six months ended June 30, 2007.

Note O. OTHER EXPENSE, NET

(In millions)	2007	2006	2005
Currency exchange loss	$ (5.0)	$ (1.3)	$ (0.1)
Foreign exchange contracts gain	0.7	1.1	0.6
Discount on sale of trade receivables	(2.0)	(1.9)	(5.5)
Retained post-employment benefit cost related to discontinued operations	—	—	(1.3)
Other income (expense), net	(0.3)	(0.7)	1.0
	$ (6.6)	$ (2.8)	$ (5.3)

Note P. INCOME TAXES

Income (loss) before income taxes and discontinued operations consists of the following:

(In millions)	2007	2006	2005
Domestic	$ (57.7)	$ 101.9	$ 53.6
Foreign	25.3	18.4	16.2
	$ (32.4)	$ 120.3	$ 69.8

A summary of income tax benefit (expense) follows:

(In millions)	2007	2006	2005
Current:			
Federal	$ (3.3)	$ (2.5)	$ (0.3)
State	(3.2)	(2.2)	(0.7)
Foreign	(6.8)	(2.9)	(3.6)
Total current	$ (13.3)	$ (7.6)	$ (4.6)
Deferred:			
Federal	$ 55.3	$ 13.5	$ —
State	2.6	1.6	—
Foreign	(0.8)	(2.2)	(2.0)
Total deferred	$ 57.1	$ 12.9	$ (2.0)
Total tax benefit (expense)	$ 43.8	$ 5.3	$ (6.6)

Our effective tax rate was a benefit of 135.2%, a benefit of 4.4% and a provision of 9.5% for the years ended December 31, 2007, 2006 and 2005, respectively. The following table provides a reconciliation of our income tax benefit (provision) at the statutory federal rate to our actual income tax benefit (provision) for the years ended December 31, 2007, 2006 and 2005.

	2007	2006	2005
Federal statutory income tax rate	35.0%	(35.0)%	(35.0)%
State tax, net of federal benefit	(1.2)	(1.2)	(0.7)
Provision for repatriation of foreign earnings	—	(8.7)	(2.0)
Differences in rates of foreign operations	4.9	1.2	0.1
Other, net	(0.7)	(1.4)	(3.0)
	38.0%	(45.1)%	(40.6)%
Impact from sale of interest in OxyVinyls	97.2	—	—
Valuation allowance	—	49.5	31.1
Effective income tax rate	135.2%	4.4%	(9.5)%

During the third quarter of 2007, as part of the sale of the 24% interest in OxyVinyls, the Company recognized a deferred tax benefit of $31.5 million that was related to the temporary difference between the tax basis and book basis of the investment.

In 2005, in accordance with the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," the valuation allowance was reduced $21.7 million for the use of net operating loss carryforwards. In 2006, the valuation allowance was reduced $44.3 million for the use of net operating loss carryforwards and $15.4 million associated with changes in accumulated other comprehensive income related to the pension and post-retirement health care liabilities. In addition, in 2006, as a result of the improved actual and projected earnings and the actual and projected use of the deferred tax assets, it was determined that it was more likely than not that the deferred tax assets would be realized and we reversed the remaining $15.1 million of the valuation allowance through the income statement. Income taxes in 2007 were recorded without regard to any domestic deferred tax valuation allowance.

Components of PolyOne's deferred tax liabilities and assets at December 31, 2007 and 2006 were as follows:

(In millions)	2007	2006
Deferred tax liabilities:		
Tax over book depreciation	$ 40.8	$ 45.9
Intangibles	5.6	5.0
Equity investments	1.9	122.0
Other, net	8.9	7.3
Total deferred tax liabilities	$ 57.2	$ 180.2
Deferred tax assets:		
Post-retirement benefits other than pensions	$ 36.5	$ 38.5
Employment cost and pension	26.8	39.9
Environmental	28.9	20.8
Net operating loss carryforward	23.2	94.1
State taxes	3.3	1.6
Alternative minimum tax credit carryforward	12.2	8.5
Foreign net operating losses and tax credit carryforward	2.4	1.4
Other, net	16.6	16.0
Total deferred tax assets	$ 149.9	$ 220.8
Tax valuation allowance	(2.4)	(1.4)
Net deferred tax assets	$ 90.3	$ 39.2

PolyOne provided for U.S. federal and foreign withholding tax on $22.0 million, or 9%, of foreign subsidiaries' undistributed earnings as of December 31, 2007. Undistributed earnings for which no federal or foreign withholding tax has been provided are intended to be reinvested indefinitely and it is not practicable to estimate the amount of additional taxes that may be payable upon distribution.

PolyOne paid income taxes, net of refunds, of $18.3 million in 2007, $9.0 million in 2006 and $10.2 million in 2005. PolyOne has a U.S. net operating loss carryforward of $66.3 million, of which $65.7 million will expire in 2024. In addition, PolyOne has an alternative minimum tax credit carryforward of $12.2 million that has no expiration date.

NOTE Q. SHARE-BASED COMPENSATION

Share-based compensation cost is based on the value of the portion of share-based payment awards that are ultimately expected to vest during the period. Share-based compensation cost recognized in the Company's Consolidated Statements of Income for the years ended December 31, 2007 and 2006 includes (a) compensation cost for share-based payment awards granted prior to, but not yet vested, as of January 1, 2006 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS No. 123, plus (b) compensation cost for share-based payment awards granted on or subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provision of SFAS No. 123(R). Because share-based compensation expense recognized in the Consolidated Statement of Income for the years ended December 31, 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires that forfeitures be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information that was required under SFAS No. 123 for the year ended December 31, 2005, the Company accounted for forfeitures as they occurred.

PolyOne has one active share-based compensation plan, which is described below. The pre-tax compensation cost that was recognized for the years ended December 31, 2007 and 2006 was $4.3 million and $4.5 million, respectively. For the year ended December 31, 2005, PolyOne recognized a benefit of $0.6 million. This compensation cost or benefit is included in selling and administrative expenses in the Consolidated Statements of Income.

2005 Equity and Performance Incentive Plan

In May 2005, PolyOne's shareholders approved the PolyOne Corporation 2005 Equity and Performance Incentive Plan (2005 EPIP). All future grants and awards to PolyOne employees will be issued only from this plan until there are no shares remaining under the plan. As a result, all previous equity-based plans were frozen in May 2005. The 2005 EPIP provides for the award of a broad variety of share-based compensation alternatives, including non-qualified stock options, incentive stock options, restricted stock, restricted stock units, performance shares, performance units and stock appreciation rights (SARs). Five million shares of common stock have been reserved for grants and awards under the 2005 EPIP. It is anticipated that all share-based grants and awards that are earned and exercised will be issued from shares of PolyOne common stock that are held in treasury.

Stock Appreciation Rights

During 2007, the Compensation and Governance Committee of the Company's Board of Directors authorized the issuance of 1,626,900 SARs. The awards were approved and communicated as follows:

Date of issuance	March 8, 2007	May 10, 2007	September 10, 2007	October 4, 2007
Number of SARs	1,536,900	20,000	60,000	10,000
Grant date stock price	$ 6.585	$ 7.250	$ 7.675	$ 7.555
Expiration date	March 8, 2014	May 10, 2014	September 10, 2014	October 4, 2014

Vesting is based on a service period of one year and the achievement of certain stock price targets. This condition is considered a market-based measure under SFAS No. 123(R) and is considered in determining the grant's fair value. This fair value is not subsequently revised for actual market price achievement, but rather is a fixed expense subject only to service-related forfeitures. The awards vest in one-third increments based on stock price achievement (for a minimum of three consecutive trading days) of $7.24, $7.90 and $8.56 per share, but may not be exercised earlier than one year from the date of the grant. At December 31, 2007, these awards have reached the $8.56 stock price achievement target. The SARs have a seven-year exercise period.

The option pricing model used by PolyOne to value the SARs granted during 2007 was a Monte Carlo simulation method. Under this method, the fair value of awards on the date of grant is an estimate and is affected by the Company's stock price, as well as by assumptions regarding a number of highly complex and subjective variables that are presented in the following table. Expected volatility was determined by the average of the six-year historical weekly volatility for PolyOne's common stock and the implied volatility rates for exchange-traded options. The expected term of options granted was set equal to the midpoint between the vesting and expiration dates for each grant. Dividends were not included in this calculation because PolyOne does not currently pay dividends. The risk-free rate of return for periods within the contractual life of the option is based on U.S. Treasury rates that were in effect at the time of the grant. Forfeitures were estimated at 3% per year based on PolyOne's historical experience. Following is a summary of the assumptions related to the SAR grants issued during 2007, 2006 and 2005:

	2007	2006	2005
Expected volatility	44.1%	44.0%	42.0%
Expected dividends	—	—	—
Expected term (in years)	4.0 — 4.4	3.7 — 4.3	5.2 — 5.5
Risk-free rate	3.88% — 4.30%	4.26% — 4.91%	3.8%
Value of SARs granted	$2.68 — $3.05	$2.63 — $3.82	$4.05 — $4.31

During 2006, the Compensation and Governance Committee authorized the issuance of 1,141,000 SARs. The SARs will be settled in shares of PolyOne common stock and vest in one-third increments based on stock price achievement of $7.50, $8.50 and $10.00 per share, but may not be exercised earlier than one year from the date of grant. At December 31, 2007, these awards have reached the $8.50 stock price achievement target. The SARs have seven-year exercise periods that expire in 2013.

A summary of SAR activity under the 2005 EPIP as of December 31, 2007 and during 2007 is presented below:

Stock Appreciation Rights	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (In millions)
Outstanding at January 1, 2007	1,640	$ 7.90		
Granted	1,627	6.64		
Exercised	(70)	6.50		
Forfeited or expired	(206)	7.17		
Outstanding at December 31, 2007	2,991	$ 7.30	5.36 years	$ —
Vested and exercisable at December 31, 2007	899	$ 7.98	4.52 years	$ —

The weighted-average grant date fair value of SARs granted during 2007 was $2.74. SARs granted during 2006 had a weighted-average grant date fair value of $2.99. SARs granted during 2005 amounted to 474,300, had a weighted-average grant date fair value of $4.18 and were valued using the Black-Scholes- Merton valuation method. The total intrinsic value of SARs that were exercised during 2007, 2006 and 2005 was $0.1 million, $1.5 million and $0.2 million, respectively.

As of December 31, 2007, there was $0.8 million of total unrecognized compensation cost related to SARs that is expected to be recognized over a period of nine months.

Stock Options

PolyOne's incentive stock plans provide for the award or grant of options to purchase shares of PolyOne common stock. Options granted generally become exercisable at the rate of 35% after one year, 70% after two years and 100% after three years. The term of each option cannot extend beyond 10 years from the date of grant. All options are granted at 100% or greater of market value on the date of the grant. PolyOne also has a stock option plan for non-employee directors under which options are granted.

A summary of option activity as of December 31, 2007 and changes during 2007 is presented below:

Stock Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (In millions)
Outstanding at January 1, 2007	7,385	$ 11.47		
Granted	—	—		
Exercised	(196)	6.00		
Forfeited or expired	(1,036)	14.31		
Outstanding, vested and exercisable at December 31, 2007	6,153	$ 11.17	1.61 years	$ 0.3

The total intrinsic value of stock options that were exercised during 2007, 2006 and 2005 was $0.2 million, $0.9 million and $0.1 million, respectively.

Cash received during 2007, 2006 and 2005 from the exercise of stock options was $1.2 million, $3.1 million and $0.5 million, respectively.

Performance Shares

In January 2005, the Compensation and Governance Committee authorized the issuance of performance shares to selected executives and other key employees. The performance shares vest only to the extent that management goals for cash flow, return on invested capital, and the level of earnings before interest, taxes, depreciation and amortization in relation to debt are achieved for the period commencing January 1, 2005 and ending December 31, 2007. The fair value of each performance share is equal to the grant date market price.

At December 31, 2007, there were 388,500 performance share awards outstanding with a weighted-average grant date fair value of $8.94 per share. As a result of adjustments to performance forecasts and forfeitures, no net compensation expense was recognized on these awards for the year ended December 31, 2007. During 2006, compensation cost of $1.0 million was recognized for these awards.

Restricted Stock Awards

On February 21, 2006, PolyOne issued 200,000 shares of restricted stock as part of the compensation package for its new

Chief Executive Officer. In addition, 20,000 and 19,600 shares of restricted stock were issued to other executives during 2006 and 2007, respectively. The value of the restricted shares was established using the market price of PolyOne's common stock on the date of the grant. Compensation expense is being recorded on a straight-line basis over the three-year cliff vesting period of the restricted stock. As of December 31, 2007, all 239,600 shares remain unvested with a weighted-average grant date fair value of $8.66 per share and a weighted-average remaining contractual term of 16 months. Compensation expense recorded during 2007 and 2006 was $0.7 million and $0.5 million, respectively. Unrecognized compensation cost for restricted stock awards at December 31, 2007 was $0.9 million. No shares of restricted stock were issued in 2005.

Note R. SEGMENT INFORMATION

A segment is a component of an enterprise whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. PolyOne determines and discloses its segments in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which defines how to determine segments.

The Company's historical presentation of segment information consisted of six reportable segments: Vinyl Compounds, Specialty Resins, North American Color and Additives, International Color and Engineered Materials, PolyOne Distribution, Resin and Intermediates, and "All Other" operating segments (All Other). All Other consisted of the North American Engineered Materials and Polymer Coating Systems operating segments. Effective with the first quarter of 2006, Producer Services, a new operating segment, was formed from portions of the North American Color and Additives and the North American Engineered Materials operating segments. As a result, North American Color and Additives no longer meets the quantitative thresholds that would require separate disclosure as a reportable segment and is included in All Other. Producer Services also does not meet the quantitative thresholds as defined in SFAS No. 131 and is also included in All Other. During the fourth quarter of 2006, PolyOne changed its management structure, which resulted in the Specialty Resins reportable segment being subsumed into the Vinyl Compounds reportable segment to create a new operating and reportable segment, Vinyl Business.

As of January 1, 2007, PolyOne's vinyl operations located in Singapore are managed and reported within the Vinyl Business operating segment. Historically, the results of this operation were included in the International Color and Engineered Materials operating segment. Prior period results of operations have been reclassified to conform to the 2007 presentation.

Effective with the fourth quarter of 2007, the former Polymer Coating Systems operating segment was split into two units. The 50% interest in BayOne Urethane Systems, L.L.C., along with the inks and specialty colorants businesses formed a new operating segment, Specialty Inks and Polymer Systems, which is included in All Other. The remaining plastisols and coated fabrics businesses were subsumed into the Vinyl Business reportable segment. Segment information for prior periods has been reclassified to conform to the 2007 presentation.

Effective December 31, 2007, all disclosures reflect four reportable segments: Vinyl Business, International Color and Engineered Materials, PolyOne Distribution, and Resin and Intermediates. Additionally, the operating segments that do not meet the threshold for separate disclosure as reportable segments are reported in All Other. Segment information for prior periods has been restated to conform to the 2007 presentation.

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

Segment assets are primarily customer receivables, inventories, net property, plant and equipment, and goodwill. Intersegment sales are generally accounted for at prices that approximate those for similar transactions with unaffiliated customers. Corporate and eliminations includes cash, sales of accounts receivable, retained assets and liabilities of discontinued operations, and other unallocated corporate assets and liabilities. The accounting policies of each segment are consistent with those described in Note C. Following is a description of each of the Company's four reportable segments and All Other.

Vinyl Business — The Vinyl Business operating segment is a global leader offering an array of products and services for vinyl coating, molding and extrusion processors. Product offerings include rigid, flexible and dry blend vinyl compounds; industry-leading dispersion, blending and specialty suspension grade vinyl resins; and specialty coating materials based largely on vinyl. These products are sold to a wide variety of manufacturers of plastic parts and consumer-oriented products. The Vinyl Business offers a wide range of services to the customer base utilizing these products, to meet the ever changing needs of the Company's multi-market customer base. These services include materials testing and component analysis, custom compound development, colorant and additive services, design assistance, structural analyses, process simulations, and extruder screw design.

Much of the revenue and income for the Vinyl Business is generated in North America. However, production and sales in Asia and Europe constitute a minor but growing part of this segment. In addition, PolyOne owns 50% of a joint venture producing and marketing vinyl compounds in Latin America.

Vinyl is one of the most widely used plastics, utilized in a wide range of applications in building and construction, wire and cable, consumer and recreation markets, automotive, packaging and healthcare. Vinyl resin can be combined with a broad range of additives, resulting in performance versatility, particularly when fire resistance, chemical resistance or weatherability is required. The Vinyl Business is well-positioned to meet the stringent quality, service and innovation requirements of this diverse and highly competitive marketplace.

International Color and Engineered Materials — The International Color and Engineered Materials operating segment combines the strong regional heritage of the Company's color and additive masterbatches and engineered materials operations to create global capabilities with plants, sales and service facilities located throughout Europe and Asia.

PolyOne operates 13 facilities in Europe (Belgium, Denmark, France, Germany, Hungary, Poland, Spain, Sweden and Turkey) and 5 facilities in Asia (China, Singapore and Thailand).

Working in conjunction with North American Color and Additives and North American Engineered Materials segments, the Company provides solutions that meet international customers' demands for both global and local manufacturing, service and technical support.

PolyOne Distribution — The PolyOne Distribution operating segment distributes more than 3,500 grades of engineering and commodity grade resins including PolyOne-produced compounds to the North American market. These products are sold to over 5,000 custom injection molders and extruders who, in turn, convert them into plastic parts that are sold to end-users in a wide range of industries. Representing over 20 major suppliers, PolyOne Distribution offers customers a broad product portfolio, just-in-time delivery from multiple stocking locations and local technical support.

Resin and Intermediates — The results of our Resin and Intermediates operating segment are reported on the equity method. This segment consists almost entirely of the Company's 50% equity interest in SunBelt and the former 24% equity interest in OxyVinyls, through its disposition date of July 6, 2007. SunBelt, a producer of chlorine and caustic soda, is a partnership with Olin Corporation. OxyVinyls, a producer of PVC resins, vinyl chloride monomer (VCM), and chlorine and caustic soda, was a partnership with Occidental Chemical Corporation. In 2007, SunBelt had production capacity of approximately 320 thousand tons of chlorine and 358 thousand tons of caustic soda. Most of the chlorine manufactured by SunBelt is consumed by OxyVinyls to produce PVC resin. Caustic soda is sold on the merchant market to customers in the pulp and paper, chemical, construction and consumer products industries.

All Other — All Other includes North American Color and Additives, North American Engineered Materials, Producer Services and Specialty Inks and Polymer Systems operating segments. A description of these operating segments follows.

North American Color and Additives — The North American Color and Additives operating segment is a leading provider of specialized colorants and additive concentrates that offer an innovative array of colors, special effects and performance-enhancing and eco-friendly solutions. The segment's color masterbatches contain a high concentration of color pigments and/or additives that are dispersed in a polymer carrier medium and are sold in pellet, liquid, flake or powder form. When combined with non pre-colored base resins, the colorants help customers achieve a wide array of specialized colors and effects targeted at the demands of today's highly design-oriented consumer and industrial end markets. North American Color and Additive masterbatches encompass a wide variety of performance enhancing characteristics and are commonly categorized by the function that they perform, such as UV stabilization, anti-static, chemical blowing, antioxidant and lubricant and processing enhancement.

Colorant and additives masterbatches are used in most types of plastics manufacturing processes, including injection molding, extrusion, sheet, film, rotational molding and blow molding throughout the plastics industry, particularly in packaging, automotive, consumer, outdoor decking, pipe, and wire and cable markets. They are also incorporated into such end-use products as stadium seating, toys, housewares, vinyl siding, pipe, food packaging and medical packaging.

North American Engineered Materials — The North American Engineered Materials operating segment is a leading provider of custom plastic compounding services and solutions for processors of thermoplastic materials across a wide variety of markets and end-use applications including applications currently employing traditional materials such as metal. The North American Engineered Materials' product portfolio, one of the broadest in the industry, includes standard and custom formulated high-performance polymer compounds that are manufactured using a full range of thermoplastic compounds and elastomers, which are then combined with advanced polymer additive, reinforcement, filler and colorant and biomaterial technologies.

The depth of North American Engineered Materials' compounding expertise helps expand the performance range and structural properties of traditional engineering-grade thermoplastic resins to meet the unique performance requirements of the segment's customers. Product development and application reach is further enhanced by the capabilities of the North American Engineered Materials' Solutions Center, which produces and evaluates prototype and sample parts to help assess end-use performance and guide product development. The segment's manufacturing capabilities, which include a new facility located in Avon Lake, Ohio, are targeted at meeting customers' demand for speed, flexibility and critical quality.

Producer Services — The Producer Services operating segment offers custom compounding services to resin producers and processors that design and develop their own compound recipes. Producer Services also offers a complete product line of custom black masterbatch products for use in the pressure pipe industry. Customers often require high quality, cost effective and confidential services. As a strategic and integrated supply chain partner, Producer Services offers resin producers a method to develop custom products for niche markets by using PolyOne's compounding expertise and multiple manufacturing platforms.

Specialty Inks and Polymer Systems — The Specialty Inks and Polymer Systems operating segment provides custom-formulated liquid systems that meet a variety of customer needs and chemistries, including vinyl, natural rubber and latex, polyurethane, and silicone. The products and services are designed to meet the specific requirements of customers' applications by providing unique solutions to their market needs. Products also include proprietary fabric screen-printing inks, latexes, specialty additives and colorants. Specialty Inks and Polymer Systems serves diversified markets that include recreational and athletic apparel, construction, filtration, outdoor furniture, and healthcare. PolyOne also has a 50% interest in BayOne, a joint venture between PolyOne and Bayer Corporation, which sells polyurethane systems into many of the same markets.

Financial information by reportable segment is as follows:

Year Ended December 31, 2007 (in millions)	Sales to External Customers	Intersegment Sales	Total Sales	Operating Income (Loss)	Depreciation and Amortization	Capital Expenditures	Total Assets
Vinyl Business	$ 833.0	$ 100.0	$ 933.0	$ 50.8	$ 19.2	$ 6.0	$ 467.3
International Color and Engineered Materials	610.9	—	610.9	26.6	14.9	20.3	424.4
PolyOne Distribution	739.6	4.7	744.3	22.1	1.7	0.1	175.2
Resin and Intermediates	—	—	—	34.8	0.2	—	15.6
All Other	459.2	28.6	487.8	10.0	16.7	12.1	296.5
Corporate and eliminations	—	(133.3)	(133.3)	(110.4)	4.7	4.9	204.0
Total	$ 2,642.7	$ —	$ 2,642.7	$ 33.9	$ 57.4	$ 43.4	$ 1,583.0

Year Ended December 31, 2006 (in millions)	Sales to External Customers	Intersegment Sales	Total Sales	Operating Income (Loss)	Depreciation and Amortization	Capital Expenditures	Total Assets
Vinyl Business	$ 907.9	$ 117.2	$ 1,025.1	$ 68.5	$ 18.9	$ 5.6	$ 475.9
International Color and Engineered Materials	526.7	—	526.7	21.3	13.7	13.6	377.0
PolyOne Distribution	724.1	8.7	732.8	19.2	1.5	0.3	164.6
Resin and Intermediates	—	—	—	102.9	0.2	—	282.0
All Other	463.7	27.8	491.5	(2.3)	17.7	17.3	313.6
Corporate and eliminations	—	(153.7)	(153.7)	(19.0)	5.1	4.3	167.7
Total	$ 2,622.4	$ —	$ 2,622.4	$ 190.6	$ 57.1	$ 41.1	$ 1,780.8

Year Ended December 31, 2005 (in millions)	Sales to External Customers	Intersegment Sales	Total Sales	Operating Income (Loss)	Depreciation and Amortization	Capital Expenditures	Total Assets
Vinyl Business	$ 908.2	$ 113.9	$ 1,022.1	$ 62.9	$ 15.5	$ 6.1	$ 503.4
International Color and Engineered Materials	465.4	—	465.4	15.5	13.1	12.6	330.7
PolyOne Distribution	672.0	7.2	679.2	19.5	1.3	0.3	178.8
Resin and Intermediates	—	—	—	91.9	0.2	—	270.7
All Other	405.0	30.0	435.0	(6.9)	18.4	7.2	289.4
Corporate and eliminations	—	(151.1)	(151.1)	(41.6)	2.2	5.9	122.3
Total	$ 2,450.6	$ —	$ 2,450.6	$ 141.3	$ 50.7	$ 32.1	$ 1,695.3

In October 2006, PolyOne purchased the remaining 50% of its equity investment in DH Compounding Company from a wholly-owned subsidiary of The Dow Chemical Company for $10.2 million. DH Compounding Company is consolidated in the Consolidated Balance Sheets as of December 31, 2007 and 2006, and the results of operations were included in the Consolidated Statements of Income beginning October 1, 2006. DH Compounding is included in our Producer Services operating segment.

The Vinyl Business segment includes Geon/Polimeros Andinos equity affiliate (owned 50%). For 2007, All Other includes earnings of BayOne Urethane Systems, L.L.C equity affiliate (owned 50% by Specialty Inks and Polymer Systems). For 2006, All Other includes earnings of DH Compounding Company equity affiliate (owned 50% by Producer Services) for the nine months ended September 30, 2006 and BayOne Urethane Systems, L.L.C equity affiliate (owned 50% by Specialty Inks and Polymer Systems). For 2005, All Other includes DH Compounding Company equity affiliate (owned 50% by

Producer Services) and BayOne Urethane Systems, L.L.C equity affiliate (owned 50% by Specialty Inks and Polymer Systems).

Earnings of equity affiliates are included in the related segment's operating income and the investment in equity affiliates is included in the related segment's assets. Amounts related to equity affiliates included in the segment information, excluding amounts related to losses on divestitures of equity investments, are as follows:

(in millions)	2007	2006	2005
Earnings of equity affiliates:			
Producer Services	$ —	$ 1.5	$ 2.1
Specialty Inks and Polymer Systems	3.3	3.5	3.3
Vinyl Business	0.6	0.9	1.1
Resin and Intermediates	40.8	107.0	96.3
Subtotal	44.7	112.9	102.8
Minority interest	(0.2)	(0.8)	—
Corporate and eliminations	(16.8)	(0.1)	(22.9)
Total	$ 27.7	$ 112.0	$ 79.9
Investment in equity affiliates:			
Producer Services	$ —	$ —	
Specialty Inks and Polymer Systems	2.2	1.5	
Vinyl Business	13.2	14.2	
Resin and Intermediates	4.5	271.5	
Total	$ 19.9	$ 287.2	

PolyOne's sales are primarily to customers in the United States, Europe, Canada and Asia, and the majority of its assets are located in these same geographic areas. Following is a summary of sales and long-lived assets based on the geographic areas where the sales originated and where the assets are located:

(in millions)	2007	2006	2005
Net sales:			
United States	$ 1,670.9	$ 1,743.6	$ 1,648.0
Europe	513.7	442.6	404.4
Canada	291.7	287.6	283.2
Asia	152.5	135.7	101.5
Other	13.9	12.9	13.5
Long-lived assets:			
United States	$ 582.3	$ 563.3	$ 545.1
Europe	189.7	169.9	158.9
Canada	73.0	62.1	63.4
Asia	31.4	26.3	23.5
Other	2.9	2.7	2.7

Note S. WEIGHTED-AVERAGE SHARES USED IN COMPUTING EARNINGS PER SHARE

(in millions)	2007	2006	2005
Weighted-average shares — basic:			
Weighted-average shares outstanding	93.0	92.5	91.9
Less unearned portion of restricted stock awards included in outstanding shares	0.2	0.1	—
	92.8	92.4	91.9
Weighted-average shares — diluted:			
Weighted-average shares outstanding — basic	92.8	92.4	91.9
Plus dilutive impact of stock options and stock awards	0.3	0.4	0.1
	93.1	92.8	92.0

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

Outstanding stock options with exercise prices greater that the average price of the common shares are anti-dilutive and are not included in the computation of diluted earnings per share. The number of anti-dilutive options and awards was 6.4 million, 7.4 million and 8.9 million at December 31, 2007, 2006 and 2005, respectively.

Note T. FINANCIAL INSTRUMENTS

PolyOne enters into intercompany lending transactions denominated in various foreign currencies and is subject to financial exposure from foreign exchange rate movement from the date a loan is recorded to the date it is settled or revalued. To mitigate this risk, PolyOne enters into foreign exchange contracts. Gains and losses on these contracts generally offset gains or losses on the assets and liabilities being hedged and are recorded as other income or expense in the Consolidated Statements of Income. PolyOne does not hold or issue financial instruments for trading purposes.

The following table summarizes the contractual amounts of PolyOne's foreign exchange contracts at December 31, 2007 and 2006. Foreign currency amounts are translated at exchange rates as of December 31, 2007 and 2006, respectively. The “Buy” amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies, and the “Sell” amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies.

	December 31, 2007		December 31, 2006	
Currency (In millions)	Buy	Sell	Buy	Sell
U.S. dollar	$ 92.7	$ —	$ 83.9	$ 22.7
Euro	—	95.0	0.6	85.2
Canadian dollar	—	—	21.7	—

PolyOne used the following methods and assumptions to estimate the fair value of financial instruments:

Cash and cash equivalents — The carrying amounts approximate fair value.

Short and long-term debt — The carrying amounts of PolyOne's short-term borrowings approximate fair value. The fair value of PolyOne's senior notes, debentures and medium-term notes is based on quoted market prices. The carrying amount of PolyOne's borrowings under its variable-interest rate revolving credit agreements and other long-term borrowings approximates fair value.

Foreign exchange contracts — The fair value of short-term foreign exchange contracts is based on exchange rates at December 31, 2007.

Interest rate swaps — The fair value of interest rate swap agreements, obtained from the respective financial institutions, is based on current rates of interest and is computed as the net present value of the remaining exchange obligations under the terms of the contract.

The carrying amounts and fair values of PolyOne's financial instruments at December 31, 2007 and 2006 are as follows:

	2007		2006	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 79.4	$ 79.4	$ 66.2	$ 66.2
Long-term debt				
10.625% senior notes	—	—	241.4	255.9
7.500% debentures	50.0	42.5	50.0	43.8
8.875% senior notes	199.2	203.0	199.1	199.5
Medium-term notes	76.1	76.7	91.7	95.0
Other borrowings	5.3	5.3	8.0	8.1
Foreign exchange contracts	(2.3)	(2.3)	(1.7)	(1.7)
Interest rate swaps	(1.7)	(1.7)	(5.1)	(5.1)

Note U. SUBSEQUENT EVENTS

On January 2, 2008, PolyOne acquired 100% of the outstanding capital stock of GLS Corporation (GLS), a global provider of specialty thermoplastic elastomer compounds for consumer, packaging and medical applications. GLS is headquartered in McHenry, Illinois, employs approximately 200 employees and has manufacturing facilities in Illinois and Suzhou, China. The acquisition complements PolyOne's global engineered materials business portfolio and accelerates the Company's shift to specialization. As a result of the acquisition, PolyOne expects to offer customers enhanced technologies, a broader range of products, services and solutions and expanded access to specialized high-growth markets. The acquisition will be accounted for in the first quarter of 2008 using the purchase method in accordance with SFAS No. 141, “Business Combinations.” Accordingly, the net assets will be recorded at their estimated fair values, and operating results will be included in the Company's North American Engineered Materials operating segment and its results of operations from the date of acquisition. The purchase price will be allocated on a preliminary basis using information currently available. A preliminary allocation of the purchase price to the assets and liabilities acquired will be completed during the first quarter of 2008, as the Company obtains more information regarding asset valuations, liabilities assumed and preliminary estimates of fair values made at the date of purchase.

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

Borrowings under the revolving credit facility are based on the applicable LIBOR rate plus a fixed fee. On January 9, the Company borrowed $40 million under the agreement and entered into a floating to fixed interest rate swap to January 9, 2009 resulting in an effective interest rate of 8.4%. The credit agreement contains covenants that, among other things, restrict the Company's ability to incur liens, and various other customary provisions, including affirmative and negative covenants, and representations and warranties.

Note V. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In millions, except per share data)	2007 Quarters				2006 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Sales	$ 631.3	$ 664.8	$ 688.8	$ 657.8	$ 595.2	$ 666.2	$ 686.4	$ 674.6
Operating costs and expenses, net	612.7	688.4	676.4	631.3	572.6	629.8	622.8	606.6
Operating income	18.6	(23.6)	12.4	26.5	22.6	36.4	63.6	68.0
Income (loss) before discontinued operations	7.1	2.3	(5.4)	7.4	14.5	19.6	42.5	49.0
Loss from discontinued operations	—	—	—	—	(0.6)	—	—	(2.1)
Net income (loss)	7.1	2.3	(5.4)	7.4	13.9	19.6	42.5	46.9
Basic and diluted earnings (loss) per share:(1)								
Before discontinued operations	$ 0.08	$ 0.02	$ (0.06)	$ 0.08	$ 0.16	$ 0.21	$ 0.46	$ 0.53
Net income (loss)	$ 0.08	$ 0.02	$ (0.06)	$ 0.08	$ 0.15	$ 0.21	$ 0.46	$ 0.51

(1) Per share amounts for the quarter and the full year have been computed separately. The sum of the quarterly amounts may not equal the annual amounts presented because of differences in the average shares outstanding during each period.

SCHEDULE II

POLYONE CORPORATION AND SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(In millions)

	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts(C)	Other Deductions	Balance at End of Period
Year ended December 31, 2007					
Reserves for doubtful accounts	$ 5.9	$ 1.9	$ 0.3	$ (3.3)(A)	$ 4.8
Accrued liabilities for environmental matters	$ 59.5	$ 48.8	$ 1.0	$ (25.5)(B)	$ 83.8
Year ended December 31, 2006					
Reserves for doubtful accounts	$ 6.4	$ 3.3	$ —	$ (3.8)(A)	$ 5.9
Accrued liabilities for environmental matters	$ 55.2	$ 2.5	$ —	$ 1.8(B)	$ 59.5
Year ended December 31, 2005					
Reserves for doubtful accounts	$ 8.0	$ 2.8	$ —	$ (4.4)(A)	$ 6.4
Accrued liabilities for environmental matters	$ 64.5	$ 0.2	$ 0.3	$ (9.8)(B)	$ 55.2

Notes:

(A) Accounts written off.

(B) Cash payments during the year, net of insurance recoveries.

(C) Translation adjustments.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure controls and procedures

PolyOne’s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the design and operation of PolyOne’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2007. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that such disclosure controls and procedures are effective as of December 31, 2007.

Management’s annual report on internal control over financial reporting

The following report is provided by management in respect of PolyOne’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934):

1. PolyOne’s management is responsible for establishing and maintaining adequate internal control over financial reporting.
2. PolyOne’s management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the effectiveness of internal control over financial reporting. Management believes that the COSO framework is a suitable framework for its evaluation of financial reporting because it is free from bias, permits reasonably consistent qualitative and quantitative measurements of PolyOne’s internal control over financial reporting, is sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of PolyOne’s internal control over financial reporting are not omitted and is relevant to an evaluation of internal control over financial reporting.
3. Management has assessed the effectiveness of PolyOne’s internal control over financial reporting as of December 31, 2007 and has concluded that such internal control over financial reporting is effective. There were no material weaknesses in internal control over financial reporting identified by management.
4. Ernst & Young LLP, who audited the consolidated financial statements of PolyOne for the year ended December 31, 2007, also issued an attestation report on PolyOne’s internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board. This attestation report is set forth on page 32 of this Annual Report on Form 10-K and incorporated by reference into this Item 9A.

Changes in internal control over financial reporting

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding PolyOne's directors, including the identification of the audit committee and the audit committee financial expert, is incorporated by reference to the information contained in PolyOne's Proxy Statement with respect to the 2008 Annual Meeting of Shareholders (2008 Proxy Statement). Information concerning executive officers is contained in Part I of this Annual Report under the heading "Executive Officers of the Registrant."

The information regarding Section 16(a) beneficial ownership reporting compliance is incorporated by reference to the material under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in PolyOne's 2008 Proxy Statement.

The information regarding any changes in procedures by which shareholders may recommend nominees to PolyOne's Board of Directors is incorporated by reference to the information contained in PolyOne's 2008 Proxy Statement.

PolyOne has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. PolyOne's code of ethics is posted under the Investor Relations tab of its website at www.polyone.com. PolyOne will post any amendments to, or waivers of, its code of ethics that apply to its principal executive officer, principal financial officer and principal accounting officer on its website.

ITEM 11. EXECUTIVE COMPENSATION

The information regarding executive officer and director compensation is incorporated by reference to the information contained in PolyOne's 2008 Proxy Statement.

The information regarding compensation committee interlocks and insider participation and the compensation committee report is incorporated by reference to the information contained in PolyOne's 2008 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information regarding security ownership of certain beneficial owners and management and securities authorized for issuance under PolyOne's equity compensation plans is incorporated by reference to the information contained in PolyOne's 2008 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information regarding certain relationships and related transactions and director independence is incorporated by reference to the information contained in PolyOne's 2008 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding fees paid to and services provided by PolyOne's independent registered public accounting firm during the fiscal years ended December 31, 2007 and 2006 and the pre-approval policies and procedures of the audit committee is incorporated by reference to the information contained in PolyOne's 2008 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements:

The following consolidated financial statements of PolyOne Corporation are included in Item 8:

Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005

Consolidated Balance Sheets at December 31, 2007 and 2006

Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules:

The following financial statements of subsidiaries not consolidated and 50% or less owned entities, as required by Item 15(c) are incorporated by reference to Exhibits 99.1 and 99.2 to this Annual Report on Form 10-K:

Consolidated financial statements of Oxy Vinyls, LP as of June 30, 2007 and for the six month period ended June 30, 2007 and each of the years in the two year period ended December 31, 2006.

Consolidated financial statements of SunBelt Chlor-Alkali Partnership as of December 31, 2007 and for each of the years in the three year period then ended.

The following consolidated financial statement schedule of PolyOne Corporation is included in Item 8:

Schedule II — Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the SEC are not required under the related instructions or are inapplicable and, therefore, omitted.

(a)(3) Exhibits.

Exhibit No.	Exhibit Description
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.I to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, SEC File No. 1-16091)
3.2	Amendment to the Second Article of the Articles of Incorporation, as filed with the Ohio Secretary of State, November 25, 2003 (incorporated by reference to Exhibit 3.1a to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, SEC File No. 1-16091)
3.3	Regulations (incorporated by reference to Exhibit 3.II to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, SEC File No. 1-16091)
4.1	Indenture, dated as of December 1, 1995, between the Company and NBD Bank, as trustee (incorporated by reference to Exhibit 4.3 to The Geon Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, SEC File No. 1-11804)
4.2	Form of Indenture between the Company and NBD Bank, as trustee, governing the Company's Medium Term Notes (incorporated by reference to Exhibit 4.1 to M.A. Hanna Company's Registration Statement on Form S-3, Registration Statement No. 333-05763, filed on June 12, 1996)
4.3	Indenture, dated as of April 23, 2002, between the Company and The Bank of New York, as trustee, governing the Company's 8.875% Senior Notes due May 15, 2012 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4, Registration Statement No. 333-87472, filed on May 2, 2002)
10.1+	Long-Term Incentive Plan, as amended and restated as of March 1, 2000 (incorporated by reference to Exhibit A to M.A. Hanna Company's Definitive Proxy Statement filed on March 24, 2000, SEC File No. 1-05222)
10.2+	Form of Award Agreement for Performance Shares (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 11, 2005, SEC File No. 1-16091)
10.3+	Form of Award Agreement for Stock Appreciation Rights (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 11, 2005, SEC File No. 1-16091)
10.4+	1995 Incentive Stock Plan, as amended and restated through August 31, 2000 (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, SEC File No. 1-16091)
10.5+	1998 Interim Stock Award Incentive Plan, as amended and restated through August 31, 2000 (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, SEC File No. 1-16091)
10.6+	1999 Incentive Stock Plan, as amended and restated through August 31, 2000 (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, SEC File No. 1-16091)
10.7+	2000 Stock Incentive Plan (incorporated by reference to Annex D to Amendment No. 3 to The Geon Company's Registration Statement on Form S-4, Registration Statement No. 333-37344, filed on July 28, 2000)
10.8+	Amended and Restated Benefit Restoration Plan (Section 401(a)(17))
10.9+	Strategic Improvement Incentive Plan (incorporated by reference to Exhibit 10.9b to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, SEC File No. 1-16091)
10.10+	Senior Executive Annual Incentive Plan, effective January 1, 2006 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 24, 2005, SEC File No. 1-16091)
10.11+	2005 Equity and Performance Incentive Plan (amended and restated by the Board as of July 21, 2005) (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, SEC File No. 1-16091)
10.12+	Amended and Restated Deferred Compensation Plan for Non-Employee Directors
10.13+	Form of Management Continuity Agreement
10.14+	Schedule of Executives with Management Continuity Agreements
10.15+	Amended and Restated PolyOne Supplemental Retirement Benefit Plan
10.16+	Separation Agreement Term Sheet between the Company and Thomas A. Waltermire, dated October 6, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 11, 2005, SEC File No. 1-16091)
10.17+	Separation Agreement between the Company and Thomas A. Waltermire, dated December 21, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 21, 2005, SEC File No. 1-16091)
10.18+	Amended and Restated Letter Agreement between the Company and Stephen D. Newlin, originally effective as of February 13, 2006
10.19+	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 5, 2006, SEC File No. 1-16091)
10.20+	Amended and Restated PolyOne Corporation Executive Severance Plan
10.21	Guarantee and Agreement, dated as of June 6, 2006, between the Company, as guarantor, and the beneficiary banks party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 8, 2006, SEC File No. 1-16091)
10.22	Second Amended and Restated Security Agreement, dated as of June 6, 2006, between the Company, as grantor, and U.S. Bank Trust National Association, as collateral trustee (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 8, 2006, SEC File No. 1-16091)

Exhibit No.	Exhibit Description
10.23	Amended and Restated Collateral Trust Agreement, dated as of June 6, 2006, between the Company, as grantor, and U.S. Bank Trust National Association, as collateral trustee (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 8, 2006, SEC File No. 1-16091)
10.24	Amended and Restated Intercreditor Agreement, dated as of June 6, 2006, between the Company, as grantor; Citicorp USA, Inc., as receivables and bank agent; U.S. Bank Trust National Association, as collateral trustee; PolyOne Funding Corporation (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on June 8, 2006, SEC File No. 1-16091)
10.25	Amended and Restated Instrument Guaranty, dated as of December 19, 1996 (incorporated by reference to Exhibit 10.12 to The Geon Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, SEC File No. 1-11804)
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\+ Indicates management contract or compensatory plan, contract or arrangement in which one or more directors or executive officers of the Registrant may be participants

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

POLYONE CORPORATION

February 29, 2008

By: /s/ W. David Wilson
W. David Wilson
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated and on the dates indicated.

Signature	Title	Date
/s/ Stephen D. Newlin Stephen D. Newlin	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2008
/s/ W. David Wilson W. David Wilson	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2008
/s/ J. Douglas Campbell J. Douglas Campbell	Director	February 27, 2008
/s/ Carol A. Cartwright Carol A. Cartwright	Director	February 27, 2008
/s/ Gale Duff-Bloom Gale Duff-Bloom	Director	February 27, 2008
/s/ Richard H. Fearon Richard H. Fearon	Director	February 27, 2008
/s/ Robert A. Garda Robert A. Garda	Director	February 27, 2008
/s/ Gordon D. Harnett Gordon D. Harnett	Director	February 27, 2008
/s/ Edward J. Mooney Edward J. Mooney	Director	February 27, 2008
/s/ Farah M. Walters Farah M. Walters	Director	February 27, 2008

EXHIBIT INDEX

Exhibit No.	Exhibit Description
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.I to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, SEC File No. 1-16091)
3.2	Amendment to the Second Article of the Articles of Incorporation, as filed with the Ohio Secretary of State, November 25, 2003 (incorporated by reference to Exhibit 3.1a to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, SEC File No. 1-16091)
3.3	Regulations (incorporated by reference to Exhibit 3.II to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, SEC File No. 1-16091)
4.1	Indenture, dated as of December 1, 1995, between the Company and NBD Bank, as trustee (incorporated by reference to Exhibit 4.3 to The Geon Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, SEC File No. 1-11804)
4.2	Form of Indenture between the Company and NBD Bank, as trustee, governing the Company's Medium Term Notes (incorporated by reference to Exhibit 4.1 to M.A. Hanna Company's Registration Statement on Form S-3, Registration Statement No. 333-05763, filed on June 12, 1996)
4.3	Indenture, dated as of April 23, 2002, between the Company and The Bank of New York, as trustee, governing the Company's 8.875% Senior Notes due May 15, 2012 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4, Registration Statement No. 333-87472, filed on May 2, 2002)
10.1+	Long-Term Incentive Plan, as amended and restated as of March 1, 2000 (incorporated by reference to Exhibit A to M.A. Hanna Company's Definitive Proxy Statement filed on March 24, 2000, SEC File No. 1-05222)
10.2+	Form of Award Agreement for Performance Shares (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 11, 2005, SEC File No. 1-16091)
10.3+	Form of Award Agreement for Stock Appreciation Rights (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 11, 2005, SEC File No. 1-16091)
10.4+	1995 Incentive Stock Plan, as amended and restated through August 31, 2000 (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, SEC File No. 1-16091)
10.5+	1998 Interim Stock Award Incentive Plan, as amended and restated through August 31, 2000 (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, SEC File No. 1-16091)
10.6+	1999 Incentive Stock Plan, as amended and restated through August 31, 2000 (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, SEC File No. 1-16091)
10.7+	2000 Stock Incentive Plan (incorporated by reference to Annex D to Amendment No. 3 to The Geon Company's Registration Statement on Form S-4, Registration Statement No. 333-37344, filed on July 28, 2000)
10.8+	Amended and Restated Benefit Restoration Plan (Section 401(a)(17))
10.9+	Strategic Improvement Incentive Plan (incorporated by reference to Exhibit 10.9b to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, SEC File No. 1-16091)
10.10+	Senior Executive Annual Incentive Plan, effective January 1, 2006 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 24, 2005, SEC File No. 1-16091)
10.11+	2005 Equity and Performance Incentive Plan (amended and restated by the Board as of July 21, 2005) (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, SEC File No. 1-16091)
10.12+	Amended and Restated Deferred Compensation Plan for Non-Employee Directors
10.13+	Form of Management Continuity Agreement
10.14+	Schedule of Executives with Management Continuity Agreements
10.15+	Amended and Restated PolyOne Supplemental Retirement Benefit Plan
10.16+	Separation Agreement Term Sheet between the Company and Thomas A. Waltermire, dated October 6, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 11, 2005, SEC File No. 1-16091)
10.17+	Separation Agreement between the Company and Thomas A. Waltermire, dated December 21, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 21, 2005, SEC File No. 1-16091)
10.18+	Amended and Restated Letter Agreement between the Company and Stephen D. Newlin, originally effective as of February 13, 2006
10.19+	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 5, 2006, SEC File No. 1-16091)
10.20+	Amended and Restated PolyOne Corporation Executive Severance Plan
10.21	Guarantee and Agreement, dated as of June 6, 2006, between the Company, as guarantor, and the beneficiary banks party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 8, 2006, SEC File No. 1-16091)
10.22	Second Amended and Restated Security Agreement, dated as of June 6, 2006, between the Company, as grantor, and U.S. Bank Trust National Association, as collateral trustee (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 8, 2006, SEC File No. 1-16091)
10.23	Amended and Restated Collateral Trust Agreement, dated as of June 6, 2006, between the Company, as grantor, and U.S. Bank Trust National Association, as collateral trustee (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 8, 2006, SEC File No. 1-16091)
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EXHIBIT 10.8

THE GEON COMPANY
SECTION 401(A)(17)
BENEFIT RESTORATION PLAN

(December 31, 2007 Restatement)

TABLE OF CONTENTS

PREAMBLE

The primary purpose of this Plan is to provide deferred compensation to employees who are determined by the Company to be management or highly compensated employees. This Plan should be read and construed so as to accomplish the foregoing objective. This Plan is intended to meet the requirements of Section 201(2) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

Pursuant to the Third Amendment to the Plan, credits to Plan Accounts under Sections 4.1 and 4.2 of the Plan were permanently frozen effective May 31, 2003. Effective December 31, 2004, Supplemental Restoration Benefits and Supplemental Preretirement Surviving Spouse Death Benefits were temporarily frozen under the Plan, with the intent being that the Company would rescind the freeze upon the finalization of the Section 409A Guidance. The Company now desires to unfreeze such benefits.

The Plan is amended and restated effective December 31, 2007 to retroactively unfreeze the Supplemental Restoration Benefits and Supplemental Preretirement Surviving Spouse Death Benefits as described above and otherwise make amendments to the Plan to comply with the Section 409A Guidance.

SECTION I

DEFINITIONS

1.1 Affiliate means any corporation, partnership or other organization which, during any period of employment of a Participant, was at least 50% controlled by the Company or an affiliate of the Company.

1.2 Basic Pension Plan Benefit means the pension benefit that would be payable from the Pension Plan to a Participant, computed without regard to the benefit limitations imposed on the Pension Plan by Sections 415 and 401(a)(17) of the Code, and, in the case of an MIP/SIP Limited Participant, computed taking into account the MIP/SIP Limited Participant's MIP/SIP Limited Compensation as eligible earnings under the Pension Plan.

1.3 Committee means the Compensation Committee of the Board of Directors of the Company, or any person or entity to whom the Compensation Committee of the Board of Directors of the Company has delegated any authority or responsibility under the Plan.

1.4 Code means the Internal Revenue Code of 1986, as amended.

1.5 Company means (i) for periods prior to the Effective Time, The Geon Company, a Delaware corporation, and (ii) for periods from and after the Effective Time, PolyOne Corporation, an Ohio corporation.

1.6 Effective Time means the Effective Time as defined in the Agreement and Plan of Consolidation, dated as of May 7, 2000, by and between M.A. Hanna Company and The Geon Company.

1.7 Excess Earnings means the amount of the Participant's compensation that would be taken into account as Earnings under the Savings Plan but for the limitations under the Savings Plan in respect of Section 401(a)(17) of the Code.

1.8 MIP/SIP Limited Compensation means the portion of an award under the Company's Management Incentive Program and/or Sales Incentive Program, as applicable, of an MIP/SIP Limited Participant that, after January 31, 1995, would have been paid in cash if the Company's Management Incentive Program and/or Sales Incentive Program, as applicable, did not provide for payment of all or a portion of the awards thereunder in a form other than cash and any portion of an MIP/SIP Limited Participant's award payable in cash under the Company's Management Incentive Plan and/or Sales Incentive Program, as applicable, the receipt of which is deferred at the election of the MIP/SIP Limited Participant; provided, however, that in no event shall MIP/SIP Limited Compensation include any premium related to payment of an award in a form other than cash under the Company's Management Incentive Plan and/or Sales Incentive Program nor any amount that is eligible earnings under the Pension Plan and/or Savings Plan; and, provided, however, that any portion of an MIP/SIP Limited Participant's award payable in cash under the Company's Management Incentive Plan and/or Sales Incentive Program, as applicable, that is deferred at the election of the Participant shall be MIP/SIP Limited Compensation only for the period in which it would have been received but for the deferral.

1.9 MIP/SIP Limited Participant means a Participant whose award under the Company's Management Incentive Program and/or Sales Incentive Program, as applicable, is mandatorily paid in a form other than cash at a percentage that exceeds twenty percent (20%) of the award (excluding any premium).

1.10 Participant means any employee or former employee who is receiving any of the benefits provided by this Plan.

1.11 Plan means The Geon Company Section 401(a)(17) Benefit Restoration Plan.

1.12 Plan Account means a book reserve account maintained under the Plan on behalf of a Participant, to which the amounts to which such Participant is entitled under Articles 4.1, 4.2, and 4.3 are credited.

1.13 Pension Plan means the portion of the PolyOne Merged Pension Plan comprised of The Geon Pension Plan.

1.14 Pension Plan Benefit means the pension benefit payable from the Pension Plan to a Participant (taking into account and including the limitations contained in Sections 415 and 401(a)(17) of the Code).

1.15 Savings Plan means for the period prior to January 1, 2004, The Geon Retirement Savings Plan, which was renamed the PolyOne Retirement Savings Plan A (the “Geon Savings Plan”), and for the period after that date, means the PolyOne Retirement Savings Plan, into which the Geon Savings Plan was merged.

1.16 Section 409A means Section 409A of the Code, as the same may be amended from time to time.

1.17 Section 409A Guidance means Section 409A, together with proposed, temporary or final regulations or any other guidance issued by the Secretary of the Treasury or the Internal Revenue Service with respect thereto.

1.18 Separation From Service means termination of employment (within the meaning of Treasury Regulation Section 1.409A-1(h)(1)(ii)).

1.19 Specified Employee means a specified employee as determined by the Company in its Specified Employee Designation Procedures.

1.20 Supplemental Restoration Benefit means an amount which is determined by subtracting the Participant's Pension Plan Benefit from the Participant's Basic Pension Plan Benefit.

1.21 Supplemental Preretirement Surviving Spouse Death Benefit means the amount of Qualified Preretirement Survivor Annuity that would be payable from the Pension Plan to the surviving spouse of a Participant, computed without regard to the benefit limitations imposed on the Pension Plan by Sections 415 and 401(a)(17) of the Code and, in the case of an MIP/SIP Limited Participant, computed taking in to account the MIP/SIP Limited Participant's MIP/SIP Limited Compensation as eligible earnings under the Pension Plan, minus the amount of Qualified Preretirement Survivor Annuity payable to such surviving spouse from the Pension Plan.

1.22 Valuation Date means the last day on which the New York Stock Exchange is open for trading occurring in the calendar month immediately preceding the calendar month in which the Participant's employment covered under the Plan terminates.

1.23 Words and phrases used herein with initial capital letters which are defined in the Savings Plan or the Pension Plan shall have the definitions given to them in such Plans.

SECTION II

ELIGIBILITY TO PARTICIPATE

2.1 Each participant in the Pension Plan shall participate in this Plan with respect to the Pension Plan if such participant's Basic Pension Plan Benefit exceeds the amount of such participant's Pension Plan Benefit. Effective May 31, 2003, no additional employees are eligible to participate in this Plan with respect to the Savings Plan. However, the Company shall continue to maintain Plan Accounts for Participants who had amounts credited to Plan Accounts prior to such date until such Plan Accounts are completely distributed pursuant to Section 5.2.

SECTION III

BENEFIT RESTORATION UNDER THE PENSION PLAN

3.1 (a) The Company shall pay to a Participant who is participating in this Plan with respect to the Pension Plan a Supplemental Restoration Benefit. Such Supplemental Restoration Benefit shall be paid in accordance with Article 5.1. The Company shall pay to the surviving spouse of a Participant who is participating in this Plan with respect to the Pension Plan and who dies under circumstances entitling such surviving spouse to a Qualified Preretirement Survivor Annuity under the Pension Plan a Supplemental Preretirement Surviving Spouse Death Benefit. Such Supplemental Preretirement Surviving Spouse Death Benefit shall be paid in accordance with Article 5.1.

(b) Effective as of December 31, 2004, all Supplemental Restoration Benefits and Supplemental Preretirement Surviving Spouse Death Benefits under the Plan were temporarily frozen. In furtherance of, but without limiting the foregoing, for the period from January 1, 2005 through December 31, 2007, Participants did not receive credit under this Plan for any eligible earnings that were earned after December 31, 2004 (even if such eligible earnings are taken into account for purposes of determining Pension Plan Benefits under the Pension Plan). Effective December 31, 2007, all Supplemental Restoration Benefits and Supplemental Preretirement Surviving Spouse Death Benefits are retroactively unfrozen to January 1, 2005. As a result, Participants shall receive credit under the Plan for eligible earnings that are earned after December 31, 2004 to the extent that such eligible earnings would be taken into account for purposes of determining Supplemental Restoration Benefits and Supplemental Preretirement Surviving Spouse Death Benefits hereunder.

(c) Supplemental Restoration Benefits and Supplemental Preretirement Surviving Spouse Death Benefits that are accrued and vested on or before December 31, 2004, as determined under the Section 409A Guidance, including without limitation, the early retirement subsidy under the Pension Plan for Participants who, as of December 31, 2004, had met the requirements for an early retirement pension under the Pension Plan, will qualify for “grandfathered” status under Section 409A and will continue to be governed by the law applicable to nonqualified deferred compensation prior to the addition of Section 409A to the Code.

SECTION IV

BENEFIT RESTORATION UNDER THE SAVINGS PLAN

4.1 The Company shall maintain a Plan Account for each Participant who is participating in this Plan with respect to the Savings Plan.

The Company shall credit the Plan Account of each such Participant with an amount or amounts, determined as follows:

(1) for each Plan Year in which the Participant has Excess Earnings, an amount equal to the matching Company Contributions that would have been made to the Savings Plan with respect to such Excess Earnings if such Excess Earnings had been Earnings at the relevant time under the Savings Plan and the Participant had elected the maximum employee pre-tax contribution with respect to such Excess Earnings;

(2) for each Plan Year beginning after December 31, 1999 in which the Participant has Excess Earnings and receives a 2% Nonelective Contribution under the Savings Plan, an amount equal to 2% of the Participant's Excess Earnings for such Plan Year;

(3) for periods after the first date on which the Participant has Excess Earnings, an amount equal to the matching Company Contributions that would have been made to the Savings Plan with respect to a MIP/SIP Limited Participant's MIP/SIP Limited Compensation if such MIP/SIP Limited Compensation had been Earnings at the relevant time under the Savings Plan and the Participant had elected the

maximum employee pre-tax contribution with respect to such MIP/SIP Limited Compensation; and

(4) for periods after December 31, 1999 and after the first date on which the Participant has Excess Earnings, for each Plan Year in which the Participant receives a 2% Nonelective Contribution under the Savings Plan and has MIP/SIP Limited Compensation, an amount equal to 2% of the MIP/SIP Limited Participant's MIP/SIP Limited Compensation for such Plan Year.

Such credits to the Participant's Plan Account shall occur at such time or times as the Company shall determine, but such credits shall be made not later than September 15th of the calendar year following the calendar year to which the Excess Earnings or MIP/SIP Limited Compensation, as the case may be, relates. After being credited to the Participant's Plan Account, the time as of which the credit occurred shall not be changed by the Company.

Notwithstanding the foregoing provisions of this Section 4.1, no Participant's Plan Account shall be credited with an amount or amounts applicable to Excess Earnings attributable to any period after May 31, 2003.

4.2 A Participant with Excess Earnings during any Plan Year commencing prior to December 31, 2002 and during the partial Plan Year of January 1, 2003 to May 31, 2003 may elect to reduce his or her compensation that would be Excess Earnings for such Plan Year at a percentage rate of Excess Earnings not in excess of 6% as elected by the Participant on a form provided by the Company and have the amount by which the Participant's compensation is reduced credited to the Participant's Plan Account. Such election shall be made at such time and in such manner as the Company shall require, but such election shall be made prior to the date on which the compensation to which it relates is earned and shall be irrevocable for the period to which it relates.

4.3 The Plan Accounts hereunder will be credited on a monthly basis with earnings: (1) for periods prior to January 1, 1995, and for periods after February 28, 1997, at a rate equal to the monthly rate of earnings paid under the Fixed Income Fund of the Savings Plan; and (2) for periods after December 31, 1994 but prior to March 1, 1997, at a rate equal to the monthly rate of earnings paid under the Fixed Income Fund of the Savings Plan, rounded up to the next whole percent (if applicable), for the last full calendar month of the Plan Year ending most recently prior to the month for which the crediting is being done. In the event that the Fixed Income Fund of the Savings Plan no longer exists, the Company shall, in its sole discretion, establish an alternate rate of return for the immediately preceding sentence, which alternate rate of return shall be intended by the Company to provide a rate of return comparable to that of the Fixed Income Fund. Notwithstanding the foregoing provisions of this Article 4.3: the Committee may establish rules and procedures whereunder a Participant may elect that the Participant's Account be credited or debited with earnings and losses equal to the earnings and losses on a specified investment or specified investments other than the Fixed Income Fund of the Savings Plan (or alternative rate of return, if applicable), provided, however, that PolyOne Corporation common stock may not be a specified investment for purposes of the Plan. Such election shall be made at such time(s) and in such manner as the Committee's rules and procedures shall require, shall be prospective only, and shall be irrevocable with respect to the period to which it relates.

SECTION V

PAYMENT OF BENEFITS

5.1 Pension.

(a) Any Supplemental Restoration Benefit or Supplemental Preretirement Surviving Spouse Death Benefit that, under the Section 409A Guidance, is deemed to have been deferred prior to January 1, 2005 and that qualifies for “grandfathered” status under the Section 409A Guidance, including without limitation, the early retirement subsidy under the Pension Plan for Participants who, as of December 31, 2004, had met the requirements for an early retirement pension under the Pension Plan, shall continue to be governed by the law applicable to nonqualified deferred compensation prior to the addition of Section 409A to the Code and shall be subject to the terms and conditions specified in the Plan, including particularly, but not limited to, those respecting time and form of payment, as in effect prior to January 1, 2005. In furtherance of, but without limiting the foregoing, (1) the “grandfathered” Supplemental Restoration Benefit shall be payable in the same form as elected under the Pension Plan and in accordance with and subject to all of the terms and conditions applicable to the Participant’s benefits under the Pension Plan including the actuarial equivalents of, as provided in the Pension Plan, the optional benefits he or she has elected or is deemed to have elected, and (2) the “grandfathered” Supplemental Preretirement Surviving Spouse Death Benefit shall be payable in the same form as elected under the Pension Plan and in accordance with and subject to all of the terms and conditions applicable to the Surviving Spouse’s benefits under the Pension Plan including the actuarial equivalents of, as provided in the Pension Plan, the optional benefits he or she has elected or is deemed to have elected.

(b) The remaining subsections of this Section 5.1 are applicable to the portion of a Participant's Supplemental Restoration Benefit and the Participant's Supplemental Preretirement Surviving Spouse Death Benefit that, under the Section 409A Guidance, are deemed to have been deferred on or after January 1, 2005 (the "non-grandfathered" benefit).

(c) Except as provided in Section 5.1(d), the Supplemental Restoration Benefit of a Participant who incurs a Separation from Service and commences payment of his or her Supplemental Restoration Benefit on or before December 31, 2008 shall be payable in the same form as elected under the Pension Plan and in accordance with and subject to all of the terms and conditions applicable to the Participant's benefits under the Pension Plan, including the actuarial equivalents, as provided in the Pension Plan, of the optional Pension Plan benefits he or she has elected or is deemed to have elected. The Supplemental Preretirement Surviving Spouse Death Benefit payable with respect to a Participant who dies and with respect to whom the preretirement surviving spouse benefit under the Pension Plan commences to be paid on or before December 31, 2008 shall be payable in the same form as elected under the Pension Plan and in accordance with and subject to all of the terms and conditions applicable to the Surviving Spouse's benefits under the Pension Plan, including the actuarial equivalents, as provided in the Pension Plan, of the optional benefits he or she has elected or is deemed to have elected.

(d) The non-grandfathered Supplemental Restoration Benefit of a Participant who commenced payment of his or her grandfathered Supplemental Restoration Benefit after December 31, 2004 but prior to December 31, 2007 shall commence to be paid on March 1, 2008 and shall be payable in the same form as elected under the Pension Plan and in accordance with and subject to all of the terms and conditions applicable to the Participant's benefits under the Pension Plan, including the actuarial equivalents, as provided in the Pension Plan, of the optional Pension Plan benefits he or she has elected or is deemed to have elected. The initial annuity payment shall include a one-time payment of the Participant's non-grandfathered Supplemental Restoration Benefit that was retroactively unfrozen.

(e) The Supplemental Restoration Benefit of a Participant that does not commence to be paid pursuant to Section 5.1(c) or Section 5.1(d) shall be paid in the form of an annuity payable monthly for the entire life of the Participant but in no event for a period less than 60 months (the "5-Year Certain Annuity"), commencing, subject to Section 5.1(g), on the later of (1) January 1, 2009, or (2) the first of the month following the later of the date the Participant (A) incurs a Separation from Service or (B) attains age 55. In lieu of receiving his or her benefit in the form of a 5-Year Certain Annuity, at any time prior to the date benefit payments commence, a Participant may elect, on a written form acceptable to the Company, to receive his or her benefit in one of the optional forms of benefit payment specified in the Pension Plan (the "Optional Forms"). The Optional Forms shall be subject to all of the terms and conditions applicable to such optional forms of benefit under the Pension Plan, including the actuarial equivalents set forth in the Pension Plan that are used to calculate the Optional Forms, but excluding the requirement to obtain spouse consent for particular forms of payment.

If a Participant elects an Optional Form that provides for a benefit to a joint pensioner or beneficiary, the Participant shall designate such joint pensioner or beneficiary at the time the Participant elects such Optional Form.

(f) The Supplemental Preretirement Surviving Spouse Death Benefit payable to a Participant's surviving spouse that does not commence to be paid pursuant to Section 5.1(c) or Section 5.1(d) shall be paid in the form of an annuity payable monthly for the entire life of the surviving spouse, commencing on the first of the month following the later of the date of the Participant's death or the date on which the Participant would have attained age 55.

(g) Notwithstanding the foregoing, the Supplemental Restoration Benefit of a Participant who is a Specified Employee at the time of his or her Separation from Service shall commence to be paid no earlier than the earlier of (i) the first day of the seventh month following his or her Separation from Service with the Company or (ii) his or her death. The initial payment for such a Specified Employee shall include a one-time payment of the annuity payments that would have been paid absent the six-month delay required by the Section 409A Guidance.

5.2 Savings.

(a) All credits to Plan Accounts under Sections 4.1 and 4.2 of the Plan were deferred and vested prior to January 1, 2005 and therefore qualify for "grandfathered" status under the Section 409A Guidance. As such, they shall continue to be governed by the law applicable to nonqualified deferred compensation prior to the addition of Section 409A to the Code and shall be subject to the terms and conditions specified in the Plan as in effect prior to January 1, 2005. In particular, all credits to Plan Accounts under Sections 4.1 and 4.2 of the Plan and earnings thereon credited to Plan Accounts under Section 4.3 of the Plan shall be considered “grandfathered” under Section 409A and shall be paid under the terms of the Plan as in effect prior to January 1, 2005, which are set forth in Sections 5.2(b) and 5.2(c).

(b) The Company shall distribute in a lump sum to each Participant in this Plan or his or her designated beneficiary under the Savings Plan, upon the termination of employment of such Participant under circumstances entitling him or her or such beneficiary to a distribution of the Participant’s interest in the Savings Plan, except as provided below, an amount in cash equal to (i) the value of his or her Plan Account attributable to the deemed matching contribution of the Company, as provided in paragraph 4.1 herein, to the extent vested determined in accordance with the terms of the Savings Plan, at the time of termination of employment, valued as of the close of business on the Valuation Date, and (ii) the value of his or her Plan Account attributable to contributions made pursuant to an election under Article 4.2, as of the close of business on the Valuation Date. A Participant employed by a Successor Company may, subject to Committee approval, be considered to have terminated employment with the Company for purposes of this Article 5.2 only.

(c) Notwithstanding Article 5.2(a) hereof, with respect to employment terminations occurring on and after November 1, 1996 and prior to February 6, 1997, a Participant who is subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended (a “Section 16 Insider”) at the time of employment termination, and who with respect to any portion of his or her Plan Account which, if not held for six months, would subject the Participant to short-swing liability under Section 16 of such Act, shall not be entitled to a distribution under the Plan of any portion of such Participant’s Plan Account as to which the Participant has elected to be credited or debited with earnings and losses equal to the earnings and losses on a specified investment which derives its return from the value of the equity securities of the Company (a “Company Equity Fund”) until such date that is six months and one day following the termination of such Participant’s employment under circumstances entitling him or her or his or her designated beneficiary to a distribution of the Participant’s interest in the Savings Plan. Any amounts distributed in accordance with this Article 5.2(b) shall be valued as of the close of business on the last day on which the New York Stock Exchange is open for trading occurring in the calendar month immediately preceding the calendar month in which the Participant is entitled to a distribution under this Article 5.2(b), rather than as of the Valuation Date.

SECTION VI

LIMITATIONS ON BOTH PENSION AND SAVINGS PLANS

6.1 Where Section 415 of the Code places combined limits on both the Pension Plan and the Savings Plan, the Savings Plan will be the primary qualified plan.

SECTION VII

MISCELLANEOUS

7.1 Administration. The Committee shall have full discretionary authority to administer the Plan, determine all questions arising in connection with the Plan, interpret the provisions of the Plan, adopt procedural rules, and employ and rely on such legal counsel, actuaries, accountants and agents as it may deem advisable to assist in the administration of the Plan. Decisions of the Committee shall be conclusive and binding on all persons.

7.2 Termination. This Plan may be terminated at any time by the Board of Directors of the Company, in which event the rights of Participants to their accrued and vested Supplemental Restoration Benefits and to the balances in their Plan Accounts established under this Plan (if any) shall become nonforfeitable. Subject to the Section 409A Guidance, if the Company shall terminate the Pension Plan or the Savings Plan, any Supplemental Restoration Benefits or Plan Accounts payable to the Participants in accordance with this Plan shall be payable to them in accordance with all of the terms and conditions applicable to employee benefits under the Pension Plan in the event of its termination, as applicable, and, if applicable, the amounts to the credit of Participants in their Plan Accounts shall be distributed to such Participants as provided herein, but in accordance with any of the terms and conditions of the Savings Plan then applicable providing for earlier distribution, as applicable. Notwithstanding the immediately preceding sentence, a Participant who is subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended shall not be entitled to a distribution under the Plan of any portion of such Participant’s Plan Account as to which the Participant has elected to be credited or debited with earnings and losses equal to the earnings and losses on a specified investment which derives its return from the value of the equity securities of the Company until such time as is provided in Article 5.2.

7.3 No Assignability. The right of an employee or any other person to a benefit payment pursuant to this Plan shall not be assigned, transferred, pledged or encumbered except by will or the laws of descent and distribution.

7.4 Rights. Nothing in this Plan shall be construed as giving any employee the right to be retained in the employ of the Company as an executive or in any other capacity. The Company expressly reserves the right to dismiss any employee at any time without regard to the effect which such dismissal might have upon him or her under the Plan.

7.5 Amendment. This Plan may be amended at any time by or pursuant to action of the Committee, except that no such amendment shall: (1) deprive any Participant of his or her Supplemental Restoration Benefit accrued at the time of such amendment; (2) reduce the amount then credited to a Participant's Plan Account (if any); (3) if approved or adopted after August 1, 1996, amend the Plan in any other manner that would not be permitted under Section 411(d)(6) of the Code, as in effect on August 1, 1996 ("1996 Section 411(d)(6)"), or the regulations thereunder as in effect on August 1, 1996, but not including any regulation in respect of Section 204(h) of ERISA (if the Plan were a plan subject to 1996 Section 411(d)(6)), except to the extent that a Participant who would be affected by the amendment consents in writing thereto; or (4) if approved or adopted after August 1, 1996, change the method of crediting hypothetical earnings (or losses) under Article 4.3 of the Plan to a method that would not be permissible under a plan qualified under Section 401 (a) of the Code, as in effect on August 1, 1996 ("1996 Section 401(a)") except that the provisions of Article 4.3 of the Plan as in effect prior to August 1, 1996 and any provisions substantially similar to the provisions of Article 4.3 of the Plan as in effect on August 1, 1996 shall be deemed a method or methods permissible under 1996 Section 401(a), and that a provision shall not be deemed impermissible under a plan qualified under 1996 Section 401(a), because the provision credits hypothetical (as opposed to actual) earnings (or losses), and except to the extent that a Participant who would be affected by the amendment consents in writing thereto.

7.6 Funding. Benefits payable under this Plan shall not be funded and shall be paid out of the general funds of the Company. The Company shall not be required to segregate any assets with respect to this Plan. Nothing contained in this Plan shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any employee, former employee or any designated beneficiary of any Participant or any other person. Any amounts credited to a Participant under the provisions of this Plan shall continue for all purposes to be part of the general funds of the Company, and no person other than the Company shall by virtue of the provisions of this Plan have any interest in such funds. No person shall have any property interest whatsoever in any specific assets of the Company by reason of the Plan. Any right to receive payments pursuant to the Plan shall be no greater than the right of any unsecured creditor of the Company.

7.7 Benefit Claims and Appeal Procedure.

(a) Any Participant or beneficiary who believes that he is entitled to receive a benefit under the Plan which he has not received may file with the Committee a written claim specifying the basis for his claim and the facts upon which he relies in making such a claim. Such a claim must be signed by the claimant or his duly authorized representative (the “Claimant”).

(b) Whenever the Committee denies (in whole or in part), a claim for benefits filed by a Claimant, the Committee shall transmit a written notice of such decision to the Claimant, within 90 days after such claim was filed (plus an additional period of 90 days if required for processing, provided that notice of the extension of time is given to the Claimant within the first 90 day period). Such notice shall be written in a manner calculated to be understood by the Claimant and shall state (1) the specific reason(s) for the denial of the claim, (2) specific reference(s) to pertinent provisions of the Plan on which the denial of the claim was based, (3) a description of any additional material or information necessary for the Claimant to perfect the claim and an explanation of why such material or information is necessary, and (4) an explanation of the Plan’s review procedures under Subsection (c) below and the time limits applicable to such procedures, including a statement of the Claimant’s right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

(c) Within 60 days after the denial of his claim, the Claimant may request that the claim denial be reviewed by filing with the Committee a written request therefore. If such an appeal is not filed within this 60-day limit, the Claimant shall be deemed to have agreed with the Committee’s denial of the claim. If such an appeal is so filed within such 60-days, a named fiduciary designated by the Committee shall (1) conduct a full and fair review of such claim and (2) mail or deliver to the Claimant a written decision on the matter based on the facts and pertinent provisions of the Plan within a period of 60 days after the receipt of the request for review unless special circumstances require an extension of time, in which case such decision shall be rendered not later than 120 days after receipt of such request. If an extension of time for review is required, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. Such decision shall (1) be written in a manner calculated to be understood by the Claimant, (2) state the specific reason(s) for the decision, (3) make specific reference(s) to pertinent provisions of the Plan on which the decision is based and (4) to the extent permitted by applicable law, be final and binding on all interested persons. During such full review, the Claimant shall be given an opportunity to review documents that are pertinent to the Claimant's claim and to submit issues and comments in writing. In addition, the notice of adverse determination shall also include statements that (1) the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the Claimant's claim for benefits and (2) a statement of the Claimant's right to bring an action under Section 502(a) of ERISA.

7.8 Continuation of Portion of Goodrich Plan. The Plan shall provide all payments in respect of similar benefits provided for under a similar plan (the "Goodrich Plan") of The B.P. Goodrich Company ("Goodrich") owed after April 29, 1993 to those persons who were last employed by Goodrich in the Geon Vinyl Division and those employees who were last employed by Goodrich in a department which became a part of the Geon Vinyl Division when the Geon Vinyl Division was formed, who were receiving such benefits under the Goodrich Plan as of April 29, 1993 or who would have commenced receiving such benefits under the Goodrich Plan on or after April 29, 1993 because of events occurring prior to April 29, 1993, all in accordance with the provisions of the Goodrich Plan (as in effect on April 28, 1993 or such prior date(s) as applicable to the time(s) at which such person accrued such benefits), if any. The Plan is a continuation of the Goodrich Plan with respect to those employees of the Company who were participants in the Goodrich Plan immediately prior to April 29, 1993. Whenever in this Plan it is necessary to calculate any compensation or earnings of any such Participant for any period prior to April 29, 1993, or to use any period of service prior to that date for any purpose in the Plan, such Participant's period of service, compensation, and/or earnings taken into account under the Goodrich Plan prior to April 29, 1993 shall be taken into account under the Plan.

7.9 Section 409A of the Code

(a) To the extent applicable, it is intended that the Plan (including all Amendments thereto) comply with the provisions of Section 409A so as to prevent the inclusion in gross income of any amount deferred hereunder in any taxable year that is prior to the taxable year or years in which such amount would otherwise be actually distributed or made available to the Participants. The Plan shall be administered in a manner that will comply with the Section 409A Guidance. Any Plan provisions that would cause the Plan to fail to satisfy Section 409A shall have no force and effect until amended to comply with Section 409A (which amendment may be retroactive to the extent permitted by the Section 409A Guidance).

(b) The Committee shall not take any action that would violate any provision of the Section 409A Guidance. The Committee is authorized to adopt rules or regulations deemed necessary or appropriate in connection with the Section 409A Guidance to anticipate and/or comply with the requirements thereof (including any transition or grandfather rules thereunder).

SECTION VIII

EFFECTIVE DATE

8.1 This Plan shall be construed, administered and enforced according to applicable federal law, and to the extent not preempted thereby, the laws of the state in which the Company is incorporated.

8.2 This Plan was established and became effective April 29, 1993. Except as otherwise provided herein, this amendment and restatement of the Plan shall be effective as of December 31, 2007 except that accruals described in Section 3.1(b) are unfrozen retroactively to January 1, 2005.

IN WITNESS WHEREOF, the undersigned has executed this document February 19, 2008.

POLYONE CORPORATION

By: /s/ Kenneth M. Smith

Name: Kenneth M. Smith

Title: Senior Vice President and
Chief Information Officer and
Human Resources Officer

Exhibit 10.12

POLYONE CORPORATION

DEFERRED COMPENSATION PLAN
FOR NON-EMPLOYEE DIRECTORS
(As Amended and Restated Effective December 31, 2007)

ARTICLE I
PURPOSE OF THE PLAN

The purpose of the PolyOne Corporation (the "Company") Deferred Compensation Plan for Non-Employee Directors is to provide any Non-Employee Director of the Company the option to defer receipt of the compensation payable for services as a Director and to build loyalty to the Company through increased ownership in the Company's Common Stock.

ARTICLE II
DEFINITIONS

As used herein, the following words shall have the meaning stated after them unless otherwise specifically provided:

2.1 "Calendar Year" shall mean the twelve month period January 1 through December 31.

2.2 "Change in Control" shall mean any of the following events:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of voting securities of the Company where such acquisition causes such Person to own 20% or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not be deemed to result in a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction that complies with clauses (i), (ii) and (iii) of subsection (c) below; provided, further, that if any Person's beneficial ownership of the Outstanding Company Voting Securities reaches or exceeds 20% as a result of a transaction described in clause (i) or (ii) above, and such Person subsequently acquires beneficial ownership of additional voting securities of the Company, such subsequent acquisition shall be treated as an acquisition that causes such Person to own 20% or more of the Outstanding Company Voting Securities; and provided, further, that if at least a majority of the members of the Incumbent Board determines in good faith that a Person has acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of the Outstanding Company Voting Securities inadvertently, and such Person divests as promptly as practicable a sufficient number of shares so that such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) less than 20% of the Outstanding Company Voting Securities, then no Change of Control shall have occurred as a result of such Person's acquisition; or

(b) Individuals who, as of November 6, 1996, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to November 6, 1996 whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) The consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation ("Business Combination"); excluding, however, such a Business Combination pursuant to which (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Voting Securities, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

2.3 "Committee" shall mean the Compensation and Governance Committee described in Section 8.1 hereof.

2.4 “Common Stock” or “stock” means common shares, par value $.01 per share, of the Company, including authorized and unissued shares and treasury shares.

2.5 “Company” means PolyOne Corporation, an Ohio corporation.

2.6 “Director” shall mean any non-employee director of the Company.

ARTICLE III
ELECTIONS BY DIRECTORS

3.1 Election to Defer. At any time designated by the Company before the beginning of a taxable year (the “Election Period”), a Director may elect to defer receipt of the compensation payable to him or her for services as a Director during the taxable year. Such election shall be made on an election form specified by the Company (the “Election Form”). A Director’s initial Election Form will, subject to the following sentence, include an election as to the time of payment or the commencement of payment and the manner of payment of all amounts in his or her Account. In addition, if a Director has elected to receive or commence payment in a specified year, the Election Form for the Election Period immediately prior to such specified year shall contain the Director’s election regarding the time and manner of payment of amounts in his or her Account for that and all future Election Periods. Notwithstanding the foregoing, with respect to the first taxable year in which a person becomes a Director, such Director may, within 30 days of becoming a Director, make an election to defer compensation payable to him or her in such taxable year for services as a Director subsequent to the election. Each Director’s Election Form shall indicate the portion of the Director’s compensation to be invested in an interest-bearing account and the portion of such compensation to be invested in Common Stock.

3.2 Effectiveness of Elections. Elections shall be effective and, except as set forth in Section 3.3, irrevocable upon the delivery of an Election Form to the Committee. Subject to the provisions of Article VI, amounts deferred pursuant to such elections shall be distributed at the time and in the manner set forth in such election.

3.3 Amendment and Termination of Elections. A Director may terminate or amend his or her election to defer receipt of compensation by written notice delivered to the Committee during the Election Period prior to the commencement of the taxable year with respect to which such compensation will be earned. Amendments which serve only to change the beneficiary designation shall be permitted at any time and as often as necessary.

ARTICLE IV
COMMON STOCK AVAILABLE UNDER THE PLAN

4.1 Common Stock. The aggregate number of shares of Common Stock that may be granted under this Plan in any fiscal year of the Company during the term of this Plan will be equal to one tenth of one percent (0.1 %) of the number of shares of Common Stock outstanding as of the first day of that fiscal year. Shares of Common Stock awarded to a Director as compensation pursuant to any other plan or arrangement of the Company, the receipt of which the Director defers pursuant to this Plan, shall not reduce the number of shares of Common Stock that may be granted under this Plan in accordance with the immediately preceding sentence.

4.2 Adjustment. In the event of any change in the Common Stock of the Company by reason of a merger, consolidation, reorganization, or similar transaction, or in the event of a stock dividend, stock split, or distribution to shareholders (other than normal cash dividends), the Committee will adjust the number and class of shares that may be issued under this Plan, the number and class of shares subject to outstanding deferrals, and the fair market value of the Common Stock, and other determinations applicable to outstanding awards.

ARTICLE V
ACCOUNTS

5.1 Accounts. The Company shall establish and maintain two separate Deferred Compensation Accounts (each an "Account") for each Director who elects to defer compensation under the Plan: (a) the "Grandfathered Account" for amounts that are "deferred" (as such term is defined in Section 409A of the Internal Revenue Code of 1986, as amended (the "Code")) as of December 31, 2004 (and earnings thereon) and (b) the "Post-2004 Account" for amounts that are deferred after December 31, 2004 (and earnings thereon). If the Director elects to have deferred compensation invested in an interest-bearing account, the Company shall credit the Account of the Director with an amount equal to one hundred percent (100%) of the compensation deferred pursuant to this Plan. Subject to the limitation stated in the last sentence of this Section 5.1, in the event that a Director elects to have some or all of his or her compensation invested in Common Stock, then the Company shall credit the Account of the Director with an amount equal to one hundred twenty-five percent (125%) of such compensation, in the form of a number of shares of Common Stock, valued at its Fair Market Value. As used herein, the Fair Market Value of Common Stock shall be the average of the high and low prices of the Company's Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange for the date immediately preceding the date of crediting the Account, provided that if no sales of Common Stock were made on said Exchange on that date, the Fair Market Value shall be the average of the high and low prices of Common Stock as reported on said composite tape for the preceding day on which sales of Common Stock were made on said Exchange. The Accounts shall be credited as of the date on which the compensation would otherwise have been paid to the Director, if not deferred under the Plan. Notwithstanding the foregoing, in the event that a Director elects to defer compensation that, but for the Director's election to defer, the Director would have received in the form of Common Stock (rather than cash or some other non-stock form of compensation), then the Company shall credit the Account of the Director with an amount equal to one hundred percent (100%) of such compensation, in the form of the number of shares of Common Stock otherwise payable to the Director under the plan or arrangement of the Company providing for the payment of such compensation, valued as provided in the plan or arrangement of the Company providing for the payment of such compensation or, if no such provision is made, at its Fair Market Value.

5.2 Adjustment of Accounts. As of December 31 of each Calendar Year and on such other dates as the Committee directs, the fair market value of the Account of each Director shall be determined by crediting to the Account an amount equal to the income earned during the Calendar Year, or other appropriate period, the number of shares of Common Stock credited to the Account, and then determining the fair market value of the shares and other amounts credited to the Account.

ARTICLE VI
PAYMENT OF ACCOUNTS

6.1 Time of Payment. Payment of the amount credited to a Director's Grandfathered Account shall commence upon a date which is not more than thirty days after the earlier of (i) the attainment of the date specified (not younger than age 55) in his Election Form or (ii) upon a Change in Control. Payment of the amount credited to a Director's Post-2004 Account shall commence upon a date which is not more than thirty days after the earliest of (i) as elected by the Director in his Election Form, upon a specified date or the date of the Director's separation from service with the Company, as determined in accordance with Section 409A of the Code (the "Separation from Service Date"); provided, however, that the Director shall not have the right to designate the taxable year of payment and further provided that if the payment is to commence upon the Director's Separation from Service Date and the Director is a "specified employee," as determined by the Company in its Specified Employee Designation Procedure (a "Specified Employee"), at the Separation from Service Date, the payment shall commence on the first day of the seventh month following the Director's Separation from Service Date, (ii) the death of the Director or (iii) upon a Change in Control. To the extent a Director would be entitled to payment upon the occurrence of a Change in Control pursuant to the preceding sentence and such Change in Control does not constitute a permitted distribution event under Section 409A(a)(2) of the Code, then payment will be made, to the extent necessary to comply with the provisions of Section 409A of the Code, to the Director on the earliest of (A) the Director's Separation from Service Date, provided, further, that if the Director is a Specified Employee at the time of the Separation from Service Date, the payment to the Director shall be made on the first day of the seventh month following such Separation from Service Date or (B) the Director's death.

6.2 Method of Payment.

(a) Grandfathered Account.

(1) Amounts Deferred Prior to January 1, 1996. The amount credited to a Director's Grandfathered Account prior to January 1, 1996 shall be paid, in whole or in part, to the Director in a lump sum and/or in annual installments over a period of not more than ten years as specified in each Director's Election Form. Grandfathered Accounts shall be paid in kind, in cash, or shares of Common Stock, as credited to the Grandfathered Account.

(2) Amounts Deferred From and After January 1, 1996. The amount credited to a Director's Grandfathered Account on and after January 1, 1996 shall be paid, in whole or in part, to the Director in a lump sum and/or in annual installments over a period of not more than ten years as specified in each Director's Election Form. A Director may elect to change his or her original payment period election, as specified in such Director's Election Form; provided, that (i) such change is approved by the Committee, and (ii) the election to change is made at least 18 months prior to the date specified in the electing Director's Election Form on which payment of the amount credited to the Director's Grandfathered

Account is to commence, and such election to change shall apply to all of the Director's entire Grandfathered Account. In the event that a Director who makes an election to change is a member of the Committee, such Director shall abstain from the Committee's determination of whether or not to approve the change. Grandfathered Accounts shall be paid in kind, in cash, or shares of Common Stock, as credited to the Grandfathered Account.

(b) Post-2004 Account. The amount credited to a Director's Post-2004 Account shall be paid, in whole or in part, to the Director in a lump sum and/or in annual installments over a period of not more than ten years as specified in each Director's Election Form. Payments to be paid in annual installments shall be paid in a series of substantially equal annual installments commencing on the initial date of payment set forth in Section 6.1 and on each anniversary of such date thereafter. Each installment payment shall be treated as a separate payment and not as part of a series of payments for purposes of Section 409A of the Code. Post-2004 Accounts shall be paid in kind, in cash, or shares of Common Stock, as credited to the Post-2004 Account.

6.3 Subsequent Payment Elections. A Director may elect to change his or her election with respect to time of commencement or method of payment, or both, with respect to an amount credited to the Director's Post-2004 Account, provided that the following requirements are met: (i) the election to change does not take effect until at least 12 months after the date on which the election is made, (ii) with respect to an election related to a payment that is to be made at a specified time or pursuant to a fixed schedule, the election to change is made at least 12 months prior to the date on which that payment is scheduled to be made and (iii) in the case of an election related to a distribution not described in Section 6.4(b) or 6.5, the payment under such election will be made no less than 5 years from the original date on which such payment would be made. If an election to change an original payment election is not timely made, or for any reason is not effective, amounts credited to the Director's Post-2004 Account will automatically be paid to the Director in the form(s) elected on the Director's Election Form(s).

6.4 Other Payments.

(a) Hardship Distribution. Prior to the time a Director's Grandfathered Account becomes payable, the Committee, in its sole discretion, may elect to distribute all or a portion of the Director's Grandfathered Account in the event that such Director requests a distribution on account of severe financial hardship. For purposes of this Plan, severe financial hardship shall be deemed to exist in the event the Committee determines that a Director needs a distribution to meet immediate and heavy financial needs resulting from a sudden or unexpected illness or accident of the Director or a member of his or her family, loss of the Director's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Director. A distribution based on financial hardship shall not exceed the amount required to meet the immediate financial need created by the hardship. The amount of a Director's Grandfathered Account shall be reduced by the amount of any hardship distribution to the Director.

(b) Unforeseeable Emergency Distribution. The Committee may at any time, upon written request of a Director, cause to be paid to such Director, an amount equal to all or any part of the Director's Post-2004 Account if the Committee determines, based on such reasonable evidence that it shall require, that such a payment is necessary for the purpose of alleviating the consequences of an Unforeseeable Emergency. Payments of amounts because of an Unforeseeable Emergency may not exceed the amount necessary to satisfy the Unforeseeable Emergency plus amounts necessary to pay taxes or penalties reasonably anticipated as a result of the distribution after taking into account the extent to which the Unforeseeable Emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Director's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship), or by cessation of deferrals under the Plan. For purposes of this Plan, Unforeseeable Emergency shall mean an event which results in a severe financial hardship to the Director resulting from (a) an illness or accident of the Director, the Director's spouse, the Director's beneficiary or a dependent of the Director, (b) loss of the Director's property due to casualty or (c) other similar extraordinary and unforeseeable circumstances as a result of events beyond the control of the Director. The amount of a Director's Post-2004 Account shall be reduced by the amount of any Unforeseeable Emergency distribution to the Director.

6.5 Designation of Beneficiary/Payment upon Death. Notwithstanding the time and manner of payment elected by a Director on his or her Election Form, upon the death of a Director, the amount credited to his or her Account (including any amount remaining in such Director's Account after commencement of installment payments to the Director) shall be paid in a single lump sum to the beneficiary or beneficiaries designated by him or her within thirty days after the date of the death of the Director, provided that no beneficiary will have the right to designate the taxable year of payment. If there is no designated beneficiary, or no designated beneficiary surviving at a Director's death, payment of a Director's Account shall be made to his or her estate. Beneficiary designations shall be made in writing. A Director may designate a new beneficiary or beneficiaries at any time by notifying the Company.

6.6 Taxes. In the event any taxes are required by law to be withheld or paid from any payments made pursuant to the Plan, the appropriate amounts shall be deducted from such payments and transmitted to the appropriate taxing authority.

ARTICLE VII
CREDITORS

7.1 Claims of the Company's Creditors. The rights of a Director or his or her beneficiaries to any payment under the Plan shall be no greater than the rights of an unsecured creditor of the Company.

ARTICLE VIII
ADMINISTRATION

8.1 Appointment of Committee. The Board of Directors of the Company shall appoint a Committee consisting of not less than three persons to administer the Plan. Members of the Committee shall hold office at the pleasure of the Board of Directors and may be dismissed at any time with or without cause. Such persons serving on the Committee need not be members of the Board of Directors of the Company.

8.2 Powers of the Committee. The Committee shall administer the Plan and resolve all questions of interpretation arising under the Plan with the help of legal counsel, if necessary.

Whenever directions, designations, applications, requests or other notices are to be given by a Director under the Plan, they shall be filed with the Committee. Except as provided in Section 6.2(a)(2) and Section 6.4(a), the Committee shall have no discretion with respect to Plan contributions or distributions but shall act in an administrative capacity only. Except as provided in the immediately following sentence, all decisions by the Committee will be made with the approval of not less than a majority of its members. Any interpretation by a majority of the Incumbent Directors then serving on the Committee as to whether a sale or other disposition of assets by the Company or an acquisition of assets of another corporation constitutes a “sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation” for purposes of clause (iii) of the definition of “Change of Control” in Section 2.2 hereof shall be final and binding for all purposes of this Plan and any Accounts hereunder, notwithstanding that the transaction in question was, or is contemplated to be, submitted to stockholders of the Company for their approval and notwithstanding such approval.

It is intended that the Plan comply with the provisions of Section 409A of the Code, so as to prevent the inclusion in gross income of any amounts deferred hereunder in a taxable year that is prior to the taxable year or years in which such amounts would otherwise actually be distributed or made available to Directors or beneficiaries. This Plan shall be administered in a manner that effects such intent. Any reference in this Plan to Section 409A of the Code will also include any proposed, temporary or final regulations, or any other guidance, promulgated with respect to such Section 409A by the U.S. Department of Treasury or the Internal Revenue Service.

ARTICLE IX
MISCELLANEOUS

9.1 Term of Plan. The Plan shall terminate on the tenth anniversary of the approval of the Plan, as amended, by the shareholders at the 2004 Annual Meeting of Shareholders. Once the Plan has terminated, no further shares of Common Stock shall be granted; provided, however, that any Accounts then existing shall continue in accordance with the provisions of the Plan until the Accounts are paid out in accordance with the provisions of Article VI. The Company reserves the right to amend or terminate the Plan at any time; provided, however, that no amendment or termination shall affect the rights of Directors to amounts previously credited to their Accounts pursuant to Section 5.1 or to future income to be credited to their Accounts pursuant to Section 5.2, except to the extent that such amendment or termination is deemed necessary by the Company to ensure compliance with Section 409A of the Code.

9.2 Assignment. No right or interest of any Director (or any person claiming through or under such Director) in any benefit or payment herefrom other than the surviving spouse of such Director after he or she is deceased, shall be assignable or transferable in any manner or be subject to alienation, anticipation, sale, pledge, encumbrance, or other legal process or in any manner be liable for or subject to the debts or liabilities of such Director. Any attempt to transfer, assign, alienate, anticipate, sell, pledge, or otherwise encumber benefits hereunder or any part thereof shall be void.

9.3 Effective Date of Plan. The Plan's original effective date was December 9, 1993, and it is hereby amended and restated effective as of December 31, 2007.

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has caused this Plan to be executed as of the 18th day of February, 2008.

POLYONE CORPORATION

By: /s/ Kenneth M. Smith

<u>Exhibit 10.13</u>

[PolyOne Letterhead]

[Date]

[Name]
[Title]
[Address]

Dear ________________:

PolyOne Corporation (the “Company”) considers the establishment and maintenance of a sound and vital senior management to be essential to protecting and enhancing the best interests of the Company and its shareholders. In this connection, the Company recognizes that, as is the case with many publicly-held corporations, the possibility of a change of control may exist and that such possibility, and the uncertainty and questions that it may raise among management, may result in the distraction and even the departure of senior management personnel to the detriment of the Company and its shareholders. Accordingly, the Company’s Board of Directors has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company’s senior management, including yourself, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change of control of the Company.

In order to induce you to remain in the employ of the Company, and to continue your employment notwithstanding the occurrence or threat of occurrence of a transaction that results in a change of control of the Company, this letter agreement (“Agreement”) sets forth the benefits that the Company agrees shall be provided to you in the event a Change of Control (as hereinafter defined in Paragraph 3) should occur during the term of this Agreement and in the event that your employment is thereafter terminated under such circumstances as are expressly provided in Paragraph 4.

In making provision for the payment of these benefits, it is not the Company’s intention to alter in any way the compensation and benefits that would be paid to you in the absence of a Change of Control.

1. TERM. This Agreement shall commence on [DATE] and shall continue through December 31, 20___, *provided*, *however*, that commencing on January 1, 20___ and each January 1st thereafter, the term of this Agreement shall automatically be extended for one additional year, unless at least 90 days prior to such January 1st date, the Company shall have given notice that it does not wish to extend this Agreement; provided, however, that prior to the occurrence of a Change of Control, notwithstanding such extension, the term of this Agreement shall automatically end when you cease to serve as an elected officer of the Company. Upon the occurrence of a Change of Control during the term of this Agreement, including any extensions thereof, this Agreement shall automatically be extended until the end of your Period of Employment (as hereinafter defined in Paragraph 2), and may not be terminated by the Company during such time.

2. PERIOD OF EMPLOYMENT. Your "Period of Employment" shall commence on the date on which a Change of Control occurs and shall end on the date that is ___ months after the date on which such Change of Control occurs. Notwithstanding the foregoing, however, your Period of Employment shall not extend beyond the Mandatory Retirement Date (as hereinafter defined in Paragraph 3) applicable to you.

3. CERTAIN DEFINITIONS. For purposes of this Agreement:

(a) A "Change of Control" shall mean

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

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

(iii) The consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation, or other transaction (“Business Combination”) excluding, however, such a Business Combination pursuant to which (A) the individuals and entities who were the beneficial owners of the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) (B) no Person (excluding any employee benefit plan (or related trust) of the Company, the Company or such entity resulting from such Business Combination) beneficially owns, directly or indirectly, 25% or more of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors of the entity resulting from such Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company except pursuant to a Business Combination that complies with clauses (A), (B) and (C) of subparagraph (iii), above.

(b) The term “Mandatory Retirement Date” shall mean the compulsory retirement date, if any, established by the Company for those executives of the Company who, by reason of their positions and the size of their nonforfeitable annual retirement benefits under the Company’s pension, profit-sharing, and deferred compensation plans, are exempt from the provisions of the Age Discrimination in Employment Act, 29 U.S.C. Sections 621, et seq., which date shall not in any event be earlier for any executive than the last day of the month in which such executive reaches age 65.

(c) The term “Section 409A Guidance” shall mean collectively Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), any proposed, temporary or final regulations or other formal guidance issued by the Secretary of the Treasury or the Internal Revenue Service with respect thereto.

4. COMPENSATION UPON TERMINATION OF EMPLOYMENT. If, during the Period of Employment, the Company shall terminate your employment for any reason (other than for a reason and as expressly provided in Paragraph 5 hereof), or if you shall terminate your employment for “Good Reason” (as hereinafter defined in subparagraph 4(g)), then the Company shall be obligated to compensate you as follows:

(a) (i) If the Change of Control constitutes a change in the ownership or effective control of the Company, or a change in the ownership of a substantial portion of the assets of the Company, within the meaning of the Section 409A Guidance (a "Section 409A Change of Control"), the Company shall pay to you in a lump sum an amount equal to the product of one-twelfth of your annualized Base Salary, multiplied by the number of months, including fractional months, in the Payment Period. For purposes of this Paragraph 4, (A) the "Payment Period" shall be equal to the shorter of (I) [12 or 24 or 36] months, commencing on the Date of Termination, or (II) the period from the Date of Termination to your Mandatory Retirement Date, if any, and (B) "Base Salary" shall be equal to your base salary at the rate in effect immediately prior to the Change of Control or, if greater, immediately prior to the Date of Termination. If the Change of Control does not constitute a Section 409A Change of Control, the Company shall continue your Base Salary for the Payment Period.

(ii) Subject to Paragraph 4(f), payment made pursuant to this Paragraph 4(a): (A) shall be made, in the case of payment following a Section 409A Change of Control, on the date 60 calendar days after the Date of Termination (the "Initial Payment Date"), and (B) shall commence, in the case of payments following a Change of Control that does not constitute a Section 409A Change of Control, with the first payroll period that commences on or after the Initial Payment Date. Each payment under this Paragraph 4 shall be considered a separate payment and not one of a series of payments.

(b) The Company shall pay you in a lump sum an amount equal to the product of (x) the number of months, including fractional months, in the Payment Period and (y) under the Company's annual bonus or similar incentive plan (the "Annual Incentive Plan"), one-twelfth of your "target annual incentive amount" in effect prior to the Change of Control for the calendar year in which the Change of Control occurs. Your "target annual incentive amount" under the Annual Incentive Plan is determined by multiplying your salary range midpoint by the incentive target percentage that is applicable to your incentive category under such Plan. Subject to Paragraph 4(f), payment made pursuant to this Paragraph 4(b) shall be made on the Initial Payment Date.

(c) (i) The Company shall maintain in full force and effect, for your continued benefit, for the Payment Period, all health and welfare benefit plans and programs or arrangements, other than the Company's long-term disability plan, in which you were entitled to participate immediately prior to the Date of Termination (collectively, the "Health Plans"), as long as your continued participation is possible under the general terms and provisions of such plans and programs. In the event that your participation in any such plan or program is barred, the Company shall provide you with benefits substantially similar to those to which you would have been entitled to receive under such plans and programs ("Comparable Benefits"), had you continued to participate in them as an employee of the Company. Notwithstanding the preceding two sentences, this subparagraph 4(c)(i) shall not restrict the Company's right to modify or discontinue any benefit; *provided, however*, that you shall not be treated less favorably than similarly situated active employees (including non-highly compensated, salaried employees as similarly situated for such purpose) who were employed by the Company immediately prior to the Change of Control.

(ii) You will be required to pay the full cost during the Payment Period of continuation coverage in the Health Plans and of any Comparable Benefits that are subject to Code section 105 on an after-tax basis. On the Initial Payment Date and on January 2 of each of the years during the Payment Period following the year in which the Initial Payment Date occurs, the Company will make a payment to you (the "Health Plans Premium Reimbursement") equal to the difference between (A) the amount you are required to pay during the calendar year of payment for such continuation coverage and, with respect to the payment on the Initial Payment Date, the amount, if any, you are required to pay for such continuation coverage in the prior year, and (B) the amount you would have been required to pay during such years for such continuation coverage if you had paid the same percentage of the cost that a similarly situated active employee would pay, as of the Date of Termination. The Company will reimburse the amount of the federal, state and local taxes imposed on you as a result of your receipt of the Health Plans Premium Reimbursement, such reimbursement to be made subject to Paragraph 4(f) and no later than December 31 of the year following the year in which you remitted the applicable taxes. Your right to continuation coverage under the Health Plans and any Comparable Benefits pursuant to Paragraph 4(c)(i) shall satisfy the Health Plans' obligation to provide you continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended.

(iii) If you have met the requirements for retirement eligibility under the Company's general retirement policies on the Date of Termination, the Company shall provide you after the end of the Payment Period with those health and welfare benefits, if any, as in effect from time to time, to which you would have been entitled under the Company's general retirement policies if you had been eligible to retire and you had retired immediately prior to the Change of Control, with the Company paying that percentage of the premium cost of the plans that it would have paid under the terms of the plans in effect immediately prior to the Change of Control with respect to individuals who retire at age 65, regardless of your actual age on the Date of Termination. If the percentage of premium cost that the Company pays for you is greater than the percentage of premium cost that the Company pays for other similarly situated retirees, the Company may treat the differential amount as taxable to you and pay you an additional amount in cash equal to the amount necessary to cause the after-tax value of the benefit that you receive to be equal to the after-tax value of the benefit you would have received had the Company not treated the differential amount as taxable to you. Such payment shall be made subject to Paragraph 4(f) and no later than December 31 of the year following the year in which you remitted the applicable taxes. Notwithstanding the preceding two sentences, this subparagraph 4(c)(iii) shall not restrict the Company's right to modify or discontinue any benefit, or the portion of the premium cost thereof paid by the Company; *provided, however*, that you shall not be treated less favorably with respect to any such modification or discontinuance than similarly situated individuals (including non-highly compensated, salaried employee retirees as similarly situated for such purpose) who retired at or after age 65 under the terms and conditions in effect immediately prior to the Change of Control (or under the terms and conditions that would have applied to persons who were eligible to retire, if they had retired, immediately prior to the Change of Control);

(d) The Company shall pay you a financial planning/tax preparation allowance equal to the full amount of the annual financial planning/tax preparation allowance you were entitled to receive immediately prior to the Change of Control (without the requirement to submit itemized invoices). Such amount will be paid (i) in a lump sum on the Initial Payment Date if the Change of Control constitutes a Section 409A Change of Control, or (ii) in twelve equal monthly installments commencing on the Initial Payment Date if the Change of Control does not constitute a Section 409A Change of Control; and

(e) (i) The Company shall, in addition to the benefits to which you are entitled under the retirement plans or programs in which, as of immediately prior to the Change of Control, you both participate and are actually accruing benefits, pay you in a lump sum in cash an amount equal to the excess, if any, of (A) the actuarial equivalent of the retirement pension to which you would have been entitled under the terms of such retirement plans or programs had you accumulated additional years of continuous service under such plans equal in length to your Payment Period, over (B) the actuarial equivalent of the retirement pension to which you are entitled under the terms of such retirement plans or programs, determined without regard to this subparagraph (i). For purposes of subparagraph (i), (w) the terms of a retirement plan or program shall be those in effect immediately prior to the Change of Control or the Date of Termination, whichever is more favorable to you; (x) the length of the Payment Period shall be added to total years of continuous service for determining vesting and the amount of benefit accrual and to the age that you will be considered to be for the purposes of determining eligibility for normal or early retirement calculations; (y) your actual age shall be used for determining the amount of any actuarial reduction; and (z) for the purposes of calculating benefit accrual, the amount of compensation you shall be deemed to have received during each month of your Payment Period shall be equal to the sum of your Base Salary prorated on a monthly basis, plus under the Annual Incentive Plan, one-twelfth of your “target annual incentive amount” in effect prior to the Change of Control for the calendar year in which the Change of Control occurs. For purposes of this subparagraph (i), “retirement plan or program” shall mean any plan or program to the extent such plan or program is a “defined benefit plan,” within the meaning of Section 3(35) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”); and “actuarial equivalent” shall be determined using the same methods and assumptions as those utilized immediately prior to the Change of Control under the applicable retirement plan or program in which you participate for purposes of this subparagraph (i). Subject to Paragraph 4(f), payment made pursuant to this Paragraph 4(e)(i) shall be made on the Initial Payment Date.

(ii) The Company shall, in addition to the benefits to which you are entitled under any defined contribution plans and programs in which, as of immediately prior to the Change of Control, you are eligible to participate and receive employer contributions, pay you in a lump sum in cash an amount equal to the product of (A) the sum of all amounts payable to you under subparagraphs 4(a) and 4(b), multiplied by (B) the sum of (x) the aggregate maximum percentage(s) of eligible compensation you were eligible to receive as employer matching contributions under all such defined contribution plans for the plan year(s) in which occurs the Change of Control or the Date of Termination, whichever is more favorable to you, determined without regard to any change in any such plan adverse to you adopted after the Change of Control, plus (y) the aggregate maximum percentage(s) of eligible compensation you were eligible to receive as employer non-elective contributions under all such defined contribution plans for the plan year(s) in which occurs the Change of Control or the Date of Termination, whichever is more favorable to you, determined without regard to any change in any such plan adverse to you adopted after the Change of Control. For purposes of this subparagraph (ii), defined contribution plan or program shall mean any plan or program to the extent such plan or program is a “defined contribution plan,” within the meaning of Section 3(34) of ERISA; “employer matching contributions” shall mean those employer contributions that are conditioned upon your making employee after-tax contributions and/or employee pre-tax contributions and that are not “discretionary contributions” (as hereinafter defined), but in no event shall employer matching contributions be deemed to include employee pre-tax contributions regardless of whether employee pre-tax contributions are considered employer contributions for any purpose; “employer non-elective contributions” shall mean employer contributions that are not employer matching contributions and that are not “discretionary contributions” (as hereinafter defined); “discretionary contributions” shall mean employer contributions that under the terms of the applicable defined contribution plan as in effect immediately prior to the Change of Control or the Date of Termination, whichever is more favorable to you, were not required to be made, determined without regard to any requirement that the participant be employed during the plan year or at another relevant time in order to be eligible to receive such contributions, except that an employer contribution that would otherwise be considered a discretionary contribution under this definition shall not be considered a discretionary contribution if prior to the Date of Termination, the Company (or other employer related to the Company maintaining the plan) has communicated to participants in such plan that such contribution will, or is likely to, be made. For purposes of determining the maximum percentage of eligible compensation you were eligible to receive as employer matching contributions and/or for purposes of determining the maximum percentage of eligible compensation you were eligible to receive as employer non-elective contributions, if under the terms of the applicable defined contribution plan the contribution structure is a per capita structure or a step-rate or similar structure, or if the contribution structure has changed during the plan year, then the maximum percentage shall be determined or adjusted as necessary or appropriate to carry out the intent of this subparagraph (ii); provided that if you are also covered with respect to any such defined contribution plan (the “first plan”) by another defined contribution plan that provides for contributions in respect of any limitations under the terms of the first plan, there shall be no duplication of payment with respect to those arrangements. Subject to Paragraph 4(f), payment made pursuant to this Paragraph 4(e)(ii) shall be made on the Initial Payment Date.

(f) Notwithstanding anything to the contrary in this Paragraph 4, if you are a “specified employee,” as determined by the Company in its Specified Employee Designation Procedure, on the Date of Termination and any payment under this Agreement would be considered to be deferred compensation under Section 409A of the Code, then any such payment that is considered to be deferred compensation that would otherwise be payable during the six-month period following the Date of Termination will instead be paid on the earlier of (i) the first business day of the seventh month following the Date of Termination, or (ii) your death. Any amount that would have been paid during the six-month period following the Date of Termination if payment would have been made or commenced on the Initial Payment Date shall not be paid during such period, but instead shall be paid on the first business day of the seventh month following the Date of Termination.

(g) For purposes of this Agreement, “Good Reason” shall mean the failure of the Company to remedy any of the following within 10 calendar days after receipt by the Company within the Employment Period of written notice thereof from you:

(i) except as a result of the termination of your employment pursuant to Paragraph 5 hereof and without your express written consent, (A) one or more changes in your duties, responsibilities, reporting relationships and status that, when considered in the aggregate as compared with your duties, responsibilities, reporting relationships and status immediately prior to a Change of Control, constitute a material demotion, (B) the assignment to you of new duties or responsibilities that, in the aggregate, (1) are materially inconsistent with, and (2) materially and adversely change, your positions, duties, responsibilities, reporting relationships and status as in effect immediately prior to a Change of Control, (C) a reduction in your annual Base Salary or target annual incentive amount, (D) the failure to continue your health, welfare and retirement benefits, perquisites, vacation policy, fringe benefits, long-term incentive compensation programs, and relocation benefits and policies (including indemnification against loss on the sale of your residence in connection with your relocation) on either a substantially similar basis or with substantially similar aggregate economic value, as compared with immediately prior to a Change of Control, (E) the Company requires that you change the principal location of your work, which results in an additional commute of more than 50 miles, or (F) the Company requires you to travel away from your office in the course of discharging your responsibilities or duties at least one-third more (in terms of aggregate days in any calendar year or in any calendar quarter when annualized for purposes of comparison) than was required of you for the calendar year immediately preceding the Change of Control;

(ii) the failure of the Company to obtain the assumption of and the agreement to perform this Agreement by any successor as contemplated in Paragraph 11 hereof; [or]

(iii) any purported termination of your employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Paragraph 6 hereof[; or/.]

(iv) [FOR THE CEO, CFO AND GENERAL COUNSEL AGREEMENTS ONLY: without regard to any obligation to provide notice and an opportunity to cure, your election to terminate your employment with the Company for any reason during the 30-day period immediately following the first anniversary of the first occurrence of a Change of Control].

5. TERMINATION FOR CAUSE OR UPON DISABILITY, RETIREMENT OR DEATH. If your employment is terminated for any of the following reasons and in accordance with the provisions of this Paragraph 5, you shall not be entitled by virtue of this Agreement to any of the benefits provided in the foregoing Paragraph 4:

(a) If, as a result of your incapacity due to physical or mental illness, you shall have been absent from your duties with the Company on a full-time basis for 120 consecutive business days, and within thirty (30) days after a written Notice of Termination (as hereinafter defined in Paragraph 6) is given, you shall not have returned to the full-time performance of your duties;

(b) If the Company shall have Cause. For the purposes of this Agreement, the Company shall have “Cause” to terminate your employment hereunder upon (i) the willful and continued failure by you to substantially perform your duties with the Company, which failure causes material and demonstrable injury to the Company (other than any such failure resulting from your incapacity due to physical or mental illness), after a demand for substantial performance is delivered to you by the Board which specifically identifies the manner in which the Board believes that you have not substantially performed your duties, and after you have been given a period (hereinafter known as the “Cure Period”) of at least thirty (30) days to correct your performance, or (ii) the willful engaging by you in other gross misconduct materially and demonstrably injurious to the Company. For purposes of this paragraph, no act, or failure to act, on your part shall be considered “willful” unless conclusively demonstrated to have been done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interests of the Company.

Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a Notice of Termination which shall include a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board (excluding you for this purpose, if you are then a member of the Board) at a meeting of the Board called and held for the purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in clauses (i) or (ii), including the expiration of the Cure Period without the correction of your performance, or of the preceding subparagraph and specifying the particulars thereof in detail.

(c) If you die while employed by the Company or if you retire from such employment during your Period of Employment, then you shall not be entitled to any of the benefits provided by this Agreement and the benefits to which you or your beneficiary shall be entitled shall be determined without regard to the provisions hereof.

6. NOTICE OF TERMINATION. Any termination of your employment by the Company or any termination by you for Good Reason shall be communicated by written notice to the other party hereto. For purposes of this Agreement, such notice shall be referred to as a “Notice of Termination.” Such notice shall, to the extent applicable, set forth the specific reason for termination, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

7. DATE OF TERMINATION. “Date of Termination” shall mean the date on which you incur a “separation from service” from the Company within the meaning of Section 409A(c)(2)(A)(i) of the Code.

(a) If you terminate your employment for Good Reason, the proposed Date of Termination shall be the date specified in the Notice of Termination, which in no event will be more than sixty (60) days after Notice of Termination is given;

(b) If your employment is terminated for Cause under subparagraph 5(b), the proposed Date of Termination shall be the date on which a Notice of Termination is given, except that the Date of Termination shall not be any date prior to the date on which the Cure Period expires without the correction of your performance;

(c) If your employment pursuant to this Agreement is terminated following absence due to physical incapacity, under subparagraph 5(a), then the proposed Date of Termination shall be thirty (30) days after Notice of Termination is given (provided that you shall not have returned to the performance of your duties on a full-time basis during such thirty (30) day period); or

(d) If your employment is terminated by the Company other than under subparagraph 7(b) or 7(c), the proposed Date of Termination shall be the date specified in the Notice of Termination.

Subject to subparagraph 10(b), a termination of employment by either the Company or by you shall not affect any rights you or your surviving spouse may have pursuant to any other agreement or plan of the Company providing benefits to you, except as provided in such agreement or plan.

8. CERTAIN ADDITIONAL PAYMENTS.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined (as hereafter provided) that any payment or distribution by the Company or any of its affiliates to you or for your benefit (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Paragraph 8) (a “Payment”) would be subject to the excise tax imposed by Section 4999 (or any successor provisions) of the Code, or to any similar tax imposed by state or local law, or any interest or penalties are incurred by you with respect to such excise tax (such tax or taxes, together with any such interest and penalties, are hereinafter collectively referred to as the “Excise Tax”), then you shall be entitled to receive an additional payment or payments (collectively, a “Gross-Up Payment”) in an amount such that after payment by you of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed on the Gross-Up Payment, you retain an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. For purposes of determining the amount of the Gross-Up Payment, you shall be considered to pay (x) federal income taxes at the highest rate in effect in the year in which the Gross-Up Payment will be made and (y) state and local income taxes at the highest rate in effect in the state or locality in which the Gross-Up Payment would be subject to state or local tax, net of the maximum reduction in federal income tax that could be obtained from deduction of such state and local taxes.

(b) Subject to the provisions of subparagraph 8(c), all determinations required to be made under this Paragraph 8, including whether and when such a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the accounting firm that was, immediately prior to the Change of Control, the Company’s independent auditor (the “Accounting Firm”), which shall provide detailed supporting calculations both to the Company and to you within fifteen (15) business days of the receipt of notice from you that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, you shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Paragraph 8, shall be paid by the Company to you as provided in subparagraph 8(h). If the Accounting Firm determines that no Excise Tax is payable by you, it shall furnish you with a written opinion that you have substantial authority not to report any Excise Tax on your federal, state or local income or other tax return with respect to such benefit or amount. Any determination by the Accounting Firm shall be binding upon the Company and you. As a result of the uncertainty of the application of Section 4999 of the Code and the possibility of similar uncertainty regarding applicable state or local tax law at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts or fails to pursue its remedies pursuant to subparagraph 8(c) and you thereafter are required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be paid by the Company to you or for your benefit as provided in subparagraph 8(h).

(c) You shall notify the Company in writing of any claim by the Internal Revenue Service or any other taxing authority that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten (10) business days after you are informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. You shall not pay such claim prior to the expiration of the thirty (30) day period following the date on which you give such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies you in writing prior to the expiration of such period that it desires to contest such claim, you shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim; *provided, however*, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold you harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this subparagraph 8(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of any such claim and may, at its sole option, either direct you to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and you agree to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided*, *however*, that if the Company directs you to pay such claim and sue for a refund, the Company shall advance the amount of such payment to you, on an interest-free basis and shall indemnify and hold you harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for your taxable year with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and you shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by you of an amount advanced by the Company pursuant to subparagraph 8(c), you become entitled to receive any refund with respect to such claim, you shall (subject to the Company's complying with the requirements of subparagraph 8(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by you of an amount advanced by the Company pursuant to subparagraph 8(c), a determination is made that you shall not be entitled to any refund with respect to such claim and the Company does not notify you in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) You and the Company shall each provide the Accounting Firm access to and copies of any books, records and documents in your possession or the Company's possession, as the case may be, as reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determinations and calculations contemplated by this Paragraph 8.

(f) The federal, state and local income or other tax returns filed by you shall be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by you. You shall report and make proper payment of the amount of any Excise Tax, and at the request of the Company, provide to the Company true and correct copies (with any amendments) of your federal income tax return as filed with the Internal Revenue Service and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of your federal income tax return, or corresponding state or local tax return, if relevant, the Accounting Firm determines that the amount of the Gross-Up Payment should be reduced, you shall within five business days pay to the Company the amount of such reduction.

(g) Notwithstanding any provision of this Agreement to the contrary, but giving effect to any redetermination of the amount of Gross-Up Payments otherwise required by this Paragraph 8, if (i) but for this sentence, the Company would be obligated to make a Gross-Up Payment to you, and (ii) the aggregate "present value" of the "parachute payments" to be paid or provided to you under this Agreement or otherwise does not exceed 1.05 multiplied by three times your "base amount," then the payments and benefits to be paid or provided under this Agreement shall be reduced (or repaid to the Company, if previously paid or provided) to the minimum extent necessary so that no portion of any payment or benefit to you, as so reduced or repaid, constitutes an "excess parachute payment." For purposes of this subparagraph 8(g), the terms "excess parachute payment," "present value," "parachute payment," and "base amount" shall have the meanings assigned to them by Section 280G of the Code. The determination of whether any reduction in or repayment of such payments or benefits to be provided under this Agreement is required pursuant to this subparagraph 8(g) shall be made at the expense of the Company, if requested by you or the Company, by the Accounting Firm. Appropriate adjustments shall be made to amounts previously paid to you, or to amounts not paid pursuant to this subparagraph 8(g), as the case may be, to reflect properly a subsequent determination that you owe more or less Excise Tax than the amount previously determined to be due. In the event that any payment or benefit intended to be provided under this Agreement or otherwise is required to be reduced or repaid pursuant to this subparagraph 8(g), the amount payable pursuant to subparagraph 4(a) shall be reduced.

(h) Notwithstanding any other provision of this Paragraph 8 to the contrary, all taxes and expenses described in this Paragraph 8 shall be paid or reimbursed within 5 business days after you submit evidence of incurrence of such taxes and/or expenses, provided that in all events such reimbursement shall be made on or before the last day of the year following (a) the year in which the applicable taxes are remitted or expenses are incurred, or (b) in the case of reimbursement of expenses incurred due to a tax audit or litigation in which there is no remittance of taxes, the year in which the audit is completed or there is a final and nonappealable settlement or other resolution of the litigation, in accordance with Treasury Regulation §1.409A-3(i)(1)(v). You shall be required to submit all requests for reimbursements no later than 30 days prior to the last day for reimbursement described in the prior sentence. Each provision of reimbursements pursuant to this Paragraph 8 shall be considered a separate payment and not one of a series of payments for purposes of Section 409A of the Code. Any expense reimbursed by the Company in one taxable year in no event will affect the amount of expenses eligible for reimbursement, or in-kind benefits to be provided, by the Company in any other taxable year.

9. COVENANTS.

(a) [FOR 24 AND 36 MONTH AGREEMENTS ONLY:] During the term of this Agreement specified in Paragraph 1 (the "Term") and for a period ending one year following the Date of Termination, if you have received or are receiving benefits under this Agreement, you shall not, without the prior written consent of an officer of the Company, directly or indirectly, engage in any Competitive Activity. For this purpose, "Competitive Activity" means your participation in the management of any business enterprise if such enterprise engages in substantial and direct competition with the Company and such enterprise's sales of any product or service competitive with any product or service of the Company amounted to 10% of such enterprise's net sales for its most recently completed fiscal year and if the Company's net sales of said product or service amounted to 10% of the Company's net sales for its most recently completed fiscal year. "Competitive Activity" shall not include (i) the mere ownership of securities in any publicly-traded enterprise, if such ownership is less than 5% of the outstanding voting securities or units of such enterprise or (ii) participation in the management of any such enterprise other than in connection with the competitive operations of such enterprise.

(b) During the Term, the Company agrees that it will disclose to you its confidential or proprietary information (as defined in this subparagraph 9(b)) to the extent necessary for you to carry out your obligations to the Company. You hereby covenant and agree that you will not during the Term or thereafter disclose to any person not employed by the Company, or use in connection with engaging in competition with the Company, any confidential or proprietary information of the Company. For purposes of this Agreement, the term "confidential or proprietary information" shall include all information of any nature and in any form that is owned by the Company and that is not publicly available (other than by your breach of this subparagraph 9(b)) or generally known to persons engaged in businesses similar or related to those of the Company. Confidential or proprietary information shall include, without limitation, the Company's financial matters, customers, employees, industry contracts, strategic business plans, product development (or other proprietary product data), marketing plans, and all other secrets and all other information of a confidential or proprietary nature. For purposes of the preceding two sentences, the term "Company" shall also include any subsidiary controlled by the Company (collectively, the "Restricted Group"). The foregoing obligations imposed by this subparagraph 9(b) shall not apply (i) during the Term, in the course of the business of and for the benefit of the Company, (ii) if such confidential or proprietary information has become, through no fault of yours, generally known to the public or (iii) if you are required by law to make disclosure (after giving the Company notice and an opportunity to contest such requirement). These rights of the Company are in addition to and without limitation to those rights and remedies otherwise available by law for protection of the types of such confidential or proprietary information.

(c) You hereby covenant and agree that during the Term and for a period ending one year after the Date of Termination you will not, without the prior written consent of the Company, on your behalf or on behalf of any person, firm or company, directly or indirectly, attempt to influence, persuade or induce, or assist any other person in so persuading or inducing, any employee or customer of the Restricted Group to give up, or to not commence, employment or a business relationship with the Restricted Group.

(d) You and the Company agree that the covenants contained in this Paragraph 9 are reasonable under the circumstances, and further agree that if in the opinion of any court of competent jurisdiction any such covenant is not reasonable in any respect, such court shall have the right, power and authority to excise or modify any provision or provisions of such covenants as to the court will appear not reasonable and to enforce the remainder of the covenants as so amended. You acknowledge and agree that the remedy at law available to the Company for breach of any of your obligations under this Paragraph 9 would be inadequate and that damages flowing from such a breach may not readily be susceptible to being measured in monetary terms.

Accordingly, you acknowledge, consent and agree that, in addition to any other rights or remedies that the Company may have at law, in equity or under this Agreement, upon adequate proof of your violation of any such provision of this Agreement, the Company shall be entitled to immediate injunctive relief and may obtain a temporary order restraining any threatened or further breach, without the necessity of proof of actual damage.

10. NO OBLIGATION TO MITIGATE DAMAGES; NO EFFECT ON OTHER CONTRACTUAL RIGHTS.

(a) You shall not be required to refund the amount of any payment or employee benefit provided for or otherwise mitigate damages under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for under this Agreement be reduced by any compensation or the value of any benefits earned by you as the result of any employment by another employer after the date of termination of your employment with the Company, or otherwise. Subject to subparagraph 10(b), the provisions of this Agreement, and any payment or benefit provided for hereunder, shall not reduce any amount otherwise payable, or in any way diminish your existing rights, or rights which would occur solely as a result of the passage of time, under any other agreement, contract, plan or arrangement with the Company.

(b) To the extent, and only to the extent, a payment or benefit that is paid or provided under this Agreement would also be paid or provided under the terms of another plan, program, agreement or arrangement of, or assumed by, the Company or any of its affiliates, or required to be provided by local law, including, without limitation, any employment agreement or Management Continuity Agreement, you will be entitled to payment or benefit under this Agreement or such other plan, program, agreement, arrangement or legal requirement, whichever provides for greater benefits, but will not be entitled to benefits under both this Agreement and such other plan, program, agreement, arrangement or legal requirement.

11. SUCCESSORS AND BINDING AGREEMENT.

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, by agreement in form and substance satisfactory to you, to assume and agree to perform this Agreement.

(b) This Agreement shall be binding upon the Company and any successor of or to the Company, including, without limitation, any person acquiring directly or indirectly all or substantially all of the assets of the Company whether by merger, consolidation, sale or otherwise (and such successor shall thereafter be deemed “the Company” for the purposes of this Agreement), but shall not otherwise be assignable by the Company.

(c) This Agreement shall inure to the benefit of and be enforceable by you and your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amounts would still be payable to you pursuant to Paragraph 4 hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee, or other designee or, if there be no such designee, to your estate.

12. NOTICES. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Chief Executive Officer of the Company with a copy to the Secretary of the Company, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

13. GOVERNING LAW. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Ohio, without giving effect to the principles of conflict of laws of such State.

14. MISCELLANEOUS. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in a writing signed by you and the Company. No waiver by either party hereto at any time of any breach by the other party hereto or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof, have been made by either party which are not set forth expressly in this Agreement. This Agreement embodies the complete agreement and understanding between the parties with respect to the subject matter hereof and effective as of its date supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way. References to Paragraphs and subparagraphs are to paragraphs and subparagraphs of this Agreement. Any reference in this Agreement to a provision of a statute, rule or regulation shall also include any successor provision thereto.

15. VALIDITY. The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement which shall remain in full force and effect.

16. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same agreement.

17. WITHHOLDING OF TAXES. The Company may withhold from any amounts payable under this Agreement all federal, state, city or other taxes as shall be required pursuant to any law or government regulation or ruling.

18. NONASSIGNABILITY. This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder, except as provided in Paragraph 11 above. Without limiting the foregoing, your right to receive payments hereunder shall not be assignable or transferable,

whether by pledge, creation of a security interest or otherwise, other than by a transfer by your will or by the laws of descent and distribution and in the event of any attempted assignment or transfer contrary to this Paragraph 18, the Company shall have no liability to pay any amounts so attempted to be assigned or transferred.

19. DISPUTE RESOLUTION.

(a) All disputes arising out of, relating to or concerning this Agreement, the breach of this Agreement, your termination, or the termination of your employment shall be resolved pursuant to this Paragraph 19. This includes all claims or disputes whether arising in tort or contract and whether arising under statute or common law, including, without limitation, Ohio Revised Code Chapter 4112.01 et seq., Ohio Revised Code Section 4117.01, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, the Age Discrimination in Employment Act of 1967, as amended, and all other federal and state employment statutes. Any such dispute shall be resolved by arbitration held in Cleveland, Ohio, under the then-current Employment Dispute rules of the American Arbitration Association ("AAA"). The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. Sections l-16, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. This agreement to arbitrate shall be specifically enforceable. Notwithstanding the foregoing, the Company shall not be required to seek or participate in arbitration regarding any breach of your covenants contained in Paragraph 9, but may pursue its remedies for such breach in a court of competent jurisdiction in the city in which the Company's principal executive offices are based.

(b) You and the Company agree that you or it must file any request for arbitration with the AAA and serve on the other party within six (6) months after the date on which the dispute arose and hereby waive any statute of limitations to the contrary.

(c) The arbitrator shall have no authority to extend, modify, or suspend any of the terms of this Agreement. The arbitrator is not empowered to award damages in excess of compensatory damages and you and the Company hereby waive any right to recover such damages with respect to any dispute resolved by arbitration. The Company shall pay the fees and costs of the arbitrator. The arbitrator shall make his award in writing and shall accompany it with an opinion discussing the evidence and setting forth the reasons for his award. The decision of the arbitrator within the scope of the submission shall be final and binding on you and the Company, and any right to judicial action on any matter subject to arbitration hereunder is waived (unless otherwise required by applicable law), except suit to enforce this arbitration award. If the rules of the AAA differ from those of this Paragraph 19, the provisions of this Paragraph 19 shall control.

20. LEGAL FEES AND EXPENSES. If a Change of Control shall have occurred, thereafter the Company shall pay and be solely responsible for:

(i) 00% of the first $100,000 and

(ii) 70% of any excess above $100,000, of any and all attorneys' and related fees and expenses incurred by you to successfully (in whole or in part, and whether by modification of the Company's position, agreement, compromise, settlement, or administrative or judicial determination) enforce this Agreement or any provision hereof or as a result of the Company or any shareholder of the Company contesting the validity or enforceability of this Agreement or any provision hereof. To secure the foregoing obligation, the Company shall, within 90 days after being requested by you to do so, enter into a contract with an insurance company, open a letter of credit or establish an escrow in a form satisfactory to you. All reimbursements under this Paragraph 20 shall be for expenses incurred by you during your lifetime. Reimbursement shall be made no sooner than the first business day of the seventh month following the Date of Termination and in all events shall be made prior to the last day of the calendar year following the calendar year in which you incurred the expense. In no event will the amount of expenses so reimbursed by the Company in one year affect the amount of expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year. Each provision of reimbursement pursuant to this Paragraph 20 shall be considered a separate payment and not one of a series of payments for purposes of Section 409A of the Code.

21. EMPLOYMENT RIGHTS. Nothing expressed or implied in this Agreement shall create any right or duty on your part or on the part of the Company to have you remain in the employment of the Company prior to the commencement of the Period of Employment; *provided*, *however*, that any termination of your employment, for any reason other than those set forth in Paragraph 5, following the commencement of any discussion with a third party, or the announcement by a third party of the commencement of, or the intention to commence, a tender offer, or other intention to acquire all or a portion of the equity securities of the Company that ultimately results in a Change of Control shall (unless such termination is conclusively demonstrated to have been wholly unrelated to any such activity relating to a Change of Control) be deemed to be a termination of your employment after a Change of Control for purposes of this Agreement and both the Period of Employment and the Payment Period shall be deemed to have begun on the date of such termination.

22. RIGHT OF SETOFF. There shall be no right of setoff or counterclaim against, or delay in, any payment by the Company to you or your designated beneficiary or beneficiaries provided for in this Agreement in respect of any claim against you or any debt or obligation owed by you, whether arising hereunder or otherwise.

23. RIGHTS TO OTHER BENEFITS. Except as provided in subparagraph 10(b), the existence of this Agreement and your rights hereunder shall be in addition to, and not in lieu of, your rights under any other of the Company's compensation and benefit plans and programs, and under any other contract or agreement between you and the Company.

24. RELEASE. Notwithstanding any provision of this Agreement to the contrary, the Company shall not pay or provide any compensation or benefits hereunder in connection with the termination of your employment unless, prior to the sixtieth (60th) day following the Date of Termination, you first sign a general release substantially in the form attached hereto as Exhibit A and you do not revoke such release during the time period set forth therein for revocation.

25. SURVIVAL. Notwithstanding any provision of this Agreement to the contrary, the parties' respective rights and obligations under Paragraphs 4, 8, 9, 19, 20, 21 and 26 shall survive

any termination or expiration of this Agreement or the termination of your employment following a Change of Control for any reason whatsoever.

26. SOURCE OF PAYMENT. All payments under this Agreement shall be made solely from the general assets of the Company or one of its subsidiaries (or from a grantor trust, if any, established by the Company for purposes of making payments under this Agreement and other similar agreements), and you shall have the rights of an unsecured general creditor of the Company with respect thereto. The Company may, but need not, establish a trust to fund its obligations under the Agreement; provided, however, that if the Company establishes such a trust, any funds contained therein shall remain liable for the claims of the Company's general creditors. Notwithstanding the above, upon the earlier to occur of (a) a Change of Control or (b) a declaration by the Company's Board of Directors that a Change of Control is imminent, to the extent permitted by applicable law, the Company shall promptly, to the extent it has not previously done so, establish a trust to fund its obligations under this Agreement and transfer to the trustee of such trust, to be added to the principal thereof, an amount sufficient to fund all payments which would be made to you hereunder if your employment was terminated on the date of the Change of Control under circumstances in which payments under Paragraph 4 hereof would become due and payable to you, including, without limitation, cash in an amount sufficient to fund payments of all future welfare plan benefits as provided in subparagraph 4(c) hereof, and the Gross-Up Payment as defined in Paragraph 8 hereof, in each case based on reasonable estimates. In no event shall any amount be transferred to a trust described in this Paragraph 26 if, pursuant to Section 409A(b)(3)(A) of the Code, such amount would, for purposes of Section 83 of the Code, be treated as property transferred in connection with the performance of services.

27. SECTION 409A COMPLIANCE. It is intended that this Agreement comply with the provisions of Section 409A of the Code, so as to prevent the inclusion in gross income of any amounts deferred hereunder in a taxable year that is prior to the taxable year or years in which such amounts would otherwise actually be distributed or made available to you or your beneficiaries. This Agreement shall be administered in a manner consistent with such intent.

If this letter correctly sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

POLYONE CORPORATION

By direction of the Compensation and Governance Committee of the Board of Directors

By ____________________
[Name]

ACCEPTED AND AGREED TO
AS OF THE DATE HEREOF

____
[Name]

Exhibit 10.14

Schedule of Executives with
Continuity Agreements

Title	Name	Years/Comp*
Chairman, President and Chief Executive Officer	Stephen D. Newlin	3
Senior Vice President and General Manager, Distribution	Michael L. Rademacher	3
Senior Vice President , Operations	Thomas J. Kedrowski	3
Senior Vice President and Chief Information and Human Resources Officer	Kenneth M. Smith	3
Senior Vice President and Chief Financial Officer	W. David Wilson	3
Senior Vice President, Commercial Development	Michael E. Kahler	3
Senior Vice President and General Manager, Vinyl Business	Robert M. Rosenau	3
Senior Vice President and General Manager, Colors and Engineered Materials, Europe and Asia	Bernard P. Baert	2
Vice President, General Counsel and Secretary	Lisa K. Kunkle	3
Vice President and General Manager, Producer Services	Patrick F. Burke	1
Vice President, Color and Engineered Materials — Asia	Willie Chien	1
Vice President and General Manager, North America Engineered Materials	Craig M. Nikrant	1
Vice President and General Manager, North America Color and Additives	John V. Van Hulle	1
Vice President, Research and Innovation	Cecil Chappelow	1
Corporate Vice President, Technology	Roger W. Avakian	1
Vice President and General Manager, Specialty Coatings and Resins	Daniel L. Kickel	1
Treasurer	John L. Rastetter	1

* Years of compensation payable upon change of control.

Exhibit 10.15

POLYONE SUPPLEMENTAL RETIREMENT BENEFIT PLAN
(As Amended and Restated Effective December 31, 2007)

PolyOne Corporation does hereby amend and completely restate the PolyOne Supplemental Retirement Benefit Plan on the terms and conditions described herein. This restatement, to the extent it accurately sets forth the intended provisions regarding deferral elections in the first sentence of Section 4, is effective as of January 1, 2004, the original effective date of adoption of the Plan. In all other respects, this restatement is effective as of December 31, 2007.

SECTION 1. PURPOSE OF PLAN

The purpose of the Plan is to provide for certain employees the benefits they would have received under the Retirement Plan but for (i) the dollar limitation on Compensation taken into account under the Retirement Plan as a result of Section 401(a)(17) of the Code, (ii) the limitations imposed under Section 415 of the Code, and (iii) the limitations under Sections 402(g), 401(k)(3), 401(m) and 414(v) of the Code. The Plan is intended to qualify as an unfunded, deferred compensation plan for a select group of management or highly compensated employees under ERISA. This Plan is expected to encourage the continued employment of the participating employees whose management and individual performance are largely responsible for the success of the Employer and to facilitate the recruiting of key management and highly compensated employees required for the continued growth and profitability of the Employer.

SECTION 2. DEFINITIONS

2.1 **"Administrator"** means the Retirement Plan Committee appointed by the Board.

2.2 **"Beneficiary"** means the person or entity determined to be a Participant's beneficiary pursuant to Section 13.

2.3 **"Board"** means the board of directors of PolyOne Corporation.

2.4 **"Code"** means the Internal Revenue Code of 1986, as amended from time to time.

2.5 **"Compensation"** shall have the meaning set forth in the Retirement Plan, without regard to the limit contained in Section 401(a)(17) of the Code.

2.6 **"Employer"** shall mean PolyOne Corporation and each other affiliate (within the meaning of Sections 414(b), (c) and (m) of the Code), employees of which are selected to participate in the Plan.

2.7 **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.8 **"Participant"** means an employee or former employee of the Employer who is eligible to participate in the Plan pursuant to Section 3.

__2.9__ **“Plan”** means the PolyOne Supplemental Retirement Benefit Plan, as set forth herein and as amended from time to time.

__2.10__ **“Plan Year”** shall mean June 1, 2003 to December 31, 2003 and thereafter, the calendar year.

__2.11__ **“Retirement Plan”** means the PolyOne Retirement Savings Plan, as amended from time to time.

__2.12__ **“Termination Date”** means the date on which the Participant incurs a “separation from service” from the Employer within the meaning of Section 409A of the Code.

SECTION 3. ELIGIBLE EMPLOYEES

For Plan Years commencing prior to January 1, 2005, the Board shall determine which management employees and highly compensated employees of the Employer shall be eligible to participate in the Plan. For Plan Years commencing on or after January 1, 2005, each management employee and highly compensated employee of the Employer shall be eligible to participate in the Plan for any Plan Year if such employee’s projected annual base compensation plus target incentive compensation for such Plan Year exceeds the limitation on compensation under Section 401(a)(17) of the Code for the Plan Year.

SECTION 4. ELECTION TO DEFER COMPENSATION

A Participant may elect, by filing an election with the Administrator (pursuant to Section 5) on or prior to December 31 of the preceding Plan Year (or such earlier date as specified by the Administrator), to direct the Employer to reduce his or her Compensation for a Plan Year by an amount equal to the difference between (i) a specified percentage, in 1% increments, with a maximum of 15%, of his or her Compensation for the Plan Year, and (ii) the maximum elective deferrals under Section 4.1 of the Retirement Plan actually permitted to be contributed for him or her to the Retirement Plan for such Plan Year by reason of the application of the limitations under Sections 402(g), 401(a)(17) and 401(k)(3) of the Code. Any election so made shall be binding for any following Plan Year, unless revised on or before December 31 of the preceding Plan Year (or such other earlier date specified by the Administrator). Provided, however, that with respect to the first taxable year in which a person becomes a Participant, such Participant may, within 30 days of becoming a Participant, make an election to defer Compensation earned subsequent to the date of the election.

SECTION 5. MANNER OF ELECTION

Any election made by a Participant pursuant to this Plan shall be made in writing by executing such form(s) as the Administrator shall from time to time prescribe or through any other method designated by the Administrator.

SECTION 6. ACCOUNTS

PolyOne Corporation shall establish and maintain on its books with respect to each Participant two accounts: (a) the "Grandfathered Account" for amounts that are "deferred" (as such term is defined for purposes of Section 409A of the Code) as of December 31, 2004 (and earnings thereon) and (b) the "Post-2004 Account" for amounts that are deferred after December 31, 2004 (and earnings thereon). Each such Account shall be further sub-divided into sub-accounts which shall record (1) any Compensation deferred by the Participant under the Plan pursuant to the Participant's election, (2) any Employer contributions made on behalf of the Participant pursuant to Section 7 and Section 8 below, and (3) the allocation of any hypothetical investment experience.

SECTION 7. EMPLOYER MATCHING CONTRIBUTIONS

As of each payroll period, the Employer shall allocate Employer Matching Contributions to the account of each Participant who has a valid election to defer Compensation in effect for such payroll period. The amount of Employer Matching Contributions allocated to the account of each Participant shall be determined in accordance with Section 4.2(a) of the Retirement Plan.

SECTION 8. EMPLOYER CONTRIBUTIONS

As of each payroll period, the Employer shall allocate to the account of each Participant an amount equal to the difference between, (a) effective prior to January 1, 2004, (i) the retirement contributions that would otherwise be contributed on behalf of the Participant under Section 4.2(b) of the Retirement Plan if the provisions of the Retirement Plan were administered without regard to the limitations imposed by Sections 401(a)(17) and 415 of the Code and (ii) the retirement contributions made on his or her behalf under the Retirement Plan for such payroll period and (b) effective on and after January 1, 2004, (i) the retirement and transition contributions that would otherwise be contributed on behalf of the Participant under Sections 4.2(b) and 4.2(c) of the Retirement Plan if the provisions of the Retirement Plan were administered without regard to the limitations imposed by Sections 401(a)(17) and 415 of the Code and (ii) the retirement and transition contributions made on his or her behalf under the Retirement Plan for such payroll period.

SECTION 9. CREDITS AND ADJUSTMENTS TO ACCOUNTS

Each Participant's account shall be credited with any amounts deferred under the Plan and any Employer contributions made on behalf of the Participant. Each Participant's account shall be reduced by the amount of any distributions to the Participant from the Plan. Pursuant to procedures established by the Administrator, each Participant's account shall be adjusted as of each business day the New York Stock Exchange is open to reflect the earnings or losses of any hypothetical investment media as may be designated by the Administrator pursuant to Section 10 below.

SECTION 10. INVESTMENT OF ACCOUNTS

For purposes of determining the amount of earnings and appreciation and losses and depreciation to be credited to a Participant's account, such account shall be deemed invested in the investment options (designated by the Administrator as available under the Plan; provided that in no event shall the Administrator designate PolyOne Corporation common stock as an investment option under the Plan) as the Participant may elect, from time to time, in accordance with such rules and procedures as the Administrator may establish. However, no provision of the Plan shall require the Employer to actually invest any amounts in any fund or in any other investment vehicle.

SECTION 11. VESTING

A Participant shall be 100% vested in that portion of his or her account which is attributable to elective deferrals made under Section 5, employer matching contributions made under Section 7 and the employer contributions made under Section 8 that correspond to transition contributions under Section 4.2(c) of the Retirement Plan. That portion of a Participant's account attributable to employer contributions under Section 8 of the Plan that correspond to retirement contributions under Section 4.2(b) of the Retirement Plan shall vest in accordance with the following schedule:

Years of Service	Vested Percentage
Less than 3 years	*0%*
3 years and thereafter	*100%*

Notwithstanding the foregoing, for purposes of any Participant who was a Participant in the M.A. Hanna Company Capital Accumulation Plan and/or the M.A. Hanna Company 401(k) and Retirement Plan as of May 31, 2003, such Participant shall have a vested right to a portion of the Participant's account derived from any employer contributions under Section 8 of the Plan that correspond to retirement contributions under Section 4.2(b) of the Retirement Plan as follows:

Years of Service	Vested Percentage
Less than 1 year	*0%*
1, but less than 2	*20%*
2, but less than 3	*40%*
3 or more	*100%*

For purposes of this Section 11, a Participant will be credited with the same number of Years of Service under the Plan as he or she is credited with under the Retirement Plan.

SECTION 12. TIME AND MANNER OF DISTRIBUTION

12.1(a) Payment of Grandfathered Account.

(1) A Participant's Grandfathered Account shall commence to be paid to such Participant within thirty days of the date of the Participant's termination of employment with the Employer or any affiliate

(within the meaning of Sections 414(b), (c) and (m) of the Code) in the form of payment selected by the Participant on an election form approved by and received by the Administrator or its designee.

(2) The following are the available choices for the form of payment of a Participant's Grandfathered Account:

(A) A single lump sum in cash; or

(B) Substantially equal annual cash installments over a period not exceeding 10 years.

This Section 12.1 and all other provisions of this Plan notwithstanding, if a Participant fails to elect a form of payment before payment is to commence pursuant to Section 12.1(a), the Participant's Grandfathered Account shall be paid in the form of a single lump sum payment in cash. In addition, the Board, in its sole and absolute discretion, may direct that payment of any or all of a Participant's Grandfathered Account be accelerated and paid prior to the time the Grandfathered Account would otherwise be payable in accordance with the Participant's election, and in that event the Administrator shall make payment to the Participant at the time and in the manner directed by the Board. In no event, however, shall the Employer, the Administrator or any other person or party have the power to delay payment of the account beyond the time elected by the Participant.

12.1(b) Payment of Post-2004 Account

(1) A Participant's vested Post-2004 Account shall commence to be paid to such Participant within thirty days of the date of the Participant's Termination Date in the form of payment selected by the Participant on an election form approved by and received by the Administrator or its designee, provided that the Participant shall not have the right to designate the taxable year of payment. Notwithstanding the foregoing, the vested Post-2004 Account of a Specified Employee shall commence to be distributed on the first day of the seventh month after the date of such Specified Employee's Termination Date (or, if earlier, his or her date of death). For purposes of the Plan, the term "Specified Employee" shall mean a specified employee as determined by the Employer in its Specified Employee Designation Procedure.

(2) The following are the available choices for the form of payment of a Participant's vested Post-2004 Account:

(A) A single lump sum in cash; or

(B) Substantially equal annual cash installments over a period not exceeding 10 years.

The Participant shall elect, on the election form described in Section 5, the form in which his or her Post-2004 Account shall be paid. Such election, once made, shall be binding with respect to his or her entire Post-2004 Account, unless changed pursuant to the following paragraph. Each installment payment shall be considered a separate payment and not one of a series of payments for purposes of Section 409A of the Code.

A Participant may change the form of payment elected by a subsequent election form approved by and received by the Administrator or its designee; provided, that unless otherwise permitted in accordance with Section 409A of the Code, the election to change may not take effect until at least 12 months after the date the election to change is made and the first payment under such election will be made no less than 5 years from the original date on which payment of the amount credited to the Participant's vested account is to commence.

12.2 **Death Before Payments Commence or are Completed.** If a Participant dies while employed by the Employer or while receiving installment payments, the value of his or her vested account shall be paid to the Participant's Beneficiary in a single lump sum cash payment, within 90 days after the Participant's death, provided that the Participant's Beneficiary shall not have the right to designate the taxable year of payment.

12.3 **Change of Control Provisions.** In the event of a "Change of Control" of the Employer, (a) the Participant's Grandfathered Account shall be paid, as soon as reasonably practicable, to the Participant in a lump sum cash payment, unless the Administrator otherwise determines and (b) the Participant's Post-2004 Account shall be paid, as soon as reasonably practicable, to the Participant in a lump sum cash payment. To the extent the Participant has a right to receive a lump sum cash payment, the payment is subject to Section 409A of the Code, and the event triggering the right to payment does not constitute a permitted distribution event under Section 409A(a)(2) of the Code, then notwithstanding anything to the contrary in this Plan, the payment of the lump sum cash payment will be made, to the extent necessary to comply with Section 409A of the Code, to the Participant on the earlier of (i) the Participant's Termination Date; provided, however, that if the Participant is a Specified Employee on the Termination Date, the Participant's date of payment of the lump sum cash payment shall be the first day of the seventh month after the Participant's Termination Date; (ii) the date distribution would otherwise occur under this Plan, or (iii) the Participant's death

For purposes of this Section 12.3, "Change of Control" means any of the following:

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

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

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

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

SECTION 13. BENEFICIARY DESIGNATION

A Participant may designate the person or persons to whom the Participant’s account under the Plan shall be paid in the event of the Participant’s death. If no Beneficiary is designated, or no designated Beneficiary survives the Participant, payment shall be made in a single lump-sum to the Participant’s estate.

SECTION 14. PLAN ADMINISTRATION

14.1 Administration. The Plan shall be administered by the Administrator.

The Administrator is authorized to make findings (including factual findings) with respect to any issue arising under the Plan, interpret and construe any provision of the Plan, to determine eligibility and benefits under the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, to adopt such forms as it may deem appropriate for the administration of the Plan, to provide for conditions and assurances deemed necessary or advisable to protect the interests of the Employer and to make all other determinations necessary or advisable for the administration of the Plan, but only to the extent not contrary to the express provisions of the Plan. The Administrator shall be responsible for the day-to-day administration of the Plan. Determinations, interpretations or other actions made or taken by the Administrator under the Plan shall be final and binding for all purposes and upon all persons.

14.2 Review Procedure. The purpose of the review procedure set forth in this Section 14.2 is to provide a procedure by which a Participant or Beneficiary (the "claimant") under the Plan, or the duly authorized representative of any such Participant or Beneficiary, may have a reasonable opportunity to appeal a denied claim to the Administrator for a full and fair review.

If a claim for benefits is denied in whole or in part, the Administrator shall notify the claimant within ninety (90) days after receipt of the claim (or within one hundred eighty (180) days if special circumstances require an extension of time for processing the claim, and provided written notice indicating the special circumstances and the date by which a final decision is expected to be rendered is given to the claimant within the initial ninety (90) day period).

The notice of the denial of the claim shall be written in a manner calculated to be understood by the claimant and shall set forth the following:

(i) the specific reason or reasons for the denial of the claim;

(ii) the specific references to the pertinent Plan provisions on which the denial is based;

(iii) a description of any additional material or information necessary to perfect the claim, and an explanation of why such material or information is necessary;

(iv) a statement that any appeal of the denial must be made by giving to the Administrator, within sixty (60) days after receipt of the denial of the claim, written notice of such appeal, such notice to include a full description of the pertinent issues and basis of the claim;

(v) a description of the Plan's review procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following a denial of a claim on review; and

(vi) if an internal rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination, either the specific rule, guideline, protocol, or other similar criterion, or a statement that such a rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination and that a copy of such rule, guideline, protocol, or other criterion will be provided free of charge to the claimant upon request.

Upon denial of a claim in whole or in part, the claimant (or his or her duly authorized representative) shall have the right to submit a written request to the Administrator for a full and fair review of the denied claim, to be permitted, upon request and free of charge, to review and receive copies of documents, records and other information pertinent to the denial, and to submit issues and comments in writing, documents, records, and other information relating to the claim for benefits. Any appeal of the denial must be given to the Administrator within the period of time prescribed above. The full and fair review shall take into account all comments, documents, records and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination, and provide a review that does not afford deference to the initial benefit determination. If the claimant (or the claimant's duly authorized representative) fails to appeal the denial to the Administrator within the prescribed time, the Administrator's adverse determination shall be final, binding and conclusive, to the extent permitted by law.

The Administrator may hold a hearing or otherwise ascertain such facts as it deems necessary and shall render a decision which shall be binding upon both parties, to the extent permitted by law. The Administrator shall advise the claimant of the results of the review within sixty (60) days after receipt of the written request for the review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered as soon as possible but not later than one hundred twenty (120) days after receipt of the request for review. If such extension of time is required, written notice of the extension shall be furnished to the claimant prior to the commencement of the extension that indicates the special circumstances requiring the extension of time and the date by which the Plan expects to render the determination on review. In the event that a period of time is extended as permitted pursuant to this paragraph due to a claimant's failure to submit information necessary to decide a claim, the period for making the benefit determination on review shall be tolled from the date on which the notification of the extension is sent to the claimant until the date on which the claimant responds to the request for additional information. The decision of the review shall be written in a manner calculated to be understood by the claimant and shall include:

(i) specific reasons for the decision;

(ii) specific references to the pertinent Plan provisions on which the decision is based;

(iii) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits;

(iv) a statement of the claimant's right to bring an action under Section 502(a) of ERISA following a denial of a claim on review; and

(v) if an internal rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination, either the specific rule, guideline, protocol, or other similar criterion, or a statement that such rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination and that a copy of the rule, guideline, protocol, or other similar criterion will be provided free of charge to the claimant upon request.

The decision of the Administrator shall be final, binding and conclusive to the extent permitted by law.

SECTION 15. FUNDING

__15.1__ **Plan Unfunded.** The Plan is unfunded for tax purposes and for purposes of Title I of ERISA. Accordingly, the obligation of the Employer to make payments under the Plan constitutes solely an unsecured (but legally enforceable) promise of the Employer to make such payments, and no person, including any Participant or Beneficiary, shall have any lien, prior claim or other security interest in any property of the Employer as a result of this Plan. Any amounts payable under the Plan shall be paid out of the general assets of the Employer and each Participant and Beneficiary shall be deemed to be a general unsecured creditor of the Employer.

__15.2__ **Rabbi Trust.** The Employer may create a grantor trust to pay its obligations hereunder (a so-called rabbi trust), the assets of which shall be treated, for all purposes, as the assets of the Employer. In the event the trustee of such trust is unable or unwilling to make payments directly to Participants and Beneficiaries and such trustee remits payments to the Employer for delivery to Participants and Beneficiaries, the Employer shall promptly remit such amount, less applicable income and other taxes required to be withheld, to the Participant or Beneficiary.

SECTION 16. AMENDMENT AND TERMINATION

The Board may, in its sole discretion, amend, suspend or terminate, in whole or in part, the Plan, except that no amendment, suspension, or termination shall retroactively impair or otherwise adversely affect the rights of any Participant, Beneficiary, or other person to benefits under the Plan which have accrued prior to the date of such action, as determined by the Administrator in its sole discretion. Any termination of this Plan will be made only to the extent and in the circumstances described in Treas. Reg. §1.409A-3(j)(4)(ix), or any successor provision.

The Administrator may adopt any amendment or take any other action which may be necessary or appropriate to facilitate the administration, management, and interpretation of the Plan or to conform the Plan thereto.

SECTION 17. NO ASSIGNMENT

A Participant’s right to the amount credited to his or her account under the Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors of the Participant or the Participant’s Beneficiary.

SECTION 18. SUCCESSORS AND ASSIGNS

The provisions of this Plan shall be binding upon and inure to the benefit of the Employer, its successors and assigns, and the Participants, Beneficiaries, heirs, legal representatives and assigns.

SECTION 19. NO CONTRACT OF EMPLOYMENT

Nothing contained herein shall be construed as a contract of employment between a Participant and the Employer, or as a right of the Participant to continue in employment with the Employer, or as a limitation of the right of the Employer to discharge the Participant at any time, with or without cause.

SECTION 20. GOVERNING LAW

This Plan shall be subject to and construed in accordance with the provisions of ERISA, where applicable, and otherwise by the laws of the State of Ohio.

SECTION 21. SECTION 409A OF THE CODE

It is intended that the Plan (including all amendments thereto) comply with the provisions of Section 409A of the Code, so as to prevent the inclusion in gross income of any amount credited to a Participant’s account hereunder in a taxable year that is prior to the taxable year or years in which such amount would otherwise be actually distributed or made available to the Participant. It is intended that the Plan shall be administered in a manner that will comply with Section 409A of the Code. Any reference in this Plan to Section 409A of the Code will also include any regulations or any other formal guidance, promulgated with respect to such Section 409A by the U.S. Department of Treasury or the Internal Revenue Service.

IN WITNESS WHEREOF, the Employer, by its duly authorized officer, has caused this Plan to be executed as of the 18th day of February, 2008.

POLYONE CORPORATION

By: /s/ Kenneth M. Smith
Authorized Officer

February 21, 2008 **<u>Exhibit 10.18</u>**

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

Dear Steve:

By letter dated January 30, 2006, PolyOne Corporation ("PolyOne") confirmed its verbal offer of employment to you, with a start date (the "Effective Date") on or before February 21, 2006. By your acceptance dated February 6, 2006, you accepted the terms and conditions of employment set forth in that letter agreement. PolyOne desires to amend and restate that letter agreement to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and any proposed, temporary or final regulations, or any guidance promulgated with respect to Section 409A by the U.S. Department of Treasury or the Internal Revenue Service ("Section 409A").

1. <u>Position and Duties</u>.

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

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

2. <u>Compensation</u>.

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

(b) **Bonus/Annual Incentive.**

(i) You will be entitled to a signing bonus of $600,000, payable within 30 calendar days of the Effective Date.

(ii) In addition, during the Employment Period, you will be eligible for an annual incentive award based on achievement of specified performance goals (as determined by the Committee). For 2006, you will be eligible to participate in the 2006 Senior Executive Annual Incentive Plan, with a target attainment equal to 100% of your base salary.

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

(i) You will be entitled to receive a grant, effective upon the Effective Date, of 200,000 shares of restricted stock (the "Restricted Shares") under the PolyOne Corporation 2005 Equity and Performance Incentive Plan (the "Plan") and upon the following terms:

(A) The Restricted Shares will be subject to a risk of forfeiture until the third anniversary of the date of grant.

(B) The Restricted Shares will be forfeited if your employment is terminated for any reason prior to their becoming nonforfeitable, except that if your employment terminates by reason of death or your permanent and total disability (as defined under the relevant disability plan or program of PolyOne in which you then participate) ("Disability") or if a change in control (as defined in PolyOne's standard award agreements) (a "Change in Control") of PolyOne shall occur, all restrictions with respect to the Restricted Shares will lapse.

(C) The Restricted Shares will not be transferable by you, except by will or the laws of descent and distribution, until the shares become nonforfeitable as provided herein.

(D) You will be entitled to all rights as a shareholder with respect to the Restricted Shares granted (including the right to vote and receive dividends thereon).

(E) Any additional shares or other securities that you may be entitled to receive under the terms of the Plan pursuant to a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, separation or reorganization or any other change in the capital structure of the Company (a "Change in Capitalization") will be subject to the same restrictions as the Restricted Shares granted.

(F) Any tax withholding obligation of the Company in connection with the Restricted Shares will be satisfied by PolyOne withholding shares otherwise deliverable pursuant to the award of Restricted Shares in order to satisfy the minimum withholding amount permissible under the method that results in the least amount withheld.

(ii) You will also be entitled to participate in PolyOne's 2006-2008 Long-Term Incentive Plan, consisting of awards of SARs and cash-settled performance units, granted under the Plan. The total award value for the 2006-2008 award will be equal in value to $1,505,000, provided that in no event will the number of SARs granted exceed 250,000, and the grant of such 2006-2008 award will be made on the Effective Date.

(iii) You will also be entitled to participate in a two-year cash incentive plan for the period January 1, 2006 through December 31, 2007 (the "Performance Period") upon the following terms:

(A) Such cash incentive plan will be in the form of a grant to you, effective upon the Effective Date, of 87,000 phantom units (the "Units"). Each Unit will be equal in value to one share of PolyOne's common stock. Any earned Units will entitle you to a cash payment, to be made in the year immediately following the end of the Performance Period and by March 15 of such year, equal to the number of Units earned multiplied by the high-low average of PolyOne's common stock on the day immediately preceding the date of the approval of the payment by the Committee.

(B) Payment of the Units is contingent on the attainment of certain pre-established metrics (including, threshold, target and maximum levels of achievement), as most recently approved by the Committee relating to the following equally-weighted financial performance measures: Return on Invested Capital, Ratio of Debt-to-EBITDA and Operating Cash Flow (as defined and approved by the Committee); provided, however, that the actual payout of the Units shall be not less than the targeted number of Units (87,000) at the grant date stock price of $9.185.

(C) Payment of the Units is also contingent upon your remaining in the continuous employ of PolyOne or a subsidiary through the end of the Performance Period and if your employment terminates before the end of the Performance Period (except as set forth below), the Units will be forfeited. Notwithstanding the preceding sentence, upon a Change in Control, you will be entitled to payment of 100% of the Units awarded and if your employment with PolyOne terminates during the Performance Period due to your death or Disability, PolyOne will pay to you or your executor or administrator, as the case may be, after the end of the Performance Period, the portion of the Units to which you would have been entitled had you remained employed by PolyOne through the end of the Performance Period, prorated based on the portion of the Performance Period during which you were employed by PolyOne.

(D) The Units will not be transferable by you, except by will or the laws of descent and distribution.

(E) The Units will be adjusted by the Committee in the event of any Change in Capitalization.

(iv) In future years, you will be eligible to receive long-term incentive awards, together with PolyOne's other executive officers, as approved by the Committee.

(d) **Expense Reimbursement**. PolyOne will reimburse you for all reasonable business expenses incurred by you during the Employment Period in the course of performing your duties under this agreement that are consistent with PolyOne's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to PolyOne's requirements applicable generally with respect to reporting and documentation of such expenses.

(e) **Standard Benefits**. You will be entitled during the Employment Period to participate, on the same basis as other salaried employees of PolyOne, in PolyOne's standard benefit programs (the "Standard Benefits Package"). The Standard Benefits Package means those benefits (including the PolyOne Retirement Savings Plan, the PolyOne Supplemental Retirement Savings Plan, the health care programs, short-term and long-term disability benefits, life insurance, business travel accident coverage, flexible spending accounts, and an employee assistance program) for which PolyOne salaried employees are from time to time generally eligible, as determined from time to time by the Committee or the Board. As part of the Standard Benefits Package, you will also be entitled to reimbursement of relocation expenses under the PolyOne Plus Relocation Program (the "Relocation Program") (except that PolyOne will provide reimbursement for up to 24 months). Notwithstanding anything to the contrary contained in this agreement, the Standard Benefits Package will not include the right to participate in the PolyOne Employee Transition Plan (the "ETP") or the Executive Severance Plan ("ESP"), both of which the parties agree do not apply to you.

(f) **Additional Relocation Benefits**. As an additional benefit, PolyOne will reimburse you for reasonable expenses relating to lodging, meals and travel between your residence and work (Avon Lake, Ohio) during the 90-day period immediately following the Effective Date, provided that, following such 90-day period and until such time as you initiate your relocation under the Relocation Program, you will be responsible for any and all expenses associated with commuting between your residence and work (Avon Lake, Ohio) locations, together with your living expenses.

(g) **Other**. You will also be entitled to the following: (i) five weeks of paid vacation per year; (ii) a car allowance equal to $1200 per month; (iii) an annual allowance for financial planning and tax preparation in an amount equal to up to $13,000 per year, payable upon submission of itemized invoices; and (iv) participation in the PolyOne Group Excess Liability policy.

(h) **Reimbursement**. Any reimbursement of expenses under this Paragraph 2 shall be for expenses incurred by you during the Employment Period and such reimbursement shall be made not later than December 31 of the year following the year in which you incur the expense. In no event will the amount of expenses so reimbursed by PolyOne in one year affect the amount of expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year.

3. Other Agreements. You agree, in connection with your employment with PolyOne, to execute and be bound by the terms and conditions of PolyOne's standard: (a) Management Continuity Agreement for executive officers (providing for 36 months of compensation upon the terms and conditions in such agreement); (b) Confidential Information, Invention and Non-Solicitation Agreement; (c) Code of Conduct; and (d) Code of Ethics for Senior Officers (collectively, the "Other Agreements").

4. Employment Period.

(a) **The Employment Period**. Except as otherwise provided herein, the Employment Period will commence on the Effective Date and will continue thereafter until terminated as provided in this Paragraph 4 (the "Employment Period").

(b) **Termination**. Notwithstanding anything to the contrary contained in this agreement, the Employment Period will end on the first to occur of any of the following events: (i) your death; (ii) PolyOne's termination of your employment on account of your Disability; (iii) a voluntary termination of your employment by you (including your retirement); (iv) an involuntary termination of your employment by PolyOne for Serious Cause (as defined below); or (v) an involuntary termination of your employment by PolyOne without Serious Cause (as defined below).

(c) **Serious Cause**. For purposes of this agreement, "Serious Cause" will have the meaning ascribed to such term in the ETP, as such ETP may be amended from time to time, and will also include any breach of a provision of this agreement or of any of the Other Agreements. A copy of the current definition of "Serious Cause" has been delivered to you concurrently with this agreement.

5. Post-Employment Period Payments.

(a) **Accrued Compensation/Benefits**. Except as provided in Paragraph 5(b) below, at the end of the Employment Period for any reason, you will cease to have any rights to compensation or benefits and you shall be entitled only to (i) any base salary that has accrued but is unpaid, any reimbursable expenses that have been incurred but are unpaid, and any unexpired vacation days that have accrued under PolyOne's vacation policy but are unused, as of the end of the Employment Period; (ii) any plan benefits that by their terms extend beyond termination of your employment (but only to the extent provided in any such benefit plan in which you have participated as an employee of PolyOne and excluding the ETP and the ESP); and (iii) any benefits to which you are entitled under the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended ("COBRA").

(b) **Severance Payments**. Notwithstanding the foregoing, if (i) your Employment Period ends early for any reason other than as set forth in subparagraphs 4(b)(i) through 4(b)(iv) above and the end of your Employment Period constitutes a "separation from service," as defined for purposes of Section 409A (a "Separation From Service"), (ii) such termination is not following a change in control of PolyOne entitling you to benefits under your Management Continuity Agreement and (iii) on or before the 45th day following such end of your Employment Period, you agree to standard non-compete and non-solicitation covenants for a period of 36 months following the date of termination and to other standard terms and conditions, including a full release of claims, you will also be entitled to the following amounts and benefits, all payable in accordance with the requirements of Section 409A:

(A) 36 months of salary continuation, car allowance and financial planning/tax preparation allowance, with monthly payments to commence, except as provided in Paragraph 5(d), with the first normal pay period that occurs on or after 60 calendar days after the end of your Employment Period (the "Initial Payment Date");

(B) An annual incentive amount as earned for the year in which termination of employment occurs, to be paid in the year following the year in which your Employment Period terminates but no later than March 15 of such year, prorated for the amount of time that has elapsed from the beginning of the applicable performance period until the date of termination of employment; and

(C) 24 months of continuation in PolyOne's medical and dental plans (the "Health Plans"), provided that Health Plans expressly do not include life insurance, short-term disability or long-term disability. You will be required to pay the full cost of the continuation coverage in the Health Plans on an after-tax basis. On the Initial Payment Date and on January 2 of the year following the year in which the Initial Payment Date occurs, PolyOne will make a payment to you (the "Health Plans Premium Reimbursement") equal to the difference between (A) the amount you are required to pay during the calendar year of payment for such continuation coverage and, with respect to the payment on the Initial Payment Date, the amount, if any, you are required to pay for such continuation coverage in the prior year, and (B) the amount you would have been required to pay during such years for such continuation coverage if you had paid the same percentage of the cost that a similarly situated active employee would pay, as of the date your employment terminated. PolyOne will reimburse the amount of the federal, state and local taxes imposed on you as a result of your receipt of the Health Plans Premium Reimbursement, such reimbursement to be made, subject to Paragraph 5(d), no later than December 31 of the year following the year in which you remitted the applicable taxes. Your right to continuation coverage under the Health Plans pursuant to this Paragraph 5(b)(C) shall satisfy the Health Plans' obligation to provide you continuation coverage pursuant to COBRA.

The monthly financial planning/tax preparation allowance to be provided pursuant to subparagraph (A) above shall be in an amount equal to one-twelfth of the full annual financial planning/tax preparation allowance to which you are entitled pursuant to Paragraph 2(g)(iii) as of the end of your Employment Period (without the requirement to submit itemized invoices).

Each cash payment made by PolyOne pursuant to this Paragraph 5(b) and Paragraph 5(c), including but not limited to reimbursement of financial planning/tax preparation expenses, shall be considered a separate payment and not one of a series of payments for purposes of Section 409A.

(c) **Possible Additional Severance Payment**. Notwithstanding anything to the contrary contained herein, in the event that your employment with PolyOne is involuntarily terminated by PolyOne without Serious Cause (as defined in Paragraph 4(c) above) prior to the three year anniversary of the Effective Date, you will be entitled to the following cash payments, payable, except as provided in Paragraph 5(d), on the Initial Payment Date:

(i) If your employment is terminated at any time before the one year anniversary of the Effective Date, you will be entitled to a cash payment equal to the amount determined by multiplying 66,667 by the fair market value of one share of PolyOne common stock on the date of termination of your employment.

(ii) If your employment is terminated on or following the one year anniversary of the Effective Date but before the 18 month anniversary of the Effective Date, you will be entitled to a cash payment equal to the amount determined by multiplying 100,000 by the fair market value of one share of PolyOne common stock on the date of termination of your employment.

(iii) If your employment is terminated on or following the 18 month anniversary of the Effective Date but before the two year anniversary of the Effective Date, you will be entitled to a cash payment equal to the amount determined by multiplying 133,334 by the fair market value of one share of PolyOne common stock on the date of termination of your employment.

(iv) If your employment is terminated on or following the two year anniversary of the Effective Date but before the three year anniversary of the Effective Date, you will be entitled to a cash payment equal to the amount determined by multiplying 166,667 by the fair market value of one share of PolyOne common stock on the date of termination of your employment.

(v) If your employment is terminated on or following the three year anniversary of the Effective Date, you will not be entitled to any additional cash payment under this Paragraph 5(c).

(d) Notwithstanding the foregoing, if you are a “specified employee,” as determined by PolyOne in its Specified Employee Designation Procedure, on the date of your Separation from Service and any payment under Paragraph 5(b)(A), 5(b)(C) or 5(c) would be considered to be deferred compensation under Section 409A, then any such payment that is considered to be deferred compensation that would otherwise be payable during the six-month period following your Separation from Service will instead be paid on the earlier of (1) the first business day of the seventh month following the date of your Separation from Service, or (2) your death.

6. Miscellaneous.

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

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

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

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

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

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

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

It is intended that this Agreement comply with the provisions of Section 409A of the Code, so as to prevent the inclusion in gross income of any amounts deferred hereunder in a taxable year that is prior to the taxable year or years in which such amounts would otherwise actually be distributed or made available to you or your beneficiaries. This Agreement shall be administered in a manner consistent with such intent.

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

Sincerely,

POLYONE CORPORATION

By: /s/ Gordon D. Harnett
Name: Gordon D. Harnett
Title: Chairperson of the Compensation and Governance Committee

Date: February 21, 2008

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

/s/ Stephen D. Newlin
Name: Stephen D. Newlin
Date: February 21, 2008

Exhibit 10.20

POLYONE CORPORATION

EXECUTIVE SEVERANCE PLAN
(As Amended and Restated Effective December 31, 2007)

ARTICLE I — PURPOSE

The Board of Directors of PolyOne Corporation (the "Company"), acting through the Compensation and Governance Committee, adopted the PolyOne Corporation Executive Severance Plan (the "Plan") effective May 25, 2006. The Plan is designed to provide severance protection to certain officers of the Company who are expected to make substantial contributions to the success of the Company and thereby provide for stability and continuity of operations.

ARTICLE II — ESTABLISHMENT OF THE PLAN

Section 2.1 Effective Date. The Plan was effective May 25, 2006 (the "Effective Date"). The Plan is amended and restated effective December 31, 2007 to comply with the 409A Guidance.

Section 2.2 Applicability of Plan. The benefits provided by the Plan shall be available to Participants, as defined in Section 3.14.

Section 2.3 Contractual Right to Benefits. Subject to the provisions of Article X hereof, the Plan establishes and vests in each Participant a contractual right to the benefits to which the Participant is entitled hereunder, enforceable by the Participant against the Company on the terms and subject to the conditions hereof.

ARTICLE III — DEFINITIONS

Section 3.1 "Affiliate" means, with respect to any person, any entity, directly or indirectly, controlled by, controlling or under common control with such person.

Section 3.2 "Base Salary" of a Participant means the Participant's annual base salary as in effect on the Termination Date.

Section 3.3 "Board" means the Board of Directors of the Company.

Section 3.4 "Cause" means the Participant's commission of any of the following:

(a) Serious violation or deliberate disregard of the Company's policies;

(b) Gross dereliction in the performance of Participant's job duties and responsibilities;

(c) Violation of the Code of Business Conduct;

(d) Misappropriation of property of the Company or an Affiliate;

(e) Commission of an act of fraud upon, or bad faith, dishonesty or disloyalty toward the Company or any of its Affiliates;

(f) Breach of any of the covenants under Section 6.3 or Article VII;

(g) An event of egregious misconduct involving serious moral turpitude to the extent that, in the reasonable judgment of the Committee, the Participant's credibility and reputation no longer conforms to the standards applicable to Company executives; or

(h) An act or omission that the Company reasonably determines may prejudice significantly its best interests if the Participant's employment is not terminated.

Section 3.5 "Code" means the Internal Revenue Code of 1986, as amended.

Section 3.6 "Committee" means the Compensation and Governance Committee of the Board, or any successor committee of the Board that performs the executive compensation functions delegated to the Committee as of the Effective Date.

Section 3.7 "Disability" means a Participant's incapacity due to physical or mental illness that results in a Participant being absent from the Participant's duties with an Employer on a full-time basis for a period of 180 consecutive days.

Section 3.8 "Elected Officer" means an officer of the Company who is elected to office by the Board and who has not resigned or otherwise been removed from that position. An Elected Officer will not include an officer of the Company who is appointed by the Board.

Section 3.9 "Employer" means the Company or any Affiliate that employs a Participant.

Section 3.10 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

Section 3.11 "Executive Officer" means an Elected Officer who is elected to office by the Board in the category of "Executive Officer."

Section 3.12 "Key Employee" means a "specified employee," determined pursuant to procedures adopted by the Company in compliance with Section 409A of the Code.

Section 3.13 "Management Continuity Agreement" means an agreement entered into between the Company and a Participant that sets forth benefits that the Company agrees to provide the Participant under certain circumstances following a Change of Control (as defined in such agreement).

Section 3.14 "Participant" means an Elected Officer and any other employee of an Employer who is expressly designated by the Committee as a Participant, who, after becoming a Participant, has not entered into an employment, severance or other similar agreement with the

Company (other than a stock option, restricted stock, supplemental retirement, deferred compensation or similar plan or agreement or other form of participant document entered into pursuant to an Employer-sponsored plan that may contain provisions operative on a termination of the Participant's employment or may incidentally refer to accelerated vesting or accelerated payment upon a Change of Control (as defined in such separate plan or document), such as a Management Continuity Agreement). Each individual who, as of the Effective Date, is an Elected Officer shall become a Participant as of the Effective Date. Each individual who, after the Effective Date, becomes an Elected Officer or is designated by the Committee as a Participant, shall become a Participant as of the date so elected or designated. A Participant shall cease to be a Participant hereunder when he or she is no longer an Elected Officer or, by action of the Committee, is no longer a Participant.

Section 3.15 "Plan Administrator" means the Company.

Section 3.16 "Severance Payment" or "Severance Payments" means the amount or amounts to be paid to a Participant under Article IV hereof.

Section 3.17 "Severance Period" means (a) for all Executive Officers other than the Chief Executive Officer of the Company, the period of time commencing on the Termination Date and continuing until the second anniversary of the Termination Date, and (b) for all other Participants (other than the Chief Executive Officer of the Company), the period of time commencing on the Termination Date and continuing until the first anniversary of the Termination Date.

Section 3.18 "Termination Date" means the date on which the Participant incurs a "separation from service" from the Company within the meaning of the Section 409A(a)(2)(A)(i) of the Code.

Section 3.19 "409A Guidance" means Section 409A of the Code, including proposed, temporary or final regulations or any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto.

ARTICLE IV — SEVERANCE PAYMENTS

Section 4.1 Right to Severance Payment.

(a) Subject to Section 5.1, a Participant shall be entitled to receive from the Company Severance Payments in the amount provided in Section 4.1(b), payable as described in Section 4.1(d), upon the termination by the Employers of the Participant's employment without Cause and for reasons other than death or Disability.

(b) The amount of Severance Payments under this Section 4.1(b) shall equal the sum of:

(i) the Participant's Base Salary multiplied by (i) two in the case of Executive Officers or (ii) one in the case of all other Participants; and

(ii) the Participant’s annual bonus under the Company’s annual incentive program in which the Participant participates as earned for the year in which the Termination Date occurs;

minus the sum of:

(iii) the amount equal to the aggregate amount of any other cash payments in the nature of severance payments, if any, paid or payable to the Participant by an Employer pursuant to any agreement, plan, program, arrangement or requirement of statutory or common law (other than this Plan or cash payments received in lieu of stock incentives); and

(iv) the amount, if any, the Participant may be required to repay to the Company under the Company’s relocation program;

provided, however, for purposes of this Section 4.1(b), any reduction required by Section 4.1(b)(iii) or Section 4.1(b)(iv) shall first be taken against the amount payable under Section 4.1(b)(i); and provided further, that the offset provided by Section 4.1(b)(iv) shall not exceed $5,000 in any calendar year and shall be made at the same time and in the same manner as the repayment would otherwise be due from the Participant to the Company under the Company’s relocation program.

(c) In the event a Participant is entitled to severance payments under this Article IV, the Company shall provide the Participant continued participation in the Company’s medical, dental and vision plans (the “Health Plans”) for the Severance Period, subject to the terms and conditions of the Health Plans. The Participant will be required to pay the full cost for such continuation coverage in the Health Plans on an after-tax basis. On the Initial Payment Date, as defined below, and on each January 2 of the Severance Period beginning in the year following the year in which the Initial Payment Date occurs, PolyOne will make a payment to the Participant (the “Health Plans Premium Reimbursement”) equal to the difference between (A) the amount the Participant is required to pay during the calendar year of payment for such continuation coverage and, with respect to the payment on the Initial Payment Date, the amount, if any, the Participant is required to pay for such continuation coverage in the prior year, and (B) the amount the Participant would have been required to pay during such years for such continuation coverage if the Participant had paid the same percentage of the cost that a similarly situated active employee would pay, as of the Termination Date.

The Participant’s continued participation in the Health Plans for the Severance Period shall satisfy the Health Plans’ obligation to provide the Participant the right to continuation coverage under the Health Plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended.

The Company will reimburse the amount of the federal, state and local taxes imposed on the Participant as a result of the Participant’s receipt of the Health Plans Premium Reimbursement, such reimbursement to be made, subject to Section 4.1(d)(iii), no later than December 31 of the year following the year in which the Participant remits the applicable taxes.

(d) (i) The Severance Payment paid pursuant to Section 4.1(b)(i) shall be paid in equal installments during the period beginning on the date 60 calendar days after the Participant's Termination Date and ending at the end of the Severance Period according to the Company's then current payroll policies. The first installment to which a Participant is entitled under this Section 4.1(d)(i) shall be paid with the first normal pay period that occurs on or after 60 calendar days after the Participant's Termination Date (the "Initial Payment Date") and shall include any installments that would have been paid during the Severance Period but for the 60-day delay in commencement of payment. The amount of each installment shall be equal to the total amount of the Severance Payment paid pursuant to Section 4.1(b)(i) divided by the number of payroll dates in the Severance Period.

(ii) Except to the extent subject to a valid deferral election executed by the Participant that would require payment at a different time, the Severance Payment paid pursuant to Section 4.1(b)(ii) shall be paid during the calendar year immediately following the calendar year in which the performance objectives giving rise to such annual bonus payment are satisfied.

(iii) Notwithstanding the foregoing, if any of the Severance Payments described in Section 4.1(d)(i) or Section 4.1(d)(ii) would be considered "nonqualified deferred compensation," within the meaning of the 409A Guidance, then to the extent necessary to comply with Section 409A of the Code and to the extent payable to a Participant who is a Key Employee, such payment shall not be made during the six-month period following the Participant's Termination Date. Any Severance Payments that would, but for the foregoing sentence, be paid during such six-month period, shall be paid to the Participant by the Company in cash and in full, on the first business day of the seventh month following the Participant's Termination Date.

(iv) If a Participant entitled to Severance Payments under this Section 4.1 should die before all amounts payable to him or her have been paid, such unpaid amounts shall be paid no later than 90 days following the Participant's death to the Participant's legal representative, if there be one, and, if not, to the Participant's spouse, parents, children or other relatives or dependents of such Participant as the Company, in its discretion, may determine, provided, however, such payee or payees shall not have the right to designate the taxable year of payment. Any payment so made shall be a complete discharge of any liability with respect to such benefit.

Section 4.2 Business Expenses. Each Participant shall be responsible for any personal charges incurred on any Company credit card or other account used by the Participant prior to the Participant's Termination Date and the Participant shall pay all such charges when due. The Company shall reimburse the Participant for any pending, reasonable business-related credit card charges for which the Participant has not already been reimbursed as of the Participant's Termination Date provided the Participant files a proper travel and expense report. Such reimbursement shall be made not later than December 31 of the year following the year in which the Participant incurs the expense. In no event will the amount of expenses so reimbursed by the Company in one year affect the amount of expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year.

Section 4.3 Outplacement. Each Participant shall be eligible to initiate outplacement services with the Company's designated service provider within 90 days of the Termination Date. Any fees for such outplacement benefits shall be paid by the Company directly to the outplacement service provider and such services shall be completed within 12 months after the date the Participant so initiates outplacement services.

Section 4.4 Withholding. The Company shall withhold such amounts from the payments described in this Article IV as are required by applicable tax or other law.

Section 4.5 Other Rights and Obligations.

(a) Nothing in this Plan will affect the rights that a Participant may have, based on termination of the Participant's employment as of the Termination Date, pursuant to any agreement, policy, plan, program or arrangement of the Company providing for payment of accrued vacation pay, long-term incentive compensation or retirement benefits under the PolyOne Corporation Retirement Savings Plan or any other qualified or non-qualified retirement plan of the Company or any Affiliate, which rights will be governed by the terms thereof, as such agreements, policies, plans, programs or arrangements may be modified from time to time consistent with the terms of such agreements, policies, plans, programs or arrangements.

(b) Except as specifically set forth in this Plan, no other compensation or benefits are due to a Participant under this Plan, the PolyOne Employee Transition Plan, the Management Continuity Agreement, or any other agreement, policy or program of the Company. If the Participant has entered into a Management Continuity Agreement with the Company and is entitled to payment under such Management Continuity Agreement, then the Participant is not eligible to receive benefits under this Plan.

(c) In connection with the termination of the Participant's employment, such Participant shall follow the Company's standard procedures relating to departing employees, including, without limitation, returning (and providing confirmation that the Participant has so returned) all Company owned property, documents and materials (including copies, reproductions, summaries and/or analyses), and all other materials that contain, reflect, summarize, describe, analyze or refer or relate to any items of Information (as defined in Article VII below).

(d) The Participant shall not be required to mitigate damages or the amount of the Participant's Severance Payment by seeking other employment or otherwise, nor, except as provided in the following sentence, shall the amount of such payment be reduced by any compensation earned by the Participant as a result of employment after the termination of the Participant's employment by the Employers. In the event a person receiving benefits under the Plan is reemployed by an Employer, all payments then payable will cease.

ARTICLE V — RELEASE

Section 5.1 Release. Notwithstanding anything to the contrary contained in this Plan, a Participant shall not be entitled to receive any Severance Payment hereunder unless and until the Participant has signed and returned to the Company a release (the “Release”) by the deadline established by the Plan Administrator (which shall be no later than 50 calendar days after the Participant’s Termination Date) and the period during which the Participant may revoke the Release, if any, has elapsed. The Release, which shall be signed by the Participant no earlier than the Participant’s Termination Date, shall be a written document, in a form prescribed by the Company, intended to create a binding agreement by a Participant to release any claim that the Participant has or may have against the Company and certain related entities and individuals, that arise on or before the date on which Participant signs the Release, including, without limitation, any claims under the federal Age Discrimination in Employment Act.

Section 5.2 Breach. The Company’s payment obligations and the Participant’s participation rights under Article IV shall cease in the event the Participant breaches any of the covenants contained in the Release or in Articles VI or VII.

ARTICLE VI — NON-COMPETITION, NON- SOLICITATION, AND NON-DISPARAGEMENT

Section 6.1 Non-Competition. From the Termination Date until the conclusion of the Severance Period, a Participant shall not, without prior written consent of the Company (to be decided by the Plan Administrator upon submission of a written request by the Participant describing the specific opportunity for which consent is sought), engage, directly or indirectly, either personally or as an employee, director, partner, agent, representative, or consultant for another, in any activity that competes directly or indirectly with the Company or any of its Affiliates in any products, services, systems, or other business activities (or in any product, service, system, or business activity that was under either active development or consideration while the Participant was employed by the Company). The foregoing sentence of this Section 6.1 is intended to cover and encompass activity by a Participant that poses a competitive threat to the Company or any of its Affiliates. The Company competes worldwide in the sale of products, services, systems, and business activities and the market for technology related to its products, services, systems, and business activities is worldwide. For purposes of this Section 6.1, indirect competition shall include engaging in any of the prohibited activities through an intermediary or third-party or as a shareholder of any corporation in which a Participant or Participant’s immediate family member owns, directly or indirectly, individually or in the aggregate, more than five percent (5%) of the outstanding stock.

Section 6.2 Non-Solicitation. From the Termination Date until the conclusion of the Severance Period, a Participant shall not directly or indirectly (a) induce or assist others in inducing any person who is an employee, officer, consultant, or agent of the Company or its Affiliates to give up employment or business affiliation with the Company or its Affiliates; or (b) employ or associate in business with any person who is employed by or associated in business with the Company or its Affiliates at any time during the Severance Period or in the one-year period prior to the Termination Date; provided, however, that the foregoing shall not prohibit the Participant, or any business with whom Participant becomes associated, from engaging in general solicitations of employment or hiring persons that respond to such solicitations. In the event that the scope of the restrictions in Sections 6.1 or 6.2 are found overly broad, a court should reform the restrictions by limiting them to the maximum reasonable scope.

Section 6.3 Statements to Third Parties. A Participant shall not, directly or indirectly, make or cause to be made any statements to any third parties criticizing or disparaging the Company or comment on its character or business reputation. A Participant further shall not: (a) comment to others concerning the status, plans or prospects of the business of the Company, or (b) engage in any act or omission that would be detrimental, financially or otherwise, to the Company, or that would subject the Company to public disrespect, scandal, or ridicule. For purposes of this Section 6.3, the "Company" shall mean PolyOne Corporation and its directors, officers, predecessors, and Affiliates. The foregoing undertakings shall not apply to any statements or opinions that are made under oath in any investigation, civil or administrative proceeding or arbitration in which the individual has been compelled to testify by subpoena or other judicial process or which are privileged communications.

ARTICLE VII — CONFIDENTIAL INFORMATION

As an employee of the Company or an Affiliate, a Participant may have created or had access to information, trade secrets, substances and inventions including confidential information relating to the business or interests of persons with whom the Company or any of its Affiliates may have commercial, technical, or scientific relations ("Information") that is valuable to the Company or any of its Affiliates and may lose its value if disclosed to third parties. Participants shall treat all such Information as confidential and belonging to the Company and take all actions reasonably requested to confirm such ownership. A Participant shall not, without the prior written consent of the Company, disclose or use the Information. This non-disclosure obligation shall continue until such Information becomes public knowledge through no fault of the Participant. A Participant shall promptly inform the Company of any request, order, or legal process requesting or requiring the Participant to disclose Information. A Participant shall cooperate with legal efforts by the Company to prevent or limit disclosure of Information.

ARTICLE VIII — SUCCESSORS; THIRD PARTY BENEFICIARIES

Section 8.1 Participant's Successors. This Plan shall inure to the benefit of and be enforceable by the Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees and/or legatees.

Section 8.2 Exclusive Benefit. This Plan is intended to be for the exclusive benefit of the Company and the Participants, and except as provided in Section 8.1, no third party shall have any rights hereunder.

ARTICLE IX — AMENDMENT AND TERMINATION

The Company, through the Committee, reserves the right to amend or terminate the Plan at any time without any prior notice to or approval of any Participant without any notice to or approval of any other Employer. Any such amendment or termination may be retroactive to any date up to and including the effective date of the Plan; provided, however, that no such amendment, modification or change shall adversely affect any benefit under the Plan previously paid or provided to a Participant (or a Participant's successor in interest).

ARTICLE X — ADMINISTRATION OF PLAN

Section 10.1 Administration.

(a) The Plan shall be administered by the Plan Administrator. The Plan Administrator shall have the sole and absolute discretion to interpret where necessary all provisions of the Plan (including, without limitation, by supplying omissions from, correcting deficiencies in, or resolving inconsistencies or ambiguities in, the language of the Plan), to make factual findings with respect to any issue arising under the Plan, to determine the rights and status under the Plan of Participants or other persons, to resolve questions (including factual questions) or disputes arising under the Plan and to make any determinations with respect to the benefits payable under the Plan and the persons entitled thereto as may be necessary for the purposes of the Plan. Without limiting the generality of the foregoing, the Plan Administrator is hereby granted the authority (i) to determine whether a particular employee is a Participant, and (ii) to determine if a person is entitled to benefits hereunder and, if so, the amount and duration of such benefits. The Plan Administrator's determination of the rights of any person hereunder shall be final and binding on all persons, subject only to the provisions of Section 10.3 hereof.

(b) The Plan Administrator may delegate any of its administrative duties, including, without limitation, duties with respect to the processing, review, investigation, approval and payment of benefits, to a named administrator or administrators.

Section 10.2 Regulations. The Plan Administrator shall promulgate any rules and regulations it deems necessary in order to carry out the purposes of the Plan or to interpret the provisions of the Plan. The rules, regulations and interpretations made by the Plan Administrator shall, subject only to the provisions of Section 10.3 hereof, be final and binding on all persons.

Section 10.3 Claims Procedures.

(a) The Plan Administrator shall determine the rights of any person to any benefit hereunder. Any person who believes that he or she has not received the benefit to which he or she is entitled under the Plan must file a claim in writing with the Plan Administrator specifying the basis for his or her claim and the facts upon which he or she relies in making such a claim.

(b) The Plan Administrator will notify the claimant of its decision regarding his or her claim within a reasonable period of time, but not later than 90 days following the date on which the claim is filed, unless special circumstances require a longer period for adjudication and the claimant is notified in writing of the reasons for an extension of time prior to the end of the initial 90-day period and the date by which the Plan Administrator expects to make the final decision. In no event will the Plan Administrator be given an extension for processing the claim beyond 180 days after the date on which the claim is first filed with the Plan Administrator.

If such a claim is denied, the Plan Administrator's notice will be in writing, will be written in a manner calculated to be understood by the claimant and will contain the following information:

(i) The specific reason(s) for the denial;

(ii) A specific reference to the pertinent Plan provision(s) on which the denial is based;

(iii) A description of additional information or material necessary for the claimant to perfect his or her claim, if any, and an explanation of why such information or material is necessary; and

(iv) An explanation of the Plan's claim review procedure and the applicable time limits under such procedure and a statement as to the claimant's right to bring a civil action under ERISA after all of the Plan's review procedures have been satisfied.

If additional information is needed, the claimant shall be provided at least 45 days within which to provide the information and any otherwise applicable time period for making a determination shall be suspended during the period the information is being obtained.

Within 60 days after receipt of a denial of a claim, the claimant must file with the Plan Administrator, a written request for review of such claim. If a request for review is not filed within such 60-day period, the claimant shall be deemed to have acquiesced in the original decision of the Plan Administrator on his or her claim. If a request for review is filed, the Plan Administrator shall conduct a full and fair review of the claim. The claimant will be provided, upon request and free of charge, reasonable access to and copies of all documents and information relevant to the claim for benefits. The claimant may submit issues and comments in writing, and the review must take into account all information submitted by the claimant regardless of whether it was reviewed as part of the initial determination. The decision by the Plan Administrator with respect to the review must be given within 60 days after receipt of the request for review, unless circumstances warrant an extension of time not to exceed an additional 60 days. If this occurs, written notice of the extension will be furnished to the claimant before the end of the initial 60-day period, indicating the special circumstances requiring the extension and the date by which the Plan Administrator expects to make the final decision. The decision shall be written in a manner calculated to be understood by the claimant, and it shall include

(A) The specific reason(s) for the denial;

(B) A reference to the specific Plan provision(s) on which the denial is based;

(C) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all information relevant to the claimant's claim for benefits; and

(D) A statement describing any voluntary appeal procedures offered by the Plan and a statement of the claimant's right to bring a civil action under ERISA.

The Plan Administrator's decision on review shall be, to the extent permitted by applicable law, final and binding on all interested persons.

Section 10.4 Mediation. After a Participant has exhausted all administrative remedies as provided in Section 10.3, the Participant may submit any dispute to mediation by written notice to the other party or parties. The mediator shall be selected by agreement of the parties. If the parties cannot agree on a mediator, a mediator shall be designated by the American Arbitration Association at the request of a party. Any mediator so designated must be acceptable to all parties. The mediation shall be conducted as specified by the mediator and agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with facilitation by the mediator, to reach an amicable resolution of the dispute. The mediation shall be treated as a settlement discussion and therefore shall be confidential. The mediator may not testify for either party in any later proceeding relating to the dispute. No recording or transcript shall be made of the mediation proceedings. Each party shall bear its own costs in the mediation. The fees and expenses of the mediator shall be shared equally by the parties.

ARTICLE XI — MISCELLANEOUS

Section 11.1 Alienation. Except as otherwise required by law, no benefit shall be subject in any way to alienation, sale, transfer, assignment, pledge, attachment, garnishment, execution or encumbrance of any kind, and any attempt to accomplish the same shall be void.

Section 11.2 Incapacity. Benefits shall be payable hereunder only to a Participant who is eligible therefor, except that if the Company shall find that such Participant is unable to manage his or her affairs for any reason, any benefit payable to him or her shall be paid to his or her duly appointed legal representative, if there be one, and, if not, to the spouse, parents, children or other relatives or dependents of such Participant as the Company, in its discretion, may determine. Any payment so made shall be a complete discharge of any liability with respect to such benefit.

Section 11.3 Employment Rights. The Participant's rights, and the Company's rights to discharge a Participant shall not be enlarged or affected by reason of the Plan. Nothing contained in the Plan shall be deemed to alter in any manner the management rights of the Company or any of its Affiliates.

Section 11.4 Notices. For all purposes of this Plan, all communications, including, without limitation, notices, consents, requests or approvals provided for herein, shall be in writing and shall be deemed to have been duly given when delivered, addressed to the Company (to the attention of the Chief Legal Officer) at its principal executive offices and to any Participant at his principal residential address on file with the Company, or to such other address as any party may have furnished to the other in writing and in accordance herewith. Notices of change of address shall be effective only upon receipt.

Section 11.5 Governing Law. Any dispute, controversy, or claim of whatever nature arising out of or relating to this Plan or breach thereof shall be governed by and under the laws of the State of Ohio without regard to conflict of law principles.

Section 11.6 Validity. The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan, which shall nevertheless remain in full force and effect.

Section 11.7 Captions and Paragraph Headings. Captions and paragraph headings used herein are for convenience and are not part of this Plan and shall not be used in construing it.

Section 11.8 Section 409A Compliance. It is intended that this Plan comply with the provisions of Section 409A of the Code, so as to prevent the inclusion in gross income of any amounts deferred hereunder in a taxable year that is prior to the taxable year or years in which such amounts would otherwise actually be distributed or made available to a Participant or his or her beneficiaries. This Agreement shall be administered in a manner consistent with such intent.

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has caused this Plan to be executed as of the 18th day of February, 2008.

POLYONE CORPORATION

By: /s/ Kenneth M. Smith

Exhibit 21.1

POLYONE CORPORATION
SUBSIDIARIES

NAME	FORMATION JURISDICTION
1997 Chloralkali Venture, Inc.	Alabama
Altona Properties Pty Ltd. (37.4% owned)	Australia
Auseon Limited	Australia
BayOne Canada, Inc. (50% owned)	Canada
BayOne Urethane Systems, LLC (50% owned)	Delaware
Conexus, Inc.	Nevada
DH Compounding Company	Delaware
GLS Corporation	Illinois
GLS Hong Kong Limited	China
GLS International, Inc.	Illinois
GLS Thermoplastic Alloys (Suzhou) Co., Ltd	China
GLS Trading (Suzhou) Co., Ltd.	China
Geon Development, Inc.	Ohio
Geon Polimeros Andinos S.A. (50% owned)	Colombia
Hanna France SARL	France
Hanna PAR Corporation	Delaware
Hollinger Development Company	Nevada
L. E. Carpenter & Company	Delaware
LP Holdings	Canada
M.A. Hanna Asia Holding Company	Delaware
M.A. Hanna Export Services Company	Barbados
M.A. Hanna Plastic Group, Inc.	Michigan
MAH Plastics Company	Delaware
O’Sullivan Films, Inc.	Delaware
O’Sullivan Plastics Corporation	Nevada
O’Sullivan Films Holding Corporation	Delaware
P.I. Europe CV	Netherlands
POL Plastics Company	Delaware
Polimeks Plastik San. ve Tic. A.S.	Turkey
Polymer Diagnostics, Inc.	Ohio
PolyOne, LLC	Delaware
PolyOne Belgium SA	Belgium
PolyOne Canada, Inc.	Canada
PolyOne Color and Additives Germany, GmbH	Germany
PolyOne Controladora SA de CV	Mexico
PolyOne Corporation UK Limited	England
PolyOne CR s.r.o.	Czech Republic

NAME	FORMATION JURISDICTION
PolyOne Deutschland, GmbH	Germany
PolyOne Distribution de Mexico S.A. de C.V.	Mexico
PolyOne Engineered Films, Inc.	Virginia
PolyOne Espana, S.L.	Spain
PolyOne Funding Corporation	Delaware
PolyOne Funding Canada Corporation	Canada
PolyOne International Financial Services Company	Ireland
PolyOne International Trading (Shanghai) Co., Ltd.	China
PolyOne Italy, Srl	Italy
PolyOne Management International Holding, S.L.	Spain
PolyOne France S.A.S.	France
PolyOne Hong Kong Holding Ltd.	Hong Kong
PolyOne Hungary, Ltd.	Hungary
PolyOne Polska, Sp.z.o.o.	Poland
PolyOne Poland Manufacturing, Sp.z.o.o.	Poland
PolyOne-Shenzhen Co. Ltd.	China
PolyOne Shanghai, China	China
PolyOne Singapore, Ltd.	Singapore
PolyOne-Suzhou, China	China
PolyOne Sweden, AB	Sweden
PolyOne Termoplasticos do Brasil Ltda.	Brazil
PolyOne Th. Bergmann, GmbH	Germany
PolyOne Tianjin, China	China
PolyOne Vinyl Compounds Asia Holdings Limited	British Virgin Islands
PolyOne Vinyl Compounds Dongguan Co. Ltd.	China
PolyOne Wilflex Australasia Pty Ltd.	Australia
Powder Blends LP	Delaware
Regalite Plastics Corporation	Massachusetts
Shawnee Holdings, Inc.	Virginia
Star Color Co. Ltd.	Thailand
Sunbelt Chlor-Alkali Partnership (50% owned)	Delaware
Tekno Polimer Muhendislik Plastikleri San. ve Tic. A.S.	Turkey
Tekno Ticaret Muhendislik Plastikleri San. ve. Tic. A.S.	Turkey

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-47796) pertaining to Post Effective Amendment No. 3 on Form S-8 to Form S-4 pertaining to the Geon Company 1993 Incentive Stock Plan, the Geon Company 1995 Incentive Stock Plan, the Geon Company 1998 Interim Stock Award Plan, the Geon Company 1999 Incentive Stock Plan, the PolyOne Corporation Deferred Compensation Plan for Non-Employee Directors and the M.A. Hanna Company Long-Term Incentive Plan,

(2) Registration Statement (Form S-8 No. 333-141029) pertaining to the PolyOne Retirement Savings Plan and the DH Compounding Company Savings and Retirement Plan and Trust,

(3) Registration Statement (Form S-8 No. 333-141028) pertaining to the M.A. Hanna Company Long-Term Incentive Plan,

(4) Registration Statement (Form S-8 No. 333-128283) pertaining to the 2005 Equity and Performance Incentive Plan, and

(5) Registration Statement (Form S-8 No. 333-48002) pertaining to the PolyOne Corporation 2000 Stock Incentive Plan;

of our reports dated February 27, 2008, with respect to the consolidated financial statements and schedule of PolyOne Corporation and the effectiveness of internal control over financial reporting of PolyOne Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2007.

/s/ Ernst & Young LLP

Cleveland, Ohio
February 27, 2008

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statement (Nos. 333-47796, 333-48002, 333-141029, 333-141028 and 333-128283) on Form S-8 of PolyOne Corporation of our report dated February 29, 2008, with respect to the consolidated balance sheets of Oxy Vinyls, LP as of June 30, 2007 and December 31, 2006, and the related consolidated statements of operations, changes in partners' capital, and cash flows for the six months ended June 30, 2007 and each of the years in the two-year period ended December 31, 2006, which report appears in the December 31, 2007 annual report on Form 10-K of PolyOne Corporation. Our report refers to a change in method of accounting for planned major maintenance activities effective January 1, 2007, a change in method of accounting for defined benefit pension and other postretirement plans effective December 31, 2006, and a change in method of accounting for share-based payments effective July 1, 2005.

/s/ KPMG LLP

KPMG LLP

Dallas, Texas
February 29, 2008

Exhibit 23.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-47796) pertaining to Post Effective Amendment No. 3 on Form S-8 to Form S-4 pertaining to the Geon Company 1993 Incentive Stock Plan, the Geon Company 1995 Incentive Stock Plan, the Geon Company 1998 Interim Stock Award Plan, the Geon Company 1999 Incentive Stock Plan, the PolyOne Corporation Deferred Compensation Plan for Non-Employee Directors and the M.A. Hanna Company Long-Term Incentive Plan,

(2) Registration Statement (Form S-8 No. 333-141029) pertaining to the PolyOne Retirement Savings Plan and the DH Compounding Company Savings and Retirement Plan and Trust,

(3) Registration Statement (Form S-8 No. 333-141028) pertaining to the M.A. Hanna Company Long-Term Incentive Plan,

(4) Registration Statement (Form S-8 No. 333-128283) pertaining to the 2005 Equity and Performance Incentive Plan, and

(5) Registration Statement (Form S-8 No. 333-48002) pertaining to the PolyOne Corporation 2000 Stock Incentive Plan;

of our report dated February 20, 2008, with respect to the financial statements of SunBelt Chlor Alkali Partnership included in the Annual Report (Form 10-K) of PolyOne Corporation for the year ended December 31, 2007.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
February 26, 2008

Exhibit 31.1

CERTIFICATION

I, Stephen D. Newlin, certify that:

1. I have reviewed this Annual Report on Form 10-K of PolyOne Corporation;

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

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

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

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

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

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

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

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

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

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

/s/ Stephen D. Newlin

Stephen D. Newlin
Chairman, President and Chief Executive Officer

February 29, 2008

Exhibit 31.2

CERTIFICATION

I, W. David Wilson, certify that:

1. I have reviewed this Annual Report on Form 10-K of PolyOne Corporation;

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

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

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

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

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

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

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

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

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

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

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

February 29, 2008

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 Annual Report on Form 10-K of PolyOne Corporation (the “Company”) for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stephen D. Newlin, Chairman, President and Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

/s/ Stephen D. Newlin
Stephen D. Newlin
Chairman, President and Chief Executive Officer
February 29, 2008

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 Annual Report on Form 10-K of PolyOne Corporation (the "Company") for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. David Wilson, Senior Vice President and Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

/s/ W. David Wilson
W. David Wilson
Senior Vice President and Chief Financial Officer
February 29, 2008

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.

OXY VINYLS, LP AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2007 and December 31, 2006

(With Independent Auditors' Report Thereon)

<u>Report of Independent Registered Accounting Firm</u>

To the Partners
Oxy Vinyls, LP:

We have audited the accompanying consolidated balance sheets of Oxy Vinyls, LP and subsidiaries (the Partnership) as of June 30, 2007 and December 31, 2006, and the related consolidated statements of operations, changes in partners' capital, and cash flows for the six months ended June 30, 2007 and each of the years in the two-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oxy Vinyls, LP and subsidiaries as of June 30, 2007 and December 31, 2006, and the results of their operations and their cash flows for the six months ended June 30, 2007 and each of the years in the two-year period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

As explained in Note 3 to the consolidated financial statements, effective January 1, 2007, the Partnership changed its method of accounting for planned major maintenance activities. Also, as explained in Note 3, the Partnership changed its method of accounting for defined benefit pension and other postretirement plans effective December 31, 2006 and for share-based payments effective July 1, 2005.

KPMG LLP

Dallas, TX
February 29, 2008

OXY VINYLS, LP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2007 and December 31, 2006

(Amounts in thousands)

	June 30, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,469	$ 517
Trade receivables	296,293	223,925
Other receivables	2,272	6,432
Receivable from PolyOne Corporation, net	29,937	17,330
Inventories	134,316	130,171
Prepaid expenses	3,953	3,998
Total current assets	479,240	382,373
PROPERTY, PLANT AND EQUIPMENT, net	1,216,870	1,242,555
OTHER ASSETS, net	43,837	50,618
	$ 1,739,947	$ 1,675,546
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 6,785	$ 24,750
Current maturities of loans payable to Occidental Petroleum Investment Co.	208,023	8,982
Accounts payable	133,185	109,029
Accrued property taxes	8,249	15,815
Other accrued liabilities	21,440	54,504
Current foreign income taxes payable	457	400
Payable to Occidental Chemical Corporation, net	44,529	25,307
Total current liabilities	422,668	238,787
LONG-TERM DEBT, net of current maturities	—	6,721
LOANS PAYABLE TO OCCIDENTAL PETROLEUM INVESTMENT CO., net of current maturities	—	115,890
POSTRETIREMENT BENEFIT OBLIGATIONS	46,288	43,032
ASSET RETIREMENT OBLIGATIONS	6,556	6,344
DEFERRED CREDITS AND OTHER LIABILITIES	7,573	8,170
FOREIGN INCOME TAX LIABILITY	1,443	—
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
MINORITY INTEREST IN OXYMAR	117,994	114,442
PARTNERS' CAPITAL, INCLUDING ACCUMULATED OTHER COMPREHENSIVE LOSS	1,137,425	1,142,160
	$ 1,739,947	$ 1,675,546

The accompanying notes are an integral part of these consolidated financial statements.

OXY VINYLS, LP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Six Months Ended June 30, 2007 and the Years Ended December 31, 2006 and 2005

(Amounts in thousands)

	Six Months Ended 6/30/2007	Year Ended 12/31/2006	Year Ended 12/31/2005
REVENUES:			
Net sales	$ 1,107,393	$ 2,475,996	$ 2,501,986
COSTS AND OTHER DEDUCTIONS:			
Cost of sales	1,087,327	2,189,337	2,170,347
Selling, general and administrative and other operating expenses, net	9,400	30,757	26,609
Restructuring and asset writedowns	—	—	104,686
Gain on sale of assets	(887)	(18,899)	—
Interest expense, net	6,275	16,472	26,741
INCOME FROM OPERATIONS BEFORE MINORITY INTEREST AND TAXES	5,278	258,329	173,603
Minority interest	3,552	8,081	36,701
INCOME FROM OPERATIONS BEFORE TAXES	1,726	250,248	136,902
Provision for income taxes	3,773	4,079	2,921
NET (LOSS) INCOME	(2,047)	246,169	133,981
Other comprehensive loss on postretirement liability adjustment	(2,688)	—	—
COMPREHENSIVE (LOSS) INCOME	$ (4,735)	$ 246,169	$ 133,981

The accompanying notes are an integral part of these consolidated financial statements.

OXY VINYLS, LP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

For the Six Months Ended June 30, 2007 and the Years Ended December 31, 2006 and 2005

(Amounts in thousands)

	Occidental PVC LP Inc.		Occidental PVC LLC		1999 PVC Partner Inc.		Total
	Partner's Capital	Accumulated Other Comprehensive Loss	Partner's Capital	Accumulated Other Comprehensive Loss	Partner's Capital	Accumulated Other Comprehensive Loss	Partners' Capital & Accumulated Other Comprehensive Loss
Balance at December 31, 2004	$ 805,084	$ —	$ 10,739	$ —	$ 257,622	$ —	$ 1,073,445
Net income	100,486		1,340		32,155		133,981
Distributions to partners	(84,375)		(1,125)		(27,000)		(112,500)
Balance at December 31, 2005	821,195	—	10,954	—	262,777	—	1,094,926
Net income	184,627		2,462		59,080		246,169
Distributions to partners	(140,625)		(1,875)		(45,000)		(187,500)
Adjustment to liability for unfunded postretirement benefit obligation (Note 3)	—	(8,576)	—	(115)	—	(2,744)	(11,435)
Balance at December 31, 2006	865,197	(8,576)	11,541	(115)	276,857	(2,744)	1,142,160
Net loss	(1,535)		(21)		(491)		(2,047)
Increase in liability for unfunded postretirement benefit obligation	—	(2,016)	—	(27)	—	(645)	(2,688)
Balance at June 30, 2007	$ 863,662	$ (10,592)	$ 11,520	$ (142)	$ 276,366	$ (3,389)	$ 1,137,425

The accompanying notes are an integral part of these consolidated financial statements.

OXY VINYLS, LP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2007 and the Years Ended December 31, 2006 and 2005

(Amounts in thousands)

	Six Months Ended 6/30/2007	Year Ended 12/31/2006	Year Ended 12/31/2005
CASH FLOW FROM OPERATING ACTIVITIES:			
Net (loss) income	$ (2,047)	$ 246,169	$ 133,981
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:			
Depreciation and amortization	68,878	113,660	122,587
Minority interest	3,552	8,081	36,701
Other noncash charges to income, net	1,203	4,982	5,820
Loss on retirement of assets, net	1,831	8,524	9,414
Restructuring and asset writedowns	—	—	104,686
Gain on sale of assets	(887)	(18,899)	—
Changes in operating assets and liabilities:			
(Increase) decrease in trade and other receivables	(68,208)	30,369	(178,947)
(Increase) decrease in inventories	(4,115)	36,550	(33,933)
Decrease (increase) in prepaid expenses	45	6,907	(7,338)
Decrease in receivable from OXY Receivables Corporation	—	—	172,147
Increase in major maintenance spending	(2,718)	(2,006)	(4,510)
Decrease in accounts payable, property taxes and other accrued liabilities	(17,182)	(4,805)	(94)
Increase (decrease) in current foreign income taxes payable	57	(31)	279
Increase in foreign income taxes payable	1,443	—	—
Increase (decrease) in payable to Occidental Chemical Corporation, net	19,222	(22,460)	(4,110)
(Increase) decrease in receivable from PolyOne Corporation, net	(12,607)	10,622	(28,995)
Other operating, net	(1,825)	(8,122)	(9,830)
Net cash (used) provided by operating activities	(13,358)	409,541	317,858
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital expenditures	(34,746)	(136,135)	(87,786)
Proceeds from sale of assets	1,655	11,348	—
Net cash used by investing activities	(33,091)	(124,787)	(87,786)
CASH FLOW FROM FINANCING ACTIVITIES:			
Payments of long term-debt	(24,750)	(133,465)	—
Distributions to partners	—	(187,500)	(112,500)
Payment of notes to Occidental Chemical Corporation	—	(9,964)	—
Increase in minority interest in OxyMar due to capital contributions from OCC	—	54,901	—
Increase (decrease) in loans payable to Occidental Petroleum Investment Co.	83,151	(9,172)	(116,634)
Net cash provided (used) by financing activities	58,401	(285,200)	(229,134)
Increase (decrease) in cash and cash equivalents	11,952	(446)	938
Cash and cash equivalents, beginning of period	517	963	25
Cash and cash equivalents, end of period	$ 12,469	$ 517	$ 963

The accompanying notes are an integral part of these consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -

Formation and operations -

Oxy Vinyls, LP ("OxyVinyls" or the "Partnership"), a Delaware limited partnership, was formed on April 6, 1999, pursuant to a Limited Partnership Agreement among Occidental PVC LP, Inc. (the "Oxy Limited Partner") and Occidental PVC, LLC (the "Oxy General Partner"), wholly-owned subsidiaries of Occidental Chemical Corporation ("OCC") and 1999 PVC Partner Inc., (the "PolyOne Limited Partner"), a subsidiary of PolyOne Corporation ("PolyOne"). The contributions and related transactions described in this Note were effective, and the Partnership commenced operations, as of April 30, 1999, at which time the Limited Partnership Agreement was amended pursuant to a First Amended and Restated Limited Partnership Agreement dated as of April 30, 1999 (collectively with the Limited Partnership Agreement, the "Partnership Agreement"). Through the Oxy General Partner and the Oxy Limited Partner, OCC indirectly owns a 76 percent interest in the Partnership. OCC is an indirect, wholly-owned subsidiary of Occidental Petroleum Corporation ("OPC"). Through the PolyOne Limited Partner, PolyOne indirectly owns a 24 percent interest in the Partnership.

The Partnership owns and operates polyvinyl chloride ("PVC"), vinyl chloride monomer ("VCM") and chlor-alkali manufacturing facilities in the United States and Canada that were contributed on behalf of the Oxy General Partner and the Oxy Limited Partner by OCC, and on behalf of the PolyOne Limited Partner, by PolyOne. A 50 percent equity interest in OXYMAR ("OxyMar"), which was a Texas general partnership between Oxy VCM Corporation ("Oxy VCM"), an indirect wholly-owned subsidiary of OCC, and U.S. VCM Corporation ("U.S. VCM"), a wholly-owned subsidiary of Marubeni Corporation ("Marubeni"), a Japanese corporation, was contributed to the Partnership at formation through the merger of Oxy VCM into the Oxy General Partner and the subsequent transfer by the Oxy General Partner of its equity interest in OxyMar to the Partnership. OxyVinyls consolidates OxyMar under the provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). (See Principles of consolidation and minority interest section below and Note 2.) As of April 30, 2004, Marubeni exercised its option to put its interest in OxyMar to OCC. (See Note 2.)

Under terms of the Partnership Agreement, net income is allocated pro-rata among the partners based on their percentage ownership of the Partnership. Distributions to the partners and any additional cash contributions required by the Partnership are also based on the partners' percentage ownership of the Partnership.

Principles of consolidation and minority interest -

The consolidated financial statements include the accounts of OxyVinyls, OxyMar (as discussed below), LaPorte Chemicals Corporation ("LaPorte"), OxyVinyls Export Sales LLC and OxyVinyls Canada Inc. ("OxyVinyls Canada"), whose functional currency is the U.S. dollar. All intercompany accounts and transactions have been eliminated.

OxyMar is 50 percent owned by OxyVinyls and 50 percent owned and operated by OCC. The consolidated financial statements include 100 percent of the accounts of OxyMar. OCC's 50 percent interest in OxyMar and OxyMar's results of operations have been reflected as a minority interest. (See Note 2.)

Certain financial statement and notes data have been reclassified to conform to the June 30, 2007 presentation.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (continued)

Risks and uncertainties -

The process of preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts, but generally not by material amounts. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of OxyVinyls' financial position and results of operations.

The carrying value of OxyVinyls' property, plant and equipment ("PP&E") is based on the cost incurred to acquire the PP&E, net of accumulated depreciation and any impairment charges. OxyVinyls performs impairment tests on its assets whenever events or changes in circumstances lead to a reduction in the estimated useful lives or estimated future cash flows that would indicate that the carrying amount may not be recoverable, or when management's plans change with respect to those assets. Under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), OxyVinyls must compare the undiscounted future cash flows of an asset to its carrying value. (See Note 5.)

Since OxyVinyls' major products are commodities, significant changes in the prices of chemical products could have a significant impact on OxyVinyls' results of operations for any particular period. OxyVinyls also depends on feedstocks and energy to produce chemicals, both of which are commodities subject to significant price fluctuations. OxyVinyls had two major customers during the periods presented, which accounted for 25.9 percent, 28.2 percent and 28.0 percent of total sales for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. OxyVinyls' receivable from these two customers was approximately $75 million and $58 million at June 30, 2007 and December 31, 2006, respectively.

Substantially all key raw materials are supplied by related parties. (See Notes 13 and 17.)

Revenue recognition -

Revenue from product sales is recognized after the product is shipped and title has passed to the customer. Prices are fixed at the time of shipment. Customer incentive programs provide for payments or credits to be made to customers based on the volume of product purchased over a defined period. Total customer incentive payments over a given period are estimated and recorded as a reduction to revenue ratably over the contract period. Such estimates are evaluated and revised as warranted.

Income taxes -

The Partnership is generally not subject to income taxes except for Canadian income taxes related to its consolidated subsidiary, OxyVinyls Canada, as well as certain U.S. state and federal income taxes associated with OxyVinyls' wholly-owned subsidiary, LaPorte. In addition, OxyVinyls is subject to the Texas Legislature's House Bill 3 ("Texas Margin Tax"), which was enacted in May 2006 and amended in May 2007. (See Note 12.)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (continued)

Income taxes — (continued)

The Partnership follows SFAS No. 109, "Accounting for Income Taxes", pursuant to which the liability method is used in accounting for taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and regulations that will be in effect when the differences are expected to reverse.

Foreign currency transactions -

The functional currency applicable to OxyVinyls' Canadian operations is the U.S. dollar since cash transactions are principally denominated in U.S. dollars. The effect of exchange rate changes on transactions denominated in nonfunctional currencies generated a gain (loss) of $.2 million, $4.0 million and $(.3) million for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

Cash and cash equivalents -

Cash equivalents consist of highly liquid certificates of deposits with initial maturities of three months or less.

Interest income on deposits with unrelated parties was minimal in the six months ended June 30, 2007 and $.1 million in each of the years ended December 31, 2006 and 2005.

Cash overdrafts are reclassified to other accrued liabilities and amounted to $5.7 million and $8.1 million as of June 30, 2007 and December 31, 2006, respectively.

Other assets -

Other assets are net of accumulated amortization and include certain tangible assets and deferred charges that are amortized over the estimated periods to be benefited (three to ten years).

Major maintenance expenditures -

Prior to 2007, OxyVinyls used the accrue-in-advance method to account for major maintenance turnaround expenditures. Under this method, an estimate was made of the costs expected to be incurred in connection with the next planned major maintenance shutdown. That estimate was then accrued on a straight-line basis over the period of time until the next planned major maintenance shutdown occurs. The liability for major maintenance turnaround expenditures included in other accrued liabilities was $16.5 million as of December 31, 2006. Effective January 1, 2007, OxyVinyls changed the accounting method for major maintenance turnaround expenditures to the deferral method. (See Note 3.) The major maintenance balance in other assets was $35.8 million as of June 30, 2007.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (continued)

Asset retirement obligations -

In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"), OxyVinyls recognizes the fair value of a liability for an asset retirement obligation in the period in which the liability is incurred or becomes reasonably estimable and if there is a legal obligation to dismantle the asset and reclaim or remediate the property at the end of its useful life. The liability amounts are based on future retirement cost estimates and incorporate many assumptions such as time to abandonment, future inflation rates and the adjusted risk free rate of interest. When the liability is initially recorded, OxyVinyls capitalizes the cost by increasing the related property, plant and equipment balances. Over time the liability is increased and expense is recognized for the change in its present value, and the initial capitalized cost is depreciated over the useful life of the asset. No market risk premium has been included in OxyVinyls' liability since no reliable estimate can be made at this time.

The following table summarizes the activity of the asset retirement obligation for the six months ended June 30, 2007 and the year ended December 31, 2006 (in thousands):

	June 30, 2007	December 31, 2006
Beginning balance	$ 6,344	$ 14,453
Liabilities settled	—	(1,179)
Accretion expense	212	626
Divestitures	—	(7,861)
Revisions to estimated cash flows	—	305
Ending balance	$ 6,556	$ 6,344

Exchanges -

Finished product exchange transactions, which involve homogeneous commodities held for sale in the ordinary course in the same line of business and do not involve the payment or receipt of cash, are not accounted for as purchases and sales. Any resulting volumetric exchange balances are accounted for as inventory in accordance with established inventory valuation policy.

Research and development costs -

Research and development costs, which are charged to selling, general and administrative and other operating expenses as incurred, were $1.5 million, $2.9 million and $3.0 million for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

Supplemental cash flow information -

Cash payments for income taxes totaled $.8 million, $1.5 million and $3.0 million during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. Net interest paid totaled $8.2 million, $18.3 million and $30.4 million during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (continued)

Fair value of financial instruments -

OxyVinyls values financial instruments as required by SFAS No. 107, "Disclosures about Fair Value of Financial Instruments". The carrying amounts of cash and cash equivalents approximate fair value because of the short maturity of those instruments. OxyVinyls estimates the fair value of its long-term debt based on the quoted market prices for the same or similar issues or on the yields offered to OxyVinyls for debt of similar rating and similar remaining maturities. The estimated fair value of OxyMar's bonds referenced in Note 6 was $6.8 million and $32.1 million at June 30, 2007 and December 31, 2006, respectively, compared with a carrying value of $6.8 million and $31.5 million at June 30, 2007 and December 31, 2006, respectively. The carrying value of all other financial instruments approximates fair value.

(2) OXYMAR -

OxyMar is a partnership that is 50 percent owned by OxyVinyls and 50 percent owned by Oxy VCM, LP, an indirectly wholly-owned subsidiary of OCC. OxyMar owns a VCM manufacturing facility at Ingleside, Texas, which is operated on OxyMar's behalf by OCC pursuant to an operating agreement. OxyMar is not subject to federal income taxes because its income is directly reportable by the individual partners. OxyVinyls consolidates its investment in OxyMar under FIN No. 46, which requires a company to consolidate a variable interest entity ("VIE") if it is designated as the primary beneficiary of that entity even if the company does not have a majority of the VIE's voting interests. A VIE is generally defined as an entity whose equity is unable to finance its activities or whose owners lack the risks and rewards of ownership. The statement also imposes disclosure requirements for all the VIEs of a company, even if the company is not the primary beneficiary.

Under the terms of the Third Amended and Restated Partnership Agreement effective April 30, 2004, net income is allocated among the partners pro-rata based on their percentage interest in the results of OxyMar. Distributions to the partners are also based on the partners' percentage interest in OxyMar.

All intercompany accounts and transactions between OxyVinyls and OxyMar have been eliminated.

(3) ACCOUNTING CHANGES -

Future accounting changes -

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. OxyVinyls is currently assessing the effect of SFAS No. 157 on its financial statements.

(3) ACCOUNTING CHANGES — (continued)

Recently adopted accounting changes -

In September 2006, the FASB issued FASB Staff Position ("FSP") AUG AIR-1, "Accounting for Planned Major Maintenance Activities" (FSP AUG AIR-1"), which is effective for the first fiscal year beginning after December 15, 2006. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities, which was used by certain operations of OxyVinyls. When OxyVinyls adopted FSP AUG AIR-1 on January 1, 2007, those operations changed to the deferral method of accounting for planned major maintenance activities. The adoption of FSP AUG AIR-1 was retrospectively applied to all periods presented and the impact to the income statements was income of $1.6 million in 2006 and $4.1 million in 2005. The effect on OxyVinyls' financial statements upon adoption was an increase of $38.3 million in other assets, a decrease of $12.3 million in accrued liabilities, an increase of $4.2 million in minority interest and, an increase of $46.4 million in partners' capital.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). This Statement requires an employer to recognize the overfunded or underfunded amounts of its defined benefit pension and postretirement plans as an asset or liability and recognize changes in the funded status of these plans in the year in which the changes occur through other comprehensive income ("OCI") if they are not recognized in the consolidated statement of operations. The Statement also requires a company to use the date of its fiscal year-end to measure the plans. The recognition and disclosure provisions of SFAS No. 158 are effective for the fiscal years ending after December 15, 2006. The requirement to use the fiscal year-end as the measurement date is effective for fiscal years ending after December 15, 2008. OxyVinyls adopted this Statement on December 31, 2006, and as a result, recorded an $11.4 million reduction in accumulated OCI and a corresponding increase in liabilities. (See Note 11.)

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN No. 48"). This interpretation specifies that benefits from tax positions should be recognized in the financial statements only when it is more-likely-than-not that the tax position will be sustained upon examination by the appropriate taxing authority having full knowledge of all relevant information. A tax position meeting the more-likely-than-not recognition threshold should be measured at the largest amount of benefit for which the likelihood of realization upon ultimate settlement exceeds 50 percent. OxyVinyls adopted FIN No. 48 on January 1, 2007 and there was no material effect on the financial statements upon adoption.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 108, "Financial Statements – Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 requires quantification of the impact of all prior year misstatements from both a consolidated statement of operations and a consolidated balance sheet perspective to determine if the misstatements are material. SAB 108 is effective for financial statements issued for fiscal years ending after November 15, 2006. OxyVinyls adopted SAB 108 effective December 31, 2006, and there was no material effect on the financial statements upon adoption.

(3) ACCOUNTING CHANGES — (continued)

Recently adopted accounting changes — (continued)

In September 2005, the Emerging Issues Task Force ("EITF") finalized the provisions of EITF Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty" ("EITF No. 04-13"), which provides accounting guidance about whether buy/sell arrangements should be accounted for at historical cost and whether these arrangements should be reported on a gross or net basis. Buy/sell arrangements typically are contractual arrangements where the buy and sell agreements are entered into in contemplation of one another with the same counterparty. OxyVinyls reports all buy/sell arrangements on a net basis and at historical cost. This Issue was effective in the first interim period beginning after March 15, 2006. OxyVinyls prospectively adopted this Issue in the second quarter of 2006 and there was no material effect on the financial statements upon adoption.

Certain OxyVinyls executives participate in OPC stock-based incentive plans that are described in Note 10. On July 1, 2005, OPC early adopted the fair value recognition provisions of SFAS No. 123R, "Share-Based Payments" ("SFAS No. 123R"), under the modified prospective transition method. Prior to July 1, 2005, OPC applied the Accounting Principles Board (APB) Opinion No. 25 intrinsic value accounting method for its stock incentive plans. Under the modified prospective transition method, the fair value recognition provisions apply only to new awards or awards modified after July 1, 2005. Additionally, the fair value of existing unvested awards at the date of adoption is recorded in compensation expense over the remaining requisite service period. OPC adopted this statement in the third quarter of 2005 and the adoption did not have a material impact on the consolidated financial statements of OxyVinyls. (See Note 10.)

(4) INVENTORIES -

Inventories are valued at the lower of cost or market. The last-in, first-out ("LIFO") method was used to determine the cost of $82 million and $81 million of OxyVinyls' U.S. inventories at June 30, 2007 and December 31, 2006, respectively. The remaining inventories in Canada and OxyMar are accounted for using the first-in, first-out ("FIFO") and weighted-average-cost methods. Inventories consisted of the following at June 30, 2007 and December 31, 2006 (in thousands):

	June 30, 2007	December 31, 2006
Raw materials	$ 26,450	$ 22,892
Materials and supplies	17,491	18,066
Finished goods	158,091	134,677
	202,032	175,635
LIFO and lower of cost or market reserve	(67,716)	(45,464)
Total inventories	$ 134,316	$ 130,171

In 2007 there was an increment of LIFO inventory quantities resulting from higher VCM volumes, partially offset by lower PVC volume, compared to 2006. In 2006 there was an increment of LIFO inventory quantities resulting from higher PVC and VCM volumes compared to 2005

(5) PROPERTY, PLANT AND EQUIPMENT -

Property additions and major renewals and improvements are capitalized at cost. Interest costs incurred in connection with major capital expenditures are capitalized and depreciated over the lives of the related assets. OxyVinyls capitalized $1.4 million and $2.7 million of interest during the six months ended June 30, 2007 and the year ended December 31, 2006, respectively.

The estimated useful lives of OxyVinyls' assets, which range from three years to 50 years, are used to compute depreciation expense and are also used in impairment tests. The estimated useful lives used for the facilities are based on the assumption that OxyVinyls will provide an appropriate level of annual expenditures to ensure that productive capacity is maintained. Without these continued expenditures, the useful lives of these plants could significantly decrease. Other factors that could change the estimated useful lives of OxyVinyls' plants include sustained higher or lower product prices, which are particularly affected by both domestic and foreign competition, feedstock costs, energy prices, environmental regulations, competition and technological changes.

OxyVinyls performs impairment tests on its assets whenever events or changes in circumstances lead to a reduction in the estimated useful lives or estimated future cash flows that would indicate that its carrying amount may not be recoverable, or when management's plans change with respect to those assets. Under the provisions of SFAS No. 144, OxyVinyls compares the undiscounted future cash flows of an asset to its carrying value. The key factors that could significantly affect future cash flows are future product prices, which are particularly affected by both domestic and foreign competition, feedstock costs, energy costs, regulations and remaining estimated useful life. Impaired assets are written down to their estimated fair values.

Due to a temporary decrease in demand for some of its products, OxyVinyls temporarily idled a chlor-alkali plant in December 2001. During the third quarter of 2005, OxyVinyls reviewed all of its assets and decided to close its least competitive plants and upgrade certain remaining operations. As a result of this review, OxyVinyls recorded a $92.5 million charge for the write-off of the previously idled chlor-alkali facility. (See Note 14.)

OxyMar receives steam from an adjacent cogeneration facility through an affiliate of OCC. OxyMar had maintained steam boilers as a backup source of steam in the event that the cogeneration facility was unable to provide steam for VCM facility. Management determined that it was no longer necessary to maintain the boilers in a stand-by condition as a backup source of steam due to the proven reliability of the cogeneration facility. The remaining net book value of the steam boilers, $3.0 million, was written off in the third quarter of 2005.

On December 2, 2005, OxyVinyls formally announced that the OxyVinyls PVC plant in Scotford, Alberta would close at the end of January 2006. At December 31, 2005, the remaining net book value of the Scotford plant was $.3 million. In 2006, the Scotford facility was sold and OxyVinyls recognized a gain of $16.9 million. OxyVinyls recorded an additional loss of $.7 million on the sale in June 2007 related to stores inventory. (See Note 15.)

OxyVinyls' plants are depreciated using either the unit-of-production or straight-line method based upon the estimated useful life of the facilities.

(5) PROPERTY, PLANT AND EQUIPMENT — (continued)

Property, plant and equipment consisted of the following at June 30, 2007 and December 31, 2006 (in thousands):

	June 30, 2007	December 31, 2006
Land and land improvements	$ 49,276	$ 48,862
Buildings	72,084	71,523
Machinery and equipment	2,074,951	2,024,106
Construction in progress	75,450	93,046
	2,271,761	2,237,537
Accumulated depreciation	(1,054,891)	(994,982)
Property, plant and equipment, net	$ 1,216,870	$ 1,242,555

(6) LONG-TERM DEBT AND NOTE PAYABLE TO OCC -

A note payable to OCC of $10.0 million, which carried an interest rate of 4.2 percent, was paid to OCC on November 1, 2006. Interest expense related to the note payable to OCC was $.3 million and $.4 million for the years ended December 31, 2006 and 2005.

In 1996, OxyMar issued bonds with an aggregate principal amount of $165 million, which bear interest at 7.5 percent per year and are due in 2016 (the “Bonds”). Proceeds, net of amortizable financing fees and original issue discount, totaled $163.3 million. Semiannual interest payments are due on February 15 and August 15.

OPC unconditionally guarantees OxyMar’s obligation to pay interest and principal on the Bonds. OPC had purchased $108.7 million of the Bonds as of December 31, 2005. During the second quarter of 2006, OxyMar retired the Bonds purchased by OPC in the amount of $108.7 million through capital contributions from its partners. As part of this transaction, OPC loaned $54.9 million to OxyVinyls, who in turn contributed the $54.9 million to OxyMar for use in retiring the Bonds. (See Note 7.)

OxyMar was obligated to make semiannual principal repayments on the Bonds of a minimum of $8.3 million beginning August 2006. OxyMar opted to pay an increased principal amount of $24.7 million at each of August 15, 2006 and February 15, 2007. OxyMar has committed to pay the remaining $6.8 million in outstanding principal, which is shown as a current liability on the accompanying consolidated balance sheet, on August 15, 2007. (See Note 17.)

Interest expense related to the Bonds was $.5 million, $7.3 million and $12.4 million for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

(7) CASH MANAGEMENT AND CREDIT AND DEPOSIT FACILITIES AGREEMENTS WITH OPC -

OxyVinyls participates in OPC’s centralized cash management system for its domestic operations through OPC’s affiliate, Occidental Petroleum Investment Co. (“OPIC”), and maintains a concentration account to collect cash receipts and fund disbursements. OPIC funds any negative cash balances and collects any excess cash balances on a daily basis in the concentration account under the terms of a Cash Management and Credit and Deposit Facilities Agreement between OPIC and OxyVinyls (the “Agreement”).

(7) CASH MANAGEMENT AND CREDIT AND DEPOSIT FACILITIES AGREEMENTS WITH OPC — (continued)

Under the terms of the Agreement, OPIC committed to loan OxyVinyls, on a revolving basis, up to $104 million. A new Cash Management and Credit and Deposit Facilities Agreement (the "New Agreement"), replaced the original Agreement in 2003, which was subsequently replaced by the First Amended and Restated Cash Management and Credit and Deposit Facilities Agreement (the "Amended Agreement") as of May 1, 2006. Effective May 1, 2007, the Amended Agreement was extended through April 30, 2008. The Amended Agreement may be terminated at any time by OxyVinyls, at which date any outstanding loans and any accrued interest and fees payable become due.

All outstanding loan balances as of December 31, 2006 are shown in Loans Payable to OPIC, net, in the accompanying consolidated balance sheet. All outstanding loan balances as of June 30, 2007 have been reclassified to current liabilities due to subsequent events. (See Note 17.)

As of June 30, 2007 and December 31, 2006, the outstanding loan balance, including interest, was $57.3 million and $.1 million, respectively.

Under the terms of the first amendment to the New Agreement, loans payable to OPIC accrued interest at the one-month London Interbank Offered Rate ("LIBOR") plus a margin rate on loans payable to OPIC of 500 basis points from April 2004 through April 2006. Loans receivable from OPIC accrued interest at the one-month LIBOR. The Amended Agreement changed the margin rate to 400 basis points effective May 1, 2006. Net interest (expense)/income was $(1.4) million, $4.0 million and $.8 million for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

In June 2002, OPIC provided an additional loan of $13.7 million under an amendment to the Agreement with repayment required upon the earliest of the Deer Park, Texas chlor-alkali plant restart, termination of the credit facility or December 31, 2006. This loan bore interest consistent with the terms of the New Agreement. In June 2006, OxyVinyls paid OPIC $13.7 million to retire the loan. Interest expense was $.6 million and $1.2 million for the years ended December 31, 2006 and 2005, respectively.

In April 2003, OPIC provided a loan of $179.6 million (the "LaPorte Loan") to fund the purchase of the leased LaPorte VCM plant. Under terms of the Amended Agreement, mandatory prepayment of outstanding debt is required when distributable cash is available, at an amount equal to 25 percent of distributable cash. OxyVinyls prepaid $46.9 million during 2004, $37.5 million during 2005, and $62.5 million during 2006, which reduced the LaPorte Loan balance to $32.7 million. The outstanding loan balance was $32.7 million at both June 30, 2007 and December 31, 2006. The LaPorte Loan accrues interest under the same terms as the revolving credit facility above. Interest expense was $1.5 million, $7.0 million and $10.2 million for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

On June 16, 2006, OxyVinyls borrowed an additional $54.9 million from OPIC (the "OBR Loan") under the terms of the Amended Agreement. The outstanding principal accrues interest at 6.2 percent per annum. The first principal payment of $9.0 million is payable to OPIC in August 2007, and was included in current liabilities at December 31, 2006, with the remaining OBR Loan balance of $45.9 million shown as Loans Payable to OPIC, net. The entire balance of $54.9 million is included in current liabilities at June 30, 2007. Interest expense on the OBR Loan was $1.7 million and $1.9 million for the six months ended June 30, 2007 and the year ended December 31, 2006, respectively.

(7) CASH MANAGEMENT AND CREDIT AND DEPOSIT FACILITIES AGREEMENTS WITH OPC — (continued)

OxyMar also participates in OPC's centralized cash management system through OPIC. Under the terms of a Cash Management and Credit Facilities Agreement (the "Original Agreement") with OxyMar, OPIC makes loans each business day in an amount equal to the funds required to eliminate any negative balance in OxyMar's bank account plus any payments due to OPIC. In addition, OxyMar transfers any excess funds at the end of each business day from its bank account to OPIC. The Original Agreement and subsequent amendments were replaced by the First Amended and Restated Cash Management and Credit and Deposit Facilities Agreement (the "OPIC Revolver") effective May 1, 2006. Effective May 1, 2007, the Amended Agreement was extended through April 30, 2008. The credit facility limit was $150 million at June 30, 2007. The outstanding loan from OPIC was $63.0 million and $37.2 million at June 30, 2007 and December 31, 2006, respectively. Interest is calculated at the LIBOR rate plus the applicable credit facility margin, which was 400 basis points as of June 30, 2007. Interest expense on the OPIC Revolver was $2.3 million, $3.8 million and $7.4 million for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

(8) ENVIRONMENTAL LIABILITIES -

OxyVinyls voluntarily entered into a consent decree with the U.S. Environmental Protection Agency, the State of New Jersey and the Louisville Metropolitan Air Pollution Control District regarding contested compliance allegations at four manufacturing facilities. The decree was entered by the U.S. District Court for the Northern District of Texas in July 2006. Under the terms of the decree, OxyVinyls paid penalties of approximately $.3 million in August 2006 to resolve alleged state and federal law violations, and paid $.1 million in October 2006 toward a dust control study in New Jersey as a supplemental environmental project. In addition, OxyVinyls is undertaking emission reduction projects expected to reduce vinyl chloride emissions at a cost of approximately $1.1 million as supplemental environmental projects under the decree.

Pursuant to the terms of the asset contribution agreements with OxyVinyls, each partner is responsible for the environmental remediation costs and associated claims arising out of, in connection with or relating to conditions that existed prior to the formation of OxyVinyls with respect to the assets contributed by that partner. This responsibility extends to, among other things, environmental remediation of conditions identified before forming OxyVinyls and conditions first identified within ten years after the formation date, except to the extent, if any, that OxyVinyls exacerbates or accelerates the condition as provided in the contribution agreements. OxyVinyls has not created environmental conditions that currently require ongoing remediation pursuant to applicable laws, and has not exacerbated or accelerated any such environmental conditions. Since May 1, 1999, OxyVinyls has manufactured, processed, handled, used, reused, recycled, treated, stored and/or disposed of materials at or from its facilities in the ordinary course of its business. The possibility that the actions of OxyVinyls may require future remediation at any particular site is currently considered remote. Since OxyVinyls itself has no environmental remediation responsibilities that are probable and can be reasonably estimated, no accrual by OxyVinyls for environmental remediation is warranted.

(9) COMMITMENTS AND CONTINGENCIES -

Leases -

At June 30, 2007, future net minimum rental commitments under noncancelable operating leases with terms in excess of one year are as follows (in thousands):

July 1 through December 31, 2007	$	9,475
January 1 through December 31, 2008		27,881
2009		13,219
2010		18,079
2011		5,285
2012		1,975
Thereafter		5,865
	$	81,779

OxyVinyls has commitments for guaranteed residual values on leased equipment that totaled approximately $6.6 million as of June 30, 2007.

Rent expense was approximately $10.1 million, $21.8 million and $19.1 million for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively, and is included in cost of sales and selling, general and administrative and other operating expenses, net in the consolidated statements of operations.

Other -

OxyVinyls has certain other contractual commitments to purchase electrical power, raw materials and other obligations, all in the ordinary course of business and at market prices.

The Partnership also becomes involved in certain legal proceedings in the normal course of business. Management believes that the outcome of such matters will not significantly affect the Partnership's consolidated financial position or results of operations.

Also see Notes 1 and 12 related to income taxes and Notes 6, 7 and 13 regarding related parties.

(10) STOCK-BASED INCENTIVE PLANS -

Certain OxyVinyls executives and senior managers participate in several OPC plans that provide for stock-based awards in the form of options, restricted stock ("RSUs"), stock appreciation rights ("SARs"), performance stock awards ("PSAs") and dividend equivalents.

(10) STOCK-BASED INCENTIVE PLANS — (continued)

As discussed in Note 3, on July 1, 2005, OPC changed its method of accounting for stock-based compensation from the APB Opinion No. 25 intrinsic value accounting method to the fair value recognition provisions of SFAS No. 123R. Prior to July 1, 2005, OxyVinyls had already been expensing its SARs, RSUs and PSAs charges from OPC. On July 1, 2005, OxyVinyls began expensing its OPC options and recording compensation expense for all other OPC stock-based incentive awards using fair value amounts on the date of grant in accordance with SFAS No. 123R. OPC measures the fair values of options and stock settled SARs on the date of grant using the Black-Scholes option valuation model. The fair values of the stock-settled portions of PSAs are measured on the date of grant using a Monte Carlo simulation model. The fair values of the underlying OPC stock as of the grant dates of the PSAs granted in the six months ended June 30, 2007 and in 2006 and 2005 were $39.69, $39.94 and $29.18, respectively. The fair value of the cash-settled portion of PSAs is also estimated using a Monte Carlo simulation model each quarter, through vesting, using updated assumptions. Change in the fair value of the cash-settled portion of the PSAs is recorded as compensation expense. The adoption of SFAS No. 123R did not have a material impact on the consolidated financial statements of OxyVinyls.

OxyVinyls recognized compensation expenses for stock-based incentive plans of $3.5 million, $5.2 million and $4.8 million during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. As of June 30, 2007 and December 31, 2006 and 2005, there was $3.4 million, $4.6 million and $5.3 million, respectively, of unrecognized compensation expense related to all unvested stock-based incentive award grants. This expense is expected to be recognized over a weighted average period of 1.8 years.

The difference between compensation expense recorded by OxyVinyls using the intrinsic value method and the fair value method using SFAS No. 123R for the six months ended June 30, 2005 was not significant.

(11) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS -

OxyVinyls participates in various defined contribution retirement plans that provide for periodic contributions by OxyVinyls based on plan-specific criteria, such as base pay, age level and/or employee contributions. Certain salaried employees participate in a supplemental retirement plan that provides restoration of benefits lost due to governmental limitations on qualified retirement benefits. OxyVinyls expensed approximately $3.5 million in the six months ended June 30, 2007 and $6.3 million during each of 2006 and 2005 under the provisions of these defined contribution and supplemental retirement plans.

OxyVinyls provides medical and dental benefits and life insurance coverage for certain active, retired and disabled employees and their eligible dependents. The benefits generally are funded by OxyVinyls as the benefits are paid during the year. The cost of providing these benefits is based on claims filed and insurance premiums paid for the period. The total benefit costs, including the postretirement costs, were approximately $4.5 million in the six months ended June 30, 2007 and $9.0 million in each of 2006 and 2005.

(11) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS — (continued)

As discussed in Note 3, on December 31, 2006, OxyVinyls adopted the provisions of SFAS No. 158. This statement requires the employer to recognize the over-funded or under-funded amounts of its defined benefit and other postretirement plans as an asset or liability in its balance sheet and recognize changes in the funded status of these plans in the year in which the changes occur through OCI if they are not recognized in the consolidated statement of operations. The statement also requires companies to use the date of its fiscal year-end to measure the plans. The following table shows the effect of adopting the provisions of SFAS No. 158 on the consolidated balance sheets:

For the year ended December 31, 2006, (in thousands):	Debit/(Credit)
Accrued liabilities	$ (11,435)
Accumulated OCI	$ 11,435

Obligations and Funded Status -

OxyVinyls uses a measurement date of December 31 for postretirement benefit plans.

For the periods ended, (in thousands):	June 30, 2007	December 31, 2006
Changes in benefit obligation:		
Benefit obligation – beginning of period	$ 38,654	$ 35,851
Service cost – benefits earned during the period	492	851
Interest cost on projected benefit obligation	1,096	2,004
Actuarial loss	3,065	1,093
Benefits paid	(856)	(1,145)
Benefit obligation – end of period	$ 42,451	$ 38,654
Funded status:		
Unfunded obligation	$ (42,451)	$ (38,654)
Unrecognized net loss	—	—
Net amount recognized	$ (42,451)	$ (38,654)
Accrued benefit liability	$ (42,451)	$ (38,654)
Net amount recognized	$ (42,451)	$ (38,654)

The amount recognized in the consolidated balance sheet as of June 30, 2007 and December 31, 2006 is as follows (in thousands):

	June 30, 2007	December 31, 2006
Other accrued liabilities	$ (1,666)	$ (1,125)
Postretirement benefit obligations	(40,785)	(37,529)
	$ (42,451)	$ (38,654)

At June 30, 2007 and December 31, 2006, accumulated OCI included a net loss of $14.1 million and $11.4 million, respectively.

(11) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS — (continued)

Components of Net Periodic Benefit Cost -

For the periods ended, (in thousands):	June 30, 2007	December 31, 2006	December 31, 2005
Net periodic benefit cost:			
Service cost – benefits earned during the period	$ 492	$ 851	$ 881
Interest cost on benefit obligation	1,096	2,004	1,792
Recognized actuarial loss	377	887	675
Net periodic benefit cost	$ 1,965	$ 3,742	$ 3,348

The estimated net loss for the postretirement plans that will be amortized from accumulated OCI into net periodic benefit cost over the next twelve months is $.8 million.

Additional information -

OxyVinyls' postretirement benefit plan obligations are determined based on various assumptions and discount rates, as described below. The actuarial assumptions used could change in the near term as a result of changes in expected future trends and other factors which, depending on the nature of the changes, could cause increases or decreases in the liabilities accrued.

The following table sets forth the discount rates used to determine OxyVinyls' benefit obligation and net periodic benefit cost for postretirement benefit plans:

For the periods ended,:	June 30, 2007	December 31, 2006
Discount rates:		
Benefit obligation	5.53%	5.53%
Net period benefit cost	5.53%	5.33%

The postretirement benefit obligation was determined by application of the terms of medical and dental benefits and life insurance coverage, including the effect of established maximums on covered costs, together with relevant actuarial assumptions and healthcare cost trend rates projected at a Consumer Price Index ("CPI") increase of 1.25 percent and 2.5 percent as of June 30, 2007 and December 31, 2006, respectively. Participants pay for all medical cost increases in excess of increases in the CPI. Consequently, increases in the assumed healthcare cost trend rates would have no impact on the postretirement benefit obligation at June 30, 2007 and December 31, 2006.

Estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the periods ended December 31, (in thousands):

July 1 through December 31, 2007	$ 856
January 1 through December 31, 2008	1,700
2009	1,900
2010	2,100
2011	2,300
2012	2,500
2013-2017	15,000

(11) RETIREMENT PLANS AND POSTRETIREMENT BENEFITS — (continued)

Additional information — (continued)

In addition, postemployment and Canadian postretirement healthcare obligations were $5.5 million at both June 30, 2007 and December 31, 2006.

(12) INCOME TAXES -

Deferred foreign and state income taxes reflect the future tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts. Deferred foreign and state income taxes were as follows (in millions):

Tax effects of temporary differences:	June 30, 2007	December 31, 2006
Net operating losses	$ 22.0	$ 15.3
Property, plant and equipment	1.1	1.9
All other differences	1.1	.7
Total deferred tax assets	$ 24.2	$ 17.9
Property, plant and equipment differences	$ (2.9)	$ (1.5)
Total deferred tax liabilities	$ —	$ (1.5)
Valuation allowance	$ (24.2)	$ (17.9)
Total deferred taxes	$ (2.9)	$ (1.5)

At June 30, 2007 and December 31, 2006, OxyVinyls had Canadian federal and provincial net operating loss carryforwards of approximately $68.2 million and $41.7 million, respectively. The temporary differences resulting in deferred foreign and state income tax assets are primarily related to property, plant and equipment. A $6.1 million temporary timing difference asset was recorded in 2005 relating to the shutdown of the Scotford plant and this timing difference reversed in 2006 upon the sale of the Scotford plant. (See Note 15.)

The state of Texas enacted the Texas Margin Tax during 2006, which affected OxyVinyls in 2007 due to its operations in Texas. OxyVinyls recorded deferred tax expense of $.2 million and $1.5 million for the six months ended June 30, 2007 and the year ended December 31, 2006, respectively for the cumulative temporary difference in property, plant and equipment for OxyVinyls' tax versus book liabilities that are apportioned to Texas at the 1 percent rate for the new tax.

(12) INCOME TAXES — (continued)

The provisions (credits) for domestic and foreign income and other taxes from continuing operations consisted of the following (in millions):

	U.S. Federal	State & Local	Foreign	Total
Six months ended June 30, 2007:				
Current	$ .5	$ .3	$ .2	$ 1.0
Non-current	—	—	1.4	1.4
Deferred	—	1.4	—	1.4
	$ .5	$ 1.7	$ 1.6	$ 3.8
Year ended December 31, 2006:				
Current	$ —	$ 2.5	$ .1	$ 2.6
Deferred	—	1.5	—	1.5
	$ —	$ 4.0	$ .1	$ 4.1
Year ended December 31, 2005:				
Current	$ 1.4	$ 1.3	$ .2	$ 2.9
Deferred	—	—	—	—
	$ 1.4	$ 1.3	$ .2	$ 2.9

OxyVinyls is subject to audit by taxing authorities in various tax jurisdictions. Management believes that any resulting adjustments to OxyVinyls' tax liabilities would not have a material adverse impact on its financial position or results of operations.

OxyVinyls paid taxes of $.8 million, $1.5 million and $3.0 million during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

(13) RELATED-PARTY TRANSACTIONS -

OxyVinyls sells PVC to PolyOne under the terms of a sales agreement that expires on December 31, 2013. PolyOne has the right to renew this agreement for two five-year periods. The agreement requires PolyOne and its majority affiliates to purchase their annual PVC requirements in North America in excess of 290 million pounds from OxyVinyls. For the first 880 million pounds of PVC supplied in any calendar year, PolyOne will pay a price based upon cost and other market considerations. PolyOne will purchase all volumes over 880 million pounds in any calendar year at a competitive market price. (See Note 17.)

OxyVinyls sells VCM to OCC and PolyOne under the terms of separate sales agreements that expire on December 31, 2013. PolyOne has a right to renew their agreement for two five-year periods. The agreements require that OCC and PolyOne purchase all of their VCM requirements for production of PVC in North America from OxyVinyls at market price. Under the terms of the agreements, PolyOne and OCC receive an integration credit on the first 210 million and 215 million pounds purchased in any year, respectively, to compensate for surrendered purchasing power on major feedstocks. Additionally, under the terms of a new agreement entered into in 2005 that expires on December 31, 2009, OxyVinyls sells a limited quantity of VCM to OCC. (See Note 17.)

(13) RELATED-PARTY TRANSACTIONS — (continued)

OxyVinyls' sales of VCM to OCC under the terms of these agreements were approximately $4.3 million, $9.6 million and $1.7 million for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. OxyVinyls' sales of PVC and VCM to PolyOne under the terms of these agreements were approximately $152 million, $369 million and $368 million for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

OxyVinyls sells chlor-alkali and other specialty products to OCC under the terms of a sales agreement that expires on December 31, 2013. This agreement requires OCC to purchase at a market-related price all of these products produced by OxyVinyls that are not required for its internal uses. This agreement further requires OxyVinyls to pay OCC a fee for marketing excess chlor-alkali products to third parties. OxyVinyls sold $71.1 million, $149.0 million and $179.1 million of chlor-alkali and specialty products to OCC during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. OxyVinyls paid a marketing fee of $5.5 million, $11.3 million and $13.0 million to OCC during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

OxyVinyls purchases ethylene from Equistar Chemicals LP ("Equistar"), an affiliate of Lyondell Chemical Corporation ("Lyondell"), an available-for-sale cost method investment of OPC as of June 30, 2007, under the terms of an agreement. OxyVinyls purchases ethylene for the Deer Park VCM facility and the LaPorte VCM facility based on a market related price, as defined in the agreement. The agreement expires on December 31, 2018, with decreasing volume requirements in years 2014 through 2018. OxyVinyls purchased $121.1 million, $286.6 million and $286.5 million of ethylene from Equistar under the terms of these agreements during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. In addition, OxyMar purchased ethylene of $159.6, $346.3 million and $338.2 million from Equistar during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. (See Note 17.)

OxyVinyls purchases chlorine from Sunbelt Chlor Alkali Partnership, an equity investee of PolyOne ("Sunbelt"), under the terms of an agreement that expires on December 31, 2094. This agreement requires OxyVinyls to purchase at a market-related price, less a discount, all chlorine produced by Sunbelt at its chlorine manufacturing facility in McIntosh, Alabama, up to a maximum of 250 thousand tons per year. OxyVinyls purchased $33.9 million, $72.2 million and $76.6 million of chlorine from Sunbelt under the terms of this agreement during the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. (See Note 17.)

Pursuant to raw material purchase agreements, OxyMar purchases substantially all of its principal raw materials at approximate market prices from OCC. Total chlorine purchased from OCC in the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, was $105.1 million, $216.7 million and $230.7 million, respectively.

OCC is engaged, under the terms of an operating agreement, to operate and maintain OxyMar's manufacturing facility, the cost of which is reimbursed to OCC by OxyMar. OxyMar also reimburses OCC for steam, electricity, natural gas and other raw materials, along with other operating costs, which totaled $42.3 million, $78.4 million and $83.0 million for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively.

(13) RELATED-PARTY TRANSACTIONS — (continued)

OxyVinyls incurs costs charged by OCC and PolyOne under the terms of various service and shared facilities agreements. These agreements are in effect generally so long as services continue to be provided between parties and/or facilities continue to be shared. Under the provisions of these agreements, OxyVinyls receives from and makes payments to PolyOne and OCC for shared facilities at Louisville, Kentucky, Pedricktown, New Jersey and Pasadena, Texas. In some cases, the agreements contain renewal options at negotiated prices. The net amounts of these costs were approximately $.4 million, $.5 million and $.6 million for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively. (See Note 17.) Additionally, OxyVinyls incurred the following costs payable to OCC and PolyOne (in millions):

	OCC	PolyOne
Administrative and other support services:		
For the six months ended June 30, 2007	$ 10.0	$ .7
For the year ended December 31, 2006	19.3	1.5
For the year ended December 31, 2005	20.7	1.7
OxyMar support and services fee:		
For the six months ended June 30, 2007	$ 2.5	$ —
For the year ended December 31, 2006	5.0	—
For the year ended December 31, 2005	5.0	—
Net railcar rent expense:		
For the six months ended June 30, 2007	$ 1.4	$ —
For the year ended December 31, 2006	3.1	—
For the year ended December 31, 2005	3.1	—

OxyVinyls had a net payable to OCC of $47.0 million and $25.3 million as of June 30, 2007 and December 31, 2006, respectively.

OxyVinyls had a net receivable from PolyOne of $29.7 million and $17.3 million as of June 30, 2007 and December 31, 2006, respectively. (See Note 1.)

(14) WRITE-OFF OF DEER PARK, TEXAS FACILITY -

In December 2001, OxyVinyls announced the temporary idling of its Deer Park, Texas chlor-alkali plant due to low industry capacity utilization and low product market selling prices. The plant had been maintained in a stand-by mode pending strengthening in overall economic conditions. During the third quarter of 2005, OxyVinyls reviewed all of its chemical assets and decided to close its least competitive plants and upgrade certain remaining operations. As a result of this review, OxyVinyls recorded an $84.9 million write-off of the remaining asset value of the chlor-alkali facility and a $7.6 million impairment write-down for an associated dry caustic process. In addition, $3.1 million in dedicated stores and other assets associated with the idled facility were written off. (See Note 5.)

(15) PERMANENT SHUTDOWN AND SALE OF SCOTFORD, ALBERTA PLANT -

On December 2, 2005, OxyVinyls formally announced that the OxyVinyls PVC plant in Scotford, Alberta would close at the end of January 2006. The decision to shut down the facility was made due to the announced closure of the main raw materials supplier of the Scotford facility. OxyVinyls incurred expenses totaling $6.1 million related to the shutdown. These expenses included $4.1 million under OxyVinyls' severance pay plan, $1.4 million in postretirement healthcare expenses and $.6 million for contract termination costs. (See Note 5.)

In June 2006, OxyVinyls sold its Scotford facility for approximately $8.7 million. OxyVinyls recorded a gain of $16.9 million on the sale, which included an adjustment to the asset retirement obligation reserve associated with the facility of $7.8 million and other reserve adjustments of $.4 million associated with the shutdown and sale of the facility. OxyVinyls recorded an additional loss of $.7 million on the sale in June 2007 related to stores inventory.

(16) VALUATION AND QUALIFYING ACCOUNTS -

Severance (income)/expense of $.2 million, $(.1) million and $.3 million was recorded for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005, respectively, for cost reduction and restructuring programs, and are reflected as selling, general and administrative and other operating expenses. Additional severance expense of $4.1 million was recorded during 2005 for the Scotford plant shutdown, and is reflected as restructuring and asset writedowns in the consolidated statement of operations. In 2006, a reversal of $.2 million reduced the Scotford accrual.

The following table presents the activity of certain valuation and qualifying accounts for the six months ended June 30, 2007 and the years ended December 31, 2006 and 2005 (in millions):

	Balance at Beginning of Period	Charged to Expense	Deductions	Balance at End of Adjustment	Period
For the six months ended June 30, 2007:					
Allowance for doubtful accounts	$ 1.3	$ —	$ —	$ —	$ 1.3
Severance and other obligations	$ .6	$ .2	$ (.7)(a)	$ —	$ .1
Deferred tax valuation allowance	$17.9	$ 6.3	$ —	$ —	$24.2
For the year ended December 31, 2006:					
Allowance for doubtful accounts	$ 1.9	$ —	$ (.6)	$ —	$ 1.3
Severance and other obligations	$ 4.2	$ (.3)	$(3.3)	$ —	$ .6
Deferred tax valuation allowance	$17.4	$ .5	$ —	$ —	$17.9
For the year ended December 31, 2005:					
Allowance for doubtful accounts	$ —	$ —	$ (.2)	$2.1(b)	$ 1.9
Severance and other obligations	$ .3	$ 4.4	$ (.5)(a)	$ —	$ 4.2
Deferred tax valuation allowance	$ 3.0	$14.4	$ —	$ —	$17.4

(a) Payments under the Partnership's plan for termination and relocation of certain employees

(b) Allowance balance transferred to/from an affiliate, OXY Receivables Corporation, net

(17) SUBSEQUENT EVENTS -

On July 6, 2007, OCC PVC Compound purchased the 24 percent interest in OxyVinyls, owned by the PolyOne Limited Partner, for $261 million. Subsequent to the purchase, OxyVinyls is fully owned by subsidiaries of OCC.

OxyVinyls retains the existing PVC and VCM supply agreements with PolyOne, as well as various service and shared facilities agreements. (See Note 13.) OxyVinyls also retains the existing chlorine supply agreement with Sunbelt. (See Note 13.)

OxyMar paid the outstanding Bond principal of $6.8 million on August 15, 2007. (See Note 6.)

OxyVinyls and OxyMar terminated all loan arrangements with OPIC as of July 31, 2007, at which time the outstanding loan amounts were settled through capital contributions from the partners of OxyVinyls and OxyMar. (See Note 7.)

In July 2007, OPC completed the sale of its remaining shares of Lyondell common stock. OxyVinyls purchases ethylene from Equistar, a related party which is an affiliate of Lyondell. (See Note 13.)

Exhibit 99.2

AUDITED FINANCIAL STATEMENTS

SunBelt Chlor Alkali Partnership
Years Ended December 31, 2007 and 2006
With Report of Independent Registered Public Accounting Firm

SunBelt Chlor Alkali Partnership

Audited Financial Statements

Years Ended December 31, 2007 and 2006

Contents

Report of Independent Registered Public Accounting Firm

The Partners
SunBelt Chlor Alkali Partnership

We have audited the accompanying balance sheets of SunBelt Chlor Alkali Partnership as of December 31, 2007 and 2006, and the related statements of income, partners' capital (deficit), and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SunBelt Chlor Alkali Partnership at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

/s/ERNST & YOUNG LLP

Cleveland, Ohio
February 20, 2008

SunBelt Chlor Alkali Partnership

Balance Sheets

	December 31 2007	December 31 2006
Assets		
Current assets:		
Cash	$ **1,000**	$ 1,000
Receivable from Oxy Vinyls, LP	**6,026,774**	7,732,638
Receivables from partners	**18,807,135**	14,303,282
Less allowance for doubtful accounts	**—**	—
Inventories	**1,813,647**	1,607,134
Prepaid expenses and other current assets	**1,133,302**	1,460,770
Total current assets	**27,781,858**	25,104,824
Property, plant and equipment, net	**108,811,756**	112,783,125
Deferred financing costs, net	**801,478**	881,626
Total assets	**$ 137,395,092**	$ 138,769,575
Liabilities and partners' capital (deficit)		
Current liabilities:		
Amounts payable to partners	**$ 8,837,007**	$ 9,933,013
Current portion of long-term debt	**12,187,500**	12,187,500
Total current liabilities	**21,024,507**	22,120,513
Long-term debt	**109,687,500**	121,875,000
Partners' capital (deficit)	**6,683,085**	(5,225,938)
Total liabilities and partners' capital (deficit)	**$ 137,395,092**	$ 138,769,575

See accompanying notes.

SunBelt Chlor Alkali Partnership

Income Statements

	Year Ended December 31 2007	2006	2005
Revenues	**$ 180,555,764**	$ 186,742,652	$ 166,967,651
Operating costs and expenses			
Cost of sales	**62,255,321**	56,316,784	48,699,088
Depreciation and amortization	**14,866,744**	14,554,150	14,347,268
Administrative and general expenses	**12,160,372**	11,591,056	11,694,524
	89,282,437	82,461,990	74,740,880
Operating income	**91,273,327**	104,280,662	92,226,771
Interest expense	**(9,692,719)**	(10,573,875)	(11,455,031)
Interest income	**802,271**	853,823	537,421
Income before taxes	**82,382,879**	94,560,610	81,309,161
State income tax expense	**(376,271)**	—	—
Net income (loss)	**$ 82,006,608**	$ 94,560,610	$ 81,309,161

See accompanying notes.

SunBelt Chlor Alkali Partnership

Statements of Partners' Capital (Deficit)

	Partners		
	Olin SunBelt Inc.	**1997 Venture, Inc.**	**Total**
Balance at December 31, 2004	$ (9,925,548)	$ (9,925,548)	$ (19,851,096)
Cash distributions to partners	(33,020,033)	(33,020,033)	(66,040,066)
Net Income	40,654,581	40,654,581	81,309,161
Balance at December 31, 2005	(2,291,000)	(2,291,000)	(4,582,000)
Cash distributions to partners	(47,602,274)	(47,602,274)	(95,204,548)
Net Income	47,280,305	47,280,305	94,560,610
Balance at December 31, 2006	(2,612,969)	(2,612,969)	(5,225,938)
Cash distributions to partners	**(35,048,793)**	**(35,048,793)**	**(70,097,585)**
Net Income	**41,003,304**	**41,003,304**	**82,006,608**
Balance at December 31, 2007	**$ 3,341,542**	**$ 3,341,542**	**$ 6,683,085**

See accompanying notes.

SunBelt Chlor Alkali Partnership

Statements of Cash Flows

	Period Ended December 31		
	2007	2006	2005
Operating activities			
Net income	**$ 82,006,608**	$ 94,560,610	$ 81,309,161
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**14,786,596**	14,474,002	14,267,120
Bad debt expense		—	
Amortization	**80,148**	80,148	80,148
Loss on disposal of assets	**118,249**	282,063	164,435
Accretion of discount	**—**	(328,493)	—
Changes in assets and liabilities:			
Receivables from Oxy Vinyls	**1,705,864**	(717,183)	245,961
Receivables from partners	**(4,503,853)**	3,633,362	(9,507,354)
Inventories	**(206,513)**	462,762	41,122
Amounts payable to partners	**(1,096,006)**	2,715,700	1,405,976
Accrued interest on long-term debt	**—**	—	—
Prepaid expenses and other assets	**327,468**	(169,169)	(175,224)
Net cash provided by operating activities	**93,218,561**	114,993,802	87,831,345
Investing activities			
Purchases of property, plant and equipment	**(10,933,476)**	(8,043,515)	(9,645,152)
Proceeds on sale of property, plant and equipment	**—**	70,256	62,776
Purchases of short-term investments	**—**	(22,697,270)	—
Proceeds from maturity of short-term investments	**—**	23,025,763	—
Net cash used by investing activities	**(10,933,476)**	(7,644,766)	(9,582,376)
Financing activities			
Cash distributions to partners	**(70,097,585)**	(95,204,548)	(66,040,065)
Principal payments on long-term debt	**(12,187,500)**	(12,187,500)	(12,187,500)
Net cash provided by financing activities	**(82,285,085)**	(107,392,048)	(78,227,565)
Net increase (decrease) in cash	**—**	(43,013)	21,404
Cash at beginning of year	**1,000**	44,013	22,609
Cash and cash equivalents at end of year	**$ 1,000**	$ 1,000	$ 44,013

See accompanying notes.

1. Organization

SunBelt Chlor Alkali Partnership (the Partnership) was formed on August 23, 1996 under a Partnership Agreement, between 1997 Chlor Alkali Venture, Inc. and Olin SunBelt Inc. (the Partners). 1997 Chlor Alkali Venture, Inc. is a wholly owned subsidiary of PolyOne Corporation (formerly The Geon Company) and Olin SunBelt Inc. is a wholly owned subsidiary of the Olin Corporation. Each of the Partners has a 50% interest in the Partnership. The Partnership Agreement provides that the capital investment of the Partners will be maintained and the Partnership's income or loss will be allocated to the Partners based on their ownership interest percentages.

The Partnership was formed for the purpose of construction and operation of a Chlor-Alkali facility. The facility, which is located in McIntosh, Alabama produces chlorine, caustic soda, and hydrogen.

2. Significant Accounting Policies

Cash and Cash Equivalent

The Partnership considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents held by the Partnership as of December 31, 2007 and 2006.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Short-Term Investments

The Partnership invests in short-term investments with original maturities greater than three months. These types of securities are classified as held-to-maturity when the Partnership has the positive intent and ability to hold the securities to maturity. There were no short-term investments held by the Partnership as of December 31, 2007 and 2006.

2. Significant Accounting Policies (continued)

Property, Plant, and Equipment and Depreciation

Property, plant, and equipment are carried at cost. Major renewals and betterments are capitalized. Maintenance and repair expenditures which do not improve or extend the life of the respective assets are expensed as incurred. Depreciation for all plant and equipment is computed using the straight-line method over their estimated useful lives. Depreciation expense is excluded from cost of goods sold and presented with amortization expense separately in the Income Statements. The ranges of estimated useful lives are as follows:

Land improvements	20 years
Buildings	20 years
Machinery and equipment	5-20 years

Long-lived assets are assessed for impairment when operating profits for the related business or a significant change in the use of an asset indicate that their carrying value may not be recoverable.

Deferred Financing Costs

The costs incurred by the Partnership in obtaining its long-term debt have been capitalized and are being amortized over the term of the debt using the effective interest method.

Financial Instruments

The carrying amount of long-term debt approximates its fair value. The fair value of the debt is estimated based on the present value of the underlying cash flow discounted at the Partnership’s estimated borrowing rate.

Revenue Recognition

The Partnership recognizes revenues at the point of passage of title which is based on shipping terms.

Shipping and Handling Costs

Shipping and handling costs are reflected in costs of sales.

2. Significant Accounting Policies (continued)

Income Taxes

No provision is made for income taxes other than the Texas state gross margin tax which became effective January 1, 2007, as the Partnership's results of operations are includable in the tax returns of the Partners. The Partnership paid no taxes in 2007.

Use of Estimates

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 the accompanying notes. Actual results could differ from those estimates.

Risks and Uncertainties

Since the Partnership's major products are commodities, significant changes in the prices of chemical products could have a significant impact on the results of operations for any particular period. The Partnership had one major chlorine customer, Oxy Vinyls LP, during the periods presented, which accounted for 38.3%, 39.9%, and 45.7% of total sales for the years ended December 31, 2007, 2006, and 2005, respectively.

3. Inventories

Inventories are comprised as follows:

	December 31	
	2007	**2006**
Finished goods	**$ 657,326**	$ 244,500
Production parts	**1,156,321**	1,362,634
	$ 1,813,647	$ 1,607,134

4. Property, Plant, and Equipment, net

Property, plant, and equipment, net are comprised as follows:

	December 31	
	2007	2006
Land and land improvements	**$ 4,862,826**	$ 4,862,826
Building	**3,869,389**	3,869,389
Machinery and equipment	**215,630,740**	213,997,068
Construction in process	**14,173,958**	5,217,473
	238,536,913	227,946,756
Less allowance for depreciation	**129,725,157**	115,163,631
	$ 108,811,756	$ 112,783,125

5. Transactions With Affiliates

The Partnership has various management service agreements, dated August 23, 1996, with the Olin Corporation. These agreements, which include compensation for managing the facility, an asset utilization fee, a fleet fee, and a distribution fee, have terms from five to ten years with five year price adjustment renewals. Charges for these services were approximately $8,309,350 $7,815,034 and $7,551,933 for 2007, 2006, and 2005, respectively, and have been included within administrative and general expenses in the income statements. The Partnership's cash policy was changed during 2003 to not make distributions to the Partners until the cash balance was sufficient to cover both the debt principal payments and the interest expense for the year. Contributions from the Partners were discontinued with this policy change and the manufacturing costs were paid from Partnership receipts. The Partnership made distributions to its Partners totaling $70,097,585, $95,204,548, and $66,040,065 in 2007, 2006, and 2005, respectively.

In accordance with the Partnership Operating Agreement, the majority of chlorine produced by the Partnership is sold to Oxy Vinyls LP which was 24% owned by PolyOne Corporation until July 6, 2007. The remaining chlorine and all of the caustic soda produced by the Partnership is marketed and distributed by the Olin Corporation.

6. Long-Term Debt

On December 23, 1997, the Partnership borrowed $195,000,000 in a private placement of debt. The debt is secured by the property, plant, equipment, and inventory of the Partnership. The term of the loan is 20 years at an interest rate of 7.23%. The first principal payment of $12,187,500 was paid on December 22, 2002, with equal annual payments due through December 22, 2017. Interest payments are payable semi-annually in arrears on June 22 and December 22 of each year. Interest payments totaled $9,692,719, $10,573,875, and $11,455,031 in 2007, 2006, and 2005, respectively. The debt is guaranteed by the Partners.

7. Leases

The Partnership has operating leases for certain property, machinery, and equipment. At December 31, 2007, future minimum lease payments under noncancelable operating leases are as follows:

2008	$ 1,719,036
2009	1,688,076
2010	1,688,076
2011	1,688,076
2012	1,688,076
Thereafter	5,101,094
Total minimum future lease payments	$ 13,572,434

Rent expense was $2,047,601, $2,150,485, and $722,695 for the years ended December 31, 2007, 2006, and 2005, respectively.

8. Commitments and Contingencies

The Partnership is subject to legal proceedings and claims that arise in the ordinary course of its business. Management evaluates each claim and provides for any potential loss when the loss is probable and reasonably estimable. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial condition, results of operations or cash flows of the Partnership.