
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2007
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____.

Commission file number 1-16091

POLYONE CORPORATION

(Exact name of registrant as specified in its charter)

Ohio

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

34-1730488

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

33587 Walker Road, Avon Lake, Ohio

(Address of principal executive offices)

44012

(Zip Code)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of outstanding shares of the registrant's common stock, \$0.01 par value, as of May 1, 2007 was 92,988,920.

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

	Three Months Ended March 31,	
	2007	2006
Sales	\$ 657.8	\$ 674.6
Operating costs and expenses:		
Cost of sales	562.7	583.7
Selling and administrative	61.0	47.3
Depreciation and amortization	14.1	14.3
Income from equity affiliates and minority interest	(6.5)	(38.7)
Operating income	26.5	68.0
Interest expense	(15.3)	(16.6)
Interest income	0.9	0.5
Other expense	(0.9)	(1.2)
Income before income taxes and discontinued operations	11.2	50.7
Income tax expense	(3.8)	(1.7)
Income before discontinued operations	7.4	49.0
Loss from discontinued operations, net of income taxes	—	(2.1)
Net income	<u>\$ 7.4</u>	<u>\$ 46.9</u>
Earnings (loss) per common share:		
Basic and diluted earnings (loss):		
Before discontinued operations	\$ 0.08	\$ 0.53
Discontinued operations	—	(0.02)
Basic and diluted earnings per share	<u>\$ 0.08</u>	<u>\$ 0.51</u>
Weighted-average shares used to compute earnings per share:		
Basic	92.6	92.1
Diluted	93.0	92.5

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 67.1	\$ 66.2
Accounts receivable, net	377.1	316.4
Inventories	246.6	240.8
Deferred income tax assets	18.2	18.1
Other current assets	24.7	27.8
Total current assets	733.7	669.3
Property, net	437.3	442.4
Investment in equity affiliates	293.6	287.2
Goodwill	287.0	287.0
Other intangible assets, net	8.9	9.4
Deferred income tax assets	19.3	21.1
Other non-current assets	63.5	64.4
Total assets	<u>\$ 1,843.3</u>	<u>\$ 1,780.8</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term bank debt	\$ 5.4	\$ 5.2
Accounts payable	267.0	221.0
Accrued expenses	99.3	93.1
Current portion of long-term debt	22.5	22.5
Total current liabilities	394.2	341.8
Long-term debt	568.0	567.7
Post-retirement benefits other than pensions	83.6	83.6
Other non-current liabilities, including pensions	198.2	200.5
Minority interest in consolidated subsidiaries	5.7	5.5
Total liabilities	1,249.7	1,199.1
Shareholders' equity	593.6	581.7
Total liabilities and shareholders' equity	<u>\$ 1,843.3</u>	<u>\$ 1,780.8</u>

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	March 31,	
	2007	2006
Operating Activities		
Net income	\$ 7.4	\$ 46.9
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	14.1	14.3
Loss on disposition of discontinued businesses and related plant phaseout charge	—	2.5
Companies carried at equity and minority interest:		
Income from equity affiliates	(6.5)	(38.7)
Dividends and distributions received	0.2	4.1
Provision for deferred income taxes	1.1	0.2
Change in assets and liabilities:		
Accounts receivable	(58.2)	(47.3)
Inventories	(4.9)	(7.9)
Accounts payable	44.1	19.2
Decrease in sale of accounts receivable	—	(7.9)
Accrued expenses and other	6.5	3.9
Net cash used by discontinued operations	—	(0.1)
Net cash provided (used) by operating activities	<u>3.8</u>	<u>(10.8)</u>
Investing Activities		
Capital expenditures	(7.5)	(4.9)
Proceeds from sale of assets	4.0	2.4
Proceeds from sale of discontinued business, net	—	17.3
Net cash used by discontinued operations	—	(0.2)
Net cash (used) provided by investing activities	<u>(3.5)</u>	<u>14.6</u>
Financing Activities		
Change in short-term debt	0.1	(0.3)
Repayment of long-term debt	(0.7)	—
Proceeds from exercise of stock options	0.3	2.0
Net cash (used) provided by financing activities	<u>(0.3)</u>	<u>1.7</u>
Effect of exchange rate changes on cash	0.9	(0.8)
Increase in cash and cash equivalents	0.9	4.7
Cash and cash equivalents at beginning of period	66.2	32.8
Cash and cash equivalents at end of period	<u>\$ 67.1</u>	<u>\$ 37.5</u>

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Common Shares	Common Shares Held in Treasury	Total	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Common Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)
Balance January 1, 2006	122,192	30,255	\$ 387.4	\$ 1.2	\$ 1,066.4	\$ (190.3)	\$ (337.1)	\$ (152.8)
Cumulative effect of adoption of FSP AUG AIR-1 as of January 1, 2006			7.0			7.0		
Comprehensive income:								
Net income			46.9			46.9		
Translation adjustment			0.9					0.9
Total comprehensive Income			47.8					
Stock-based compensation and benefits		(550)	3.1		(0.2)		4.0	(0.7)
Balance March 31, 2006	122,192	29,705	\$ 445.3	\$ 1.2	\$ 1,066.2	\$ (136.4)	\$ (333.1)	\$ (152.6)
Balance January 1, 2007	122,192	29,384	\$ 581.7	\$ 1.2	\$ 1,065.7	\$ (59.9)	\$ (326.2)	\$ (99.1)
Comprehensive income:								
Net income			7.4			7.4		
Amortization of unrecognized losses, transition obligation and prior service costs, net of tax of \$0.5			1.0					1.0
Translation adjustment			3.0					3.0
Total comprehensive Income			11.4					
Stock-based compensation and benefits		(70)	0.5		(0.3)		0.8	
Balance March 31, 2007	122,192	29,314	\$ 593.6	\$ 1.2	\$ 1,065.4	\$ (52.5)	\$ (325.4)	\$ (95.1)

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Form 10-Q instructions and in the opinion of management contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in the Annual Report on Form 10-K for the year ended December 31, 2006 of PolyOne Corporation.

As of January 1, 2007, the results of operations for PolyOne's business located in Singapore will now be 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 2007 presentation.

Operating results for the three-month period ended March 31, 2007 are not necessarily indicative of the results that may be attained in subsequent quarters or for the year ending December 31, 2007.

Unless otherwise noted, disclosures contained in this quarterly report relate to continuing operations.

Note B – Discontinued Operations

The Engineered Films business was sold in February 2006. As a result, PolyOne no longer has any businesses that are accounted for as discontinued operations. The first quarter 2006 loss included a pre-tax charge of \$2.3 million to adjust the net assets of the Engineered Films business to the net proceeds received and to recognize costs that were not able to be recognized until the Engineered Films business was sold due to the contingent nature of these costs, as required by generally accepted accounting principles.

Note C – Accounting Policies

Deferred Taxes – A valuation allowance was initially recorded against domestic deferred tax assets in the fourth quarter of 2003 as a result of operating losses. The valuation allowance was adjusted in subsequent periods through 2006 and charged or credited to income or other comprehensive income as appropriate. In the fourth quarter of 2006, it was determined that it was more likely than not that the deferred tax assets would be realized and the remaining amount of valuation allowance was reversed to income in that period. Therefore, beginning with the first quarter of 2007, a tax expense will be recorded based on an estimated effective tax rate for all jurisdictions.

New Accounting Pronouncements

FASB Interpretation No. 48 – In June 2006, the FASB issued Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, Accounting for Income Taxes," which is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods,

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disclosure and transition. PolyOne adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company's financial position or results of operations.

PolyOne had previously recorded an \$6.0 million liability for an unrecognized tax benefit. This amount relates to an item under examination by a foreign tax authority related to the valuation of assets. PolyOne does not agree with the proposed adjustment and has appealed the assessment. PolyOne does not anticipate that this dispute will be resolved in the next twelve months. Any final determination could adversely impact PolyOne's effective tax rate.

PolyOne will continue the accounting policy to classify interest and penalties on unrecognized tax positions as income taxes. As of the date of adoption, PolyOne has accrued \$2.5 million of interest and penalties. PolyOne is no longer subject to U.S. income tax examinations for periods preceding 2003, and with limited exceptions, for periods preceding 2002 for foreign, state and local tax examinations.

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 OxyVinyls' operations is 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 OxyVinyls equity affiliate. The following tables illustrate the retrospective changes in PolyOne's respective financial statements:

Condensed Consolidated Statements of Operations (Unaudited)

(In millions)

	Three Months Ended March 31, 2006		
	As originally filed	Adjustment	Restated
Income from equity affiliates and minority interest	\$38.6	\$0.1	\$38.7
Income before discontinued operations	\$48.9	\$0.1	\$49.0
Net income	\$46.8	\$0.1	\$46.9

Condensed Consolidated Balance Sheets (Unaudited)

(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, 2006 is a reduction to retained deficit and an increase to shareholders' equity of \$7.0 million.

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

	Three Months Ended March 31, 2006		
	<u>As originally filed</u>	<u>Adjustment</u>	<u>Restated</u>
Net income	\$ 46.8	\$ 0.1	\$ 46.9
Income from equity affiliates and minority interest	\$(38.6)	\$(0.1)	\$(38.7)

Statement of Financial Accounting Standards 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.

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, but are not limited to, 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, assumptions used for goodwill impairment analyses 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 have been reclassified to conform to the 2007 presentation.

Note D – Goodwill and Intangible Assets

During the three months ended March 31, 2007, there were no acquisitions, disposals or impairment of PolyOne’s goodwill. Goodwill as of March 31, 2007 and December 31, 2006, by operating segment, was as follows:

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(In millions)	March 31, 2007	December 31, 2006
Vinyl Business	\$ 152.3	\$ 152.3
International Color and Engineered Materials	72.0	72.0
Polymer Coating Systems	61.1	61.1
PolyOne Distribution	1.6	1.6
Total	\$ 287.0	\$ 287.0

Information regarding PolyOne's other intangible assets follows:

(In millions)	As of March 31, 2007			
	Acquisition Cost	Accumulated Amortization	Currency Translation	Net
Non-contractual customer relationships	\$ 8.6	\$ (6.2)	\$ —	\$ 2.4
Sales contract	9.6	(9.3)	—	0.3
Patents, technology and other	8.0	(3.0)	1.2	6.2
Total	\$ 26.2	\$ (18.5)	\$ 1.2	\$ 8.9

(In millions)	As of December 31, 2006			
	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

Amortization of other intangible assets was \$0.4 million for the three-month period ended March 31, 2007 and \$0.6 million for the three-month period ended March 31, 2006.

The carrying values of intangible assets and other investments are adjusted to fair value based upon their respective estimated future cash flows as a result of an evaluation done each year end, or more often when indicators of impairment exist. For the three-month period ended March 31, 2007, there were no indicators of impairment for either goodwill or intangible assets.

Note E – Inventories

Components of inventories are as follows:

(In millions)	March 31, 2007	December 31, 2006
Finished products and in-process inventories	\$ 179.1	\$ 165.4
Raw materials and supplies	101.9	111.7
	281.0	277.1
LIFO reserve	(34.4)	(36.3)
Total inventories	\$ 246.6	\$ 240.8

Note F – Income Taxes

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A deferred tax asset valuation allowance was recorded in 2003 in accordance with SFAS No. 109, "Accounting for Income Taxes," due to the uncertainty regarding the full utilization of the Company's deferred income taxes. In 2005 and 2006, the valuation allowance was reduced offsetting tax expense in those periods. In the fourth quarter of 2006, the Company determined that it was more likely than not that the remaining deferred tax asset would be realized and the valuation allowance was reversed to income in that period. As a result, the tax expense in the first quarter 2007 was recorded without regard to any domestic deferred tax valuation allowance. The tax expense of \$3.8 million in the first quarter of 2007 reflects the effective tax rate of 34% applied against the income before income taxes. The difference between the effective rate and the statutory rate was primarily the impact of foreign source income, Medicare reimbursements and life insurance.

The tax expense of \$1.7 million in the first quarter of 2006 represents taxes related to federal alternative minimum tax, state and local taxes and foreign taxes.

Note G – Financial Information of Equity Affiliates

PolyOne's Resin and Intermediates segment consists primarily of investments in equity affiliates.

PolyOne owns 24% of OxyVinyls, a manufacturer and marketer of PVC resins in North America. Summarized financial information follows:

(Dollars in millions)	Three Months Ended	
	March 31, 2007	March 31, 2006
OxyVinyls:		
Net sales	\$ 493.8	\$ 693.2
Operating income (loss)	(3.9)	107.6
Partnership income (loss) as reported by OxyVinyls	(5.9)	102.4
PolyOne's ownership of OxyVinyls	24%	24%
PolyOne's proportionate share of OxyVinyls' earnings (losses)	(1.4)	24.6
Amortization of the difference between PolyOne's investment and its underlying share of OxyVinyls' equity	0.1	0.1
Earnings (losses) of equity affiliate recorded by PolyOne	\$ (1.3)	\$ 24.7
	March 31,	December 31,
	2007	2006
Current assets	\$ 416.6	\$ 382.4
Non-current assets	1,272.8	1,293.2
Total assets	1,689.4	1,675.6
Current liabilities	185.9	238.9
Non-current liabilities	367.2	294.5
Total liabilities	553.1	533.4
Partnership capital	\$ 1,136.3	\$ 1,142.2

PolyOne also owns 50% of SunBelt Chlor-Alkali Partnership (SunBelt). Summarized financial information follows:

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	Three Months Ended	
	March 31,	
(Dollars in millions)	2007	2006
SunBelt:		
Net sales	\$ 37.1	\$ 44.1
Operating income	16.3	27.7
Partnership income as reported by SunBelt	14.0	25.2
PolyOne's ownership of SunBelt	50%	50%
Earnings of equity affiliate recorded by PolyOne	<u>\$ 7.0</u>	<u>\$ 12.6</u>
	March 31,	December 31,
	2007	2006
Current assets	<u>\$ 42.3</u>	<u>\$ 25.1</u>
Non-current assets	110.7	113.7
Total assets	<u>153.0</u>	<u>138.8</u>
Current liabilities	22.4	22.1
Non-current liabilities	121.9	121.9
Total liabilities	<u>144.3</u>	<u>144.0</u>
Partnership capital (deficit)	<u>\$ 8.7</u>	<u>\$ (5.2)</u>

OxyVinyls purchases chlorine from SunBelt under an agreement that expires in 2004. The agreement requires OxyVinyls to purchase all of the chlorine produced by SunBelt up to 250,000 tons per year at market price, less a discount.

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 the All Other segment (owned 50% and included in the Producer Services operating segment) along with BayOne Urethane Systems, L.L.C equity affiliate (owned 50% and included in the Polymer Coating 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.

	Three Months Ended	
	March 31,	
(In millions)	2007	2006
Net sales	\$24.1	\$37.1
Operating income	1.8	3.1
Net income	1.5	3.0

Note H – Share-Based Compensation

Share-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Share-based compensation expense recognized in the Company's Condensed Consolidated Statement of Operations

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includes compensation expense 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), "Share-Based Payments." Because share-based compensation expense recognized in the Condensed Consolidated Statement of Operations 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.

PolyOne has one active share-based compensation plan, which is described below. The pre-tax compensation cost recognized for the three months ended March 31, 2007 and 2006 was \$0.2 million and \$1.4 million, respectively, which is included in selling and administrative expenses on the Condensed Consolidated Statement of Operations.

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. A total of 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 the first quarter of 2007, the Compensation and Governance Committee of the Company's Board of Directors authorized the issuance of 1,555,200 stock appreciation rights (SARs). The awards were approved on March 8, 2007 and communicated to recipients on or around March 30, 2007. The date of March 8, 2007 has been used as the grant date for valuation purposes. The grant date stock price was \$6.585. Vesting is based on a service period of one year and the achievement of stock price targets. This condition is considered a market-based measure under SFAS No. 123(R), which 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 of \$7.24, \$7.90 and \$8.56, but may not be exercised earlier than one year from the date of the grant. The SARs have a seven-year exercise period that expires on March 7, 2014.

The option pricing model used by PolyOne was a Monte Carlo simulation method that valued the SARs granted during the first quarter of 2007. 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 assumptions regarding a number of highly complex and subjective variables as noted in the following table. Expected volatility was set at the average of the six-year historical weekly volatility for PolyOne 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 omitted 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 in effect at the time of the grant. Forfeitures were estimated at 3% per year and were based on PolyOne's historical experience.

The following is a summary of the assumptions related to the grants issued during the first quarter of 2007:

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	<u>2007</u>
Expected volatility	44.00%
Expected dividends	—
Expected term	4.28 years
Risk-free rate	4.30%
Value of SAR options granted	\$ 2.72

A summary of SAR option activity under the 2005 EPIP as of March 31, 2007 and changes during the quarter then ended, are 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	1,555	6.59		
Exercised	(1)	6.00		
Forfeited or expired	(25)	7.52		
Outstanding at March 31, 2007	<u>3,169</u>	<u>\$ 7.26</u>	<u>6.1 years</u>	<u>\$ —</u>
Vested at March 31, 2007	<u>979</u>	<u>\$ 7.84</u>	<u>5.4 years</u>	<u>\$ —</u>
Exercisable at March 31, 2007	<u>904</u>	<u>\$ 7.72</u>	<u>5.3 years</u>	<u>\$ —</u>

The weighted-average grant date fair value of SARs granted during the three months ended March 31, 2007 and 2006 was \$2.72 and \$2.70, respectively. No SAR's were exercised during the three months ended March 31, 2007. The total intrinsic value of SARs that were exercised during the three months ended March 31, 2006 was \$0.7 million.

As of March 31, 2007, there was \$3.5 million of total unrecognized compensation cost related to SARs, which is expected to be recognized over a weighted-average period of one year.

Stock Options

PolyOne's incentive stock plans provide for the award or grant of options to purchase 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 (as defined) on the date of the grant. PolyOne also has a stock plan for non-employee directors under which options are granted.

A summary of option activity as of March 31, 2007 and changes during the quarter then ended are presented below:

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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	(44)	6.00		
Forfeited or expired	(545)	12.42		
Outstanding at March 31, 2007	<u>6,796</u>	<u>\$ 11.49</u>	<u>2.75 years</u>	<u>\$ 0.1</u>
Vested and exercisable at March 31, 2007	<u>6,796</u>	<u>\$ 11.49</u>	<u>2.75 years</u>	<u>\$ 0.1</u>

The total intrinsic value of stock options that were exercised during the three months ended March 31, 2007 and 2006 was \$0 and \$0.4 million, respectively.

Cash received during the first quarter 2007 and 2006 from the exercise of stock options was \$0.3 million and \$2.0 million, respectively.

Performance Shares

At March 31, 2007, there were 531,669 performance share awards outstanding with a weighted-average fair value of \$8.94 per share. During the three months ended March 31, 2007, a benefit of \$1.2 million was recognized on these awards. During the three months ended March 31, 2006, compensation cost of \$0.4 million was recognized on these awards. As of March 31, 2007, based on projected performance attainment for the remaining life of the awards, the unrecognized compensation cost of these awards is approximately \$0.3 million.

Restricted Stock Awards

As of March 31, 2007, restricted stock totaling 220,000 shares remain unvested with a weighted-average grant date fair value of \$8.76 and a weighted-average remaining contractual term of 29 months. Compensation expense recorded during the three months ended March 31, 2007 and 2006 was \$0.2 million and \$0.1 million, respectively. Unrecognized compensation cost for restricted stock awards at March 31, 2007 is \$1.1 million.

Note I – Weighted-Average Shares Used to Compute Earnings Per Share

(In millions)	Three Months Ended March 31,	
	2007	2006
Weighted-average shares – basic:		
Weighted-average shares outstanding	<u>92.6</u>	<u>92.1</u>
Weighted-average shares – diluted:		
Weighted-average shares outstanding – basic	92.6	92.1
Plus dilutive impact of stock options and stock awards	<u>0.4</u>	<u>0.4</u>
Weighted-average shares outstanding – diluted	<u>93.0</u>	<u>92.5</u>

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

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Outstanding stock options with exercise prices greater than 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 6.9 million at March 31, 2007 and 8.3 million at March 31, 2006.

Note J – 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. For further discussion of these initiatives, see Note E to the Consolidated Financial Statements included in PolyOne’s Annual Report on Form 10-K for the year ended December 31, 2006.

2007 Activity – No charges were recorded for employee separation or plant phaseout activities during the three-month period ended March 31, 2007. PolyOne made payments of \$0.2 million for executive severance and completed the closure and exit from its Commerce, California facility during the quarter.

(In millions, except employee numbers)	Employee Separation		Plant Phaseout Costs		Total
	Number of Employees	Costs	Cash Closure	Asset Write-Downs	
Executive severance					
Balance at December 31, 2006	—	\$ 1.3	\$—	\$—	\$ 1.3
Utilized		(0.2)			(0.2)
Balance at March 31, 2007	—	\$ 1.1	\$—	\$—	\$ 1.1

(In millions, except employee numbers)	Employee Separation		Plant Phaseout Costs		Total
	Number of Employees	Costs	Cash Closure	Asset Write-Downs	
Closure and exit of Commerce Polymer Coating Systems facility					
Balance at December 31, 2006	5	\$ 0.1	\$ 0.1	\$—	\$ 0.2
Utilized	(5)	(0.1)	(0.1)		(0.2)
Balance at March 31, 2007	—	\$ —	\$ —	\$—	\$ —

(In millions, except employee numbers)	Employee Separation		Plant Phaseout Costs		Total
	Number of Employees	Costs	Cash Closure	Asset Write-Downs	
Total					
Balance at December 31, 2006	5	\$ 1.4	\$ 0.1	\$—	\$ 1.5
Utilized	(5)	(0.3)	(0.1)	—	(0.4)
Balance at March 31, 2007	—	\$ 1.1	\$ —	\$—	\$ 1.1

[Table of Contents](#)**Note K – Employee Benefit Plans**

Components of defined benefit pension plan costs are as follows:

(In millions)	Three Months Ended	
	March 31,	
	2007	2006
Service cost	\$ 0.3	\$ 0.3
Interest cost	7.6	7.5
Expected return on plan assets	(8.0)	(7.6)
Amortization of unrecognized losses, transition obligation and prior service cost	2.6	3.7
	<u>\$ 2.5</u>	<u>\$ 3.9</u>

PolyOne estimates that the minimum funding requirements in 2007 for its qualified defined pension plans will approximate \$15 million.

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

(In millions)	Three Months Ended	
	March 31,	
	2007	2006
Service cost	\$ 0.1	\$ 0.1
Interest cost	1.4	1.4
Expected return on plan assets	—	—
Amortization of unrecognized losses, transition obligation and prior service cost	(1.1)	(0.9)
	<u>\$ 0.4</u>	<u>\$ 0.6</u>

Note L – Financing Arrangements

PolyOne is exposed to market risk from changes in interest rates on debt obligations and from changes in foreign currency exchange rates. PolyOne periodically enters into interest rate swap agreements that modify its exposure to interest risk by converting fixed-rate obligations to floating rates. PolyOne maintained interest rate swap agreements on six of its fixed-rate obligations in the aggregate amount of \$100.0 million at March 31, 2007. These exchange agreements are “perfectly effective” as defined by SFAS No. 133, “Accounting for Derivative Financial Instruments and Hedging Activities.” At March 31, 2007, these agreements had a net fair value liability of \$4.4 million. The weighted-average interest rate for these agreements was 9.2%. There have been no material changes in the market risk faced by PolyOne from December 31, 2006 to March 31, 2007.

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Note M – Sale of Accounts Receivable

Accounts receivable consist of the following:

(In millions)	March 31, 2007	December 31, 2006
Trade accounts receivable	\$ 192.7	\$ 160.7
Retained interest in securitized accounts receivable	190.0	161.6
Allowance for doubtful accounts	(5.6)	(5.9)
	<u>\$ 377.1</u>	<u>\$ 316.4</u>

Under the terms of its receivables sale facility, PolyOne sells its accounts receivable to PolyOne Funding Corporation (PFC), a wholly-owned, bankruptcy-remote subsidiary. At March 31, 2007 and December 31, 2006, accounts receivable totaling \$190.0 million and \$161.6 million, respectively, were sold by PolyOne to PFC. PFC in turn may sell an undivided interest in these accounts receivable to certain investors and realize proceeds of up to \$175 million. 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 March 31, 2007 and December 31, 2006, PFC had not sold any of interests in its accounts receivable. PolyOne retained an interest in the \$190.0 million and \$161.6 million of trade receivables at March 31, 2007 and December 31, 2006, respectively. As a result, this retained interest is included in accounts receivable on the Condensed Consolidated Balance Sheet at March 31, 2007 and December 31, 2006.

The receivables sale facility also makes up to \$40 million available for the issuance of standby letters of credit as a sub-limit within the \$175 million facility, of which \$10.9 million was used at March 31, 2007. Continued availability of the securitization program depends upon compliance with a covenant related primarily to operating performance as set forth in the related agreements. As of March 31, 2007, PolyOne was in compliance with this covenant.

Note N – Segment Information

PolyOne manages its business in eight operating segments which results in four reportable segments and an All Other segment. The four reportable segments are: Vinyl Business, International Color and Engineered Materials, PolyOne Distribution, and Resin and Intermediates. The All Other segment includes four operating segments, none of which meet the quantitative thresholds for separate disclosure: North American Color and Additives, North American Engineered Materials, Producer Services and Polymer Coating Systems. The accounting policies of each segment are consistent with those described in “Summary of Significant Accounting Policies” in Note C to the Consolidated Financial Statements included in PolyOne’s Annual Report on Form 10-K for the year ended December 31, 2006.

As of January 1, 2007, the results of operations for PolyOne’s vinyl business located in Singapore will be reported within 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.

Segment assets are primarily customer receivables, inventories, net property, plant and equipment, and goodwill. Intersegment sales are 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. 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.

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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."

Three months ended March 31, 2007 (in millions)	Sales to External Customers	Intersegment Sales	Total Sales	Operating Income (Loss)	Depreciation and Amortization	Capital Expenditures	Total Assets
Vinyl Business	\$177.8	\$ 31.3	\$209.1	\$18.9	\$ 4.2	\$0.8	\$ 439.9
International Color and Engineered Materials	149.7	—	149.7	6.5	3.6	3.5	396.1
PolyOne Distribution	183.2	1.2	184.4	4.6	0.4	—	189.4
Resin and Intermediates	—	—	—	4.3	0.1	—	288.2
All Other	147.1	8.4	155.5	1.5	4.1	2.8	384.6
Corporate and eliminations	—	(40.9)	(40.9)	(9.3)	1.7	0.4	145.1
Total	\$657.8	\$ —	\$657.8	\$26.5	\$14.1	\$7.5	\$1,843.3

Three months ended March 31, 2006 (in millions)	Sales to External Customers	Intersegment Sales	Total Sales	Operating Income (Loss)	Depreciation and Amortization	Capital Expenditures	Total Assets
Vinyl Business	\$215.1	\$ 35.3	\$250.4	\$20.3	\$ 4.5	\$0.7	\$ 467.2
International Color and Engineered Materials	125.8	—	125.8	6.0	3.4	2.2	350.0
PolyOne Distribution	191.3	2.8	194.1	6.2	0.4	—	193.5
Resin and Intermediates	—	—	—	36.3	0.1	—	304.3
All Other	142.4	7.1	149.5	0.6	4.5	1.3	367.3
Corporate and eliminations	—	(45.2)	(45.2)	(1.4)	1.4	0.7	100.2
Total	\$674.6	\$ —	\$674.6	\$68.0	\$14.3	\$4.9	\$1,782.5

Note O – Commitments and Contingencies

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 several 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. Based on estimates prepared by its environmental engineers and consultants, PolyOne had accruals totaling \$59.0 million at March 31, 2007 and \$59.5 million at December 31, 2006 to cover probable future environmental expenditures relating to previously contaminated sites. 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 amount accrued at

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March 31, 2007. However, such additional costs, if any, cannot be currently estimated. PolyOne's estimate of the liability may be revised as new regulations or technologies are developed or additional information is obtained. PolyOne incurred environmental expense of \$1.0 million in the first quarter of 2007. PolyOne incurred environmental expense of \$2.8 million in the first quarter of 2006, offset by insurance proceeds of \$4.0 million during the same period. Additional information related to environmental liabilities is in Note O to the Consolidated Financial Statements included in PolyOne's Annual Report on Form 10-K for the year ended December 31, 2006.

Included in the first quarter of 2006 was a net benefit of \$8.8 million from the combined effect of settlements of legal disputes and adjustments to litigation reserves.

PolyOne guarantees \$67.0 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.

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

Overview

We are a leading global provider of specialized polymer materials, services and solutions with operations in thermoplastic compounds, specialty vinyl resins, specialty polymer formulations, color and additive systems, and thermoplastic resin distribution with equity investments in manufacturers of PVC resin and its intermediates. Headquartered in Avon Lake, Ohio, we have employees at manufacturing sites and warehouses in North America, Europe, Asia and Australia, and joint ventures in North America and South America. We provide value to our customers through our ability to link our knowledge of polymers and formulation technology with our manufacturing and supply chain to provide an essential link between large chemical producers and designers, assemblers and processors of plastics.

Discontinued Operations – With the sale of the Engineered Films business on February 15, 2006, we no longer have any businesses that are accounted for as discontinued operations. The first quarter 2006 loss included a pre-tax charge of \$2.3 million to adjust the net assets of the Engineered Films business to the net proceeds received and to recognize costs that were not able to be recognized until the Engineered Films business was sold due to the contingent nature of these costs, as required by generally accepted accounting principles.

Outlook

PolyOne anticipates that the overall North American economic environment in the second quarter will remain generally soft, although modest seasonal strengthening is expected compared to the first quarter. Construction related demand is projected to rebound modestly, favorably affecting vinyl business sales sequentially, but to remain well below strong first-half 2006 levels. Automotive demand is projected to remain low through the quarter. On the other hand, solid demand is expected across each of the Company's primary international markets, driving continued strong growth in sales and earnings compared to the second quarter of 2006. Total company sales and shipments are projected to increase 4% to 7% compared to the first quarter. Compared with the second-quarter of 2006, sales are expected to grow 1% to 3% on comparable shipment levels. Further new business closes and sales mix improvements are expected to drive year-over-year gross margin percentage gains in most businesses.

Resin and Intermediates operating income is projected to rebound from the low levels of the first quarter, but are to remain substantially below second-quarter 2006 income. PVC resin demand is markedly softer and product spreads have narrowed compared to a year ago. Sequentially, however, PVC resin spreads are expected to expand as average resin price increases are forecasted to more than offset higher ethylene, chlorine and energy prices. Sales growth is also anticipated compared to the first quarter, reflecting infrastructure demand strength and a seasonal bump in other construction-related end market applications. Chlor-alkali margins are projected to remain relatively strong and advance moderately compared to first-quarter levels.

In the second quarter of 2006, the Company realized a \$2.4 million net benefit from adjustments to various operating reserves and favorable litigation settlements. The Company does not anticipate that it will realize a similar benefit in the second quarter of 2007.

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The Company will record a higher effective tax rate in the second quarter of 2007 as compared to 2006 for the same period, due to the reversal of a portion of the Company's deferred tax asset allowance in the second quarter of 2006. This will not affect cash flow due to PolyOne's remaining domestic net operating loss carry-forwards. Cash taxes will continue to be associated principally with non-U.S. earnings.

Results of Operations

Summary of Consolidated Results:

First quarter 2007 sales decreased 2% from the comparable period last year due to an aggregate 3% decrease in volume, partially offset by an increase in selling prices to recapture escalating raw material and manufacturing conversion costs. Increased volume in International Color and Engineered Materials, Producer Services, North American Engineered Materials and Polymer Coating Systems operating segments was offset by decreases in Vinyl Business, PolyOne Distribution and North American Color and Additives operating segments. Stronger demand internationally in our automotive, specialty, appliance and general purpose markets drove up volume. The acquisition of the remaining 50% of DH Compounding Company in the fourth quarter of 2006 provided the extra volume in our Producer Services operating segment. Domestically, mainly due to the sluggish automotive, building and construction markets, volume has been adversely affected. Operating income for the first quarter 2007 decreased by \$41.5 million from the first quarter of 2006. The majority of this decrease, or \$32.0 million, was the result of lower earnings at our OxyVinyls and Sunbelt equity affiliates. The remaining decrease was primarily a result of a one-time benefit of \$8.8 million received in the first quarter of 2006 associated with insurance and legal settlements and adjustments to related reserves.

(In millions)	Three Months Ended	
	March 31,	
	2007	2006
Sales:		
Vinyl Business	\$ 209.1	\$ 250.4
International Color and Engineered Materials	149.7	125.8
PolyOne Distribution	184.4	194.1
All Other	155.5	149.5
Intersegment eliminations	(40.9)	(45.2)
Total sales	<u>\$ 657.8</u>	<u>\$ 674.6</u>
Net income (loss):		
Vinyl Business	\$ 18.9	\$ 20.3
International Color and Engineered Materials	6.5	6.0
PolyOne Distribution	4.6	6.2
Resin and Intermediates	4.3	36.3
All Other	1.5	0.6
Corporate and eliminations	(9.3)	(1.4)
Operating income	26.5	68.0
Interest expense, net	(14.4)	(16.1)
Other expense, net	(0.9)	(1.2)
Income before income taxes and discontinued operations	11.2	50.7
Income tax expense	(3.8)	(1.7)
Income from continuing operations	7.4	49.0
Loss from discontinued operations, net of taxes	—	(2.1)
Net income	<u>\$ 7.4</u>	<u>\$ 46.9</u>

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Period-to-period changes in sales and operating income are discussed in the “Business Segment Information” section that follows. Segments are also discussed in Note N to the Condensed Consolidated Financial Statements.

Selected Operating Costs:

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

	Three Months Ended March 31,	
	2007	2006
Cost of sales	85.5%	86.5%
Selling and administrative	9.3%	7.0%

Cost of Sales – These costs include raw materials, plant conversion and distribution charges. As a percentage of sales, these costs declined in the first quarter of 2007 primarily from successful efforts to increase our selling prices during 2006 to pass on higher raw material, distribution and utility costs, as well as the impact 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 in the first quarter of 2007 compared to the first quarter of 2006 due mainly to increased investment in commercial resources and capabilities. Also, included in the first quarter of 2006 was an \$8.8 million net benefit from the combined effect of settlements of legal disputes and adjustments to litigation reserves and a \$1.2 million net benefit from environmental reserve adjustments and related insurance settlements that reduced first quarter 2006 selling and administrative costs as a percentage of sales by 1.5 percentage points.

Other Components of Income and Expense:

Following are discussions of significant components of income and expense that are presented below the line “Operating income” in the Condensed Consolidated Statements of Operations.

Interest expense – The decrease in interest expense for the first quarter of 2007 as compared to the first quarter of 2006 was mainly the result of lower average borrowings due to the repurchase of \$58.6 million aggregate principal amount of our 10.625% senior notes during 2006.

Other expense – Other expense included finance costs associated with our receivables sale facility, foreign currency gains and losses, retained post-retirement benefit costs from previously discontinued operations and other miscellaneous items.

(In millions)	Three Months Ended March 31,	
	2007	2006
Currency exchange loss	\$ (0.6)	\$ (0.5)
Foreign exchange contracts gain	0.3	0.3
Discount on sale of trade receivables	(0.3)	(0.8)
Other, net	(0.3)	(0.2)
Other expense	\$ (0.9)	\$ (1.2)

Income tax expense – A deferred tax asset valuation allowance was recorded in 2003 in accordance with SFAS No. 109, “Accounting for Income Taxes,” due to the uncertainty regarding the full utilization of the Company’s deferred income taxes. In 2005 and 2006, the valuation was reduced offsetting tax expense in

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those periods. In the fourth quarter of 2006, the Company determined that it was more likely than not that the remaining deferred tax asset would be realized and the valuation allowance was reversed to income in that period. As a result, the tax expense in the first quarter of 2007 was recorded without regard to any domestic deferred tax valuation allowance. The tax expense of \$3.8 million in the first quarter of 2007 reflects the effective tax rate of 34% applied against the income before income taxes. The difference between the effective rate and the statutory rate was primarily the impact of foreign source income, Medicare reimbursements and life insurance.

The tax expense of \$1.7 million in the first quarter of 2006 represents taxes related to federal alternative minimum tax, state and local taxes and foreign taxes.

Loss from discontinued operations, net of income taxes – The first quarter 2006 loss included a pre-tax charge of \$2.3 million to adjust the net assets of the Engineered Films business that was sold in February 2006 to the net sales proceeds received and to recognize costs that we were not allowed to recognize until the Engineered Films business was sold due to the contingent nature of the costs, as required by generally accepted accounting principles.

Segment Information:

First Quarter 2007 Compared with First Quarter 2006:

(In millions)	Three Months Ended March 31,			
	2007	2006	Change	% Change
Sales:				
Vinyl Business	\$209.1	\$250.4	\$(41.3)	(16)%
International Color and Engineered Materials	149.7	125.8	23.9	19%
PolyOne Distribution	184.4	194.1	(9.7)	(5)%
All Other	155.5	149.5	6.0	4%
Intersegment eliminations	(40.9)	(45.2)	4.3	10%
Total sales	\$657.8	\$674.6	\$(16.8)	(2)%

Operating income (loss):

Vinyl Business	\$ 18.9	\$ 20.3	\$ (1.4)	(7)%
International Color and Engineered Materials	6.5	6.0	0.5	8%
PolyOne Distribution	4.6	6.2	(1.6)	(26)%
Resin and Intermediates	4.3	36.3	(32.0)	(88)%
All Other	1.5	0.6	0.9	150%
Corporate and eliminations	(9.3)	(1.4)	(7.9)	564%
Operating income	\$ 26.5	\$ 68.0	\$(41.5)	(61)%

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

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profit or loss that is reported to and reviewed by the chief operating decision maker. These costs are included in “Corporate and eliminations.”

Sales for the Vinyl Business were down 16% for the first quarter of 2007 compared to the same period in 2006. The main driver for this was a volume decrease of 13% due to the slowdown in the building and construction industry, which adversely affected demand in the windows, pipe & fittings, flooring and appliance markets. Operating income declined 7% in the first quarter of 2007 compared to the first quarter of 2006 due to lower volume, which was largely offset by higher product spreads and lower manufacturing costs.

International Color and Engineered Materials sales increased \$23.9 million, or 19% in the first quarter of 2007 compared to the same period in 2006. In the aggregate, volume increased 9% in the first quarter of 2007 compared to the first quarter of 2006. Also, the higher euro exchange rate contributed approximately \$12.0 million in the first quarter of 2007 compared to the first quarter of 2006. During the quarter sales mix improvements, from growth into higher valued applications, helped drive the operating income improvement of 8% compared to the same period in 2006. The higher euro exchange rate also had a favorable impact on earnings.

PolyOne Distribution sales decreased 5% in the first quarter of 2007 compared to the same period in 2006 due to generally soft automotive and construction-related demand that resulted in a 5% volume decline from the first quarter of 2006. Moreover, PolyOne Distribution was still benefiting in the first quarter of 2006 from the residual effects of the weather-related demand surge in late 2005. Operating income in the first quarter of 2007 decreased \$1.6 million compared to the same period in 2006 primarily from lower volumes and increased commercial investments.

Resin and Intermediates operating income of \$4.3 million for the first quarter of 2007 was down \$32.0 million compared to the same period in 2006. Segment operating income dropped primarily at OxyVinyls as a result of substantially lower construction-related product demand and contracting PVC resin product spreads. Chlor-alkali earnings at SunBelt were also down compared to the first quarter of 2006, reflecting lower demand and moderately lower operating margins.

The All Other segment includes the North American Color and Additives, North American Engineered Materials, Producer Services and Polymer Coating Systems operating segments. Sales in aggregate were up 4% in the first quarter of 2007 compared to the first quarter of 2006 primarily from a shift in product mix to higher margin products from an 11% volume increase mainly attributable to the acquisition of the remaining 50% of the DH Compounding Company in the fourth quarter of 2006. Operating income for the first quarter of 2007 for the All Other segment improved \$0.9 million compared to the first quarter of 2006.

Corporate and eliminations expense of \$9.3 million for in the first quarter of 2007 was \$7.9 million higher compared to the same period last year. This increase was primarily due to a non-recurring benefit of \$8.8 million received in the first quarter of 2006 associated with insurance and legal settlements and adjustments to the related reserves.

Accounting Policies and Estimates

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

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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. A description of these accounting policies and estimates is included in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2006. For additional information regarding our accounting policies, see Note C to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2006.

Deferred Taxes – A valuation allowance was initially recorded against domestic deferred tax assets in the fourth quarter of 2003 as a result of our operating losses. The valuation allowance was adjusted in subsequent periods through 2006 and charged or credited to income or other comprehensive income as appropriate. In the fourth quarter of 2006, management determined that it was more likely than not that the deferred tax assets would be realized and the remaining amount of valuation allowance was reversed to income in that period. Therefore, beginning with the first quarter of 2007, a tax expense will be recorded based on an estimated effective tax rate for all jurisdictions.

FASB Interpretation No. 48 – In June 2006, the FASB issued Interpretation No. 48 (FIN 48), “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, Accounting for Income Taxes,” which is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have a material impact on our financial position or results of operations.

We previously recorded an \$6.0 million liability for unrecognized tax benefit. This amount relates to an item under examination by a foreign tax authority the related to the valuation of assets. We do not agree with the proposed adjustment and have appealed the assessment. We do not anticipate that this dispute will be resolved in the next twelve months. Any final determination could adversely impact our effective tax rate.

Management will continue the accounting policy to classify interest and penalties on unrecognized tax positions as income taxes. As of the date of adoption, we have accrued \$2.5 million of interest and penalties. We are no longer subject to U.S. income tax examinations for periods preceding 2002. In addition, with limited exceptions, we are no longer subject to foreign, state and local tax examinations for periods preceding 2002.

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. Our proportionate share of OxyVinyls’ operations is 24%.

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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 OxyVinyls equity affiliate. For further discussion and illustration of the changes made to our financial statements, refer to Note C of the Condensed Consolidated Financial Statements.

Goodwill – As of March 31, 2007, we had \$287.0 million of goodwill that resulted from the acquisition of businesses. SFAS No. 142, “Goodwill and Other Intangible Assets,” requires us to perform impairment tests of our goodwill at least once a year, and more frequently if an event or circumstance indicates that an impairment or decline in value may have occurred. To make this impairment assessment, we compare the fair value of each of our reporting units with that reporting unit’s carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. We have selected July 1 as our annual impairment testing date. We determined that goodwill was not impaired when we performed our last annual assessment as of July 1, 2006. As of March 31, 2007, no potential indicator of impairment exists, such as a significant adverse change in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key personnel or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed. Based upon this, we concluded that an interim assessment as of March 31, 2007 was not required.

Cash Flows

Detail about cash flows can be found in the Condensed Consolidated Statement of Cash Flows. The following discussion focuses on the material components of cash flows from operating, investing and financing activities from the end of the preceding fiscal year (December 31, 2006) to the date of the most recent interim balance sheet (March 31, 2007).

Operating Activities – In the first quarter of 2007, our operations provided \$3.8 million of cash. Primary sources of cash were profitable business operations and an increase in accounts payable due to higher purchasing levels to support higher sales levels at the end of the first quarter of 2007 compared to the prior year end. Primary uses of cash were: an increase in accounts receivable due to higher sales levels at the end of the first quarter of 2007 compared to the prior year end; an increase in inventories due to higher production levels to support higher sales levels at the end of the first quarter of 2007 compared to the prior year end; and an increase in accounts payable due to higher purchasing levels to support higher sales levels at the end of the first quarter of 2007 compared to the prior year end.

Income from our equity affiliates and minority interests exceeded the cash dividends and distributions that we received by \$6.3 million.

Working capital management

Our working capital management efforts focus on three components of working capital that we believe are the most critical to maximizing cash provided by operating activities that we can manage on a day-to-day basis. These components are accounts receivable, inventories and accounts payable. To help us manage working capital, we use metrics that measure the number of days of sales in receivables (DSO), days of sales in inventories (DSI) and days of sales in accounts payable (DSP). This allows us to better

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understand the total dollar changes in these components of working capital by separating the changes due to efficiency (days outstanding) and the underlying volume of business (sales and production levels).

The following table presents our working capital metrics and the impact of changes in efficiency and volume on accounts receivable, inventories and accounts payable. Under these measurements, higher sales and production levels would have consumed approximately \$62.4 million in cash to fund the growth in these three components. More efficient management of these components, however, reduced the amount of cash that was required by \$43.4 million.

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Accounts receivable DSO	50.9	53.1
Inventories DSI	44.5	52.6
Accounts payable DSP	(42.3)	(44.8)
Net days outstanding at end of the period	<u>53.1</u>	<u>60.9</u>
Change in net days from prior period	7.8	
Cash provided (used) by: (In millions)		
Accounts receivable	\$ (58.2)	
Inventories	(4.9)	
Accounts payable	44.1	
	<u>\$ (19.0)</u>	
Impact of change in net days outstanding	\$ 43.4	
Impact of change in sales and production levels	<u>(62.4)</u>	
	<u>\$ (19.0)</u>	

Investing activities – Cash used by investing activities in the first quarter of 2007 was \$3.5 million and was primarily the result of capital expenditures to support manufacturing operations in the amount of \$7.5 million, offset by proceeds from the sale of assets of \$4.0 million.

Financing activities – Cash used by financing activities in the first quarter of 2007 totaled \$0.3 million and was primarily the result of monthly payments on our three-year note issued in connection with the acquisition of the remaining 50% of the DH Compounding Company, partially offset by cash proceeds we received from the exercise of stock options by employees.

Discontinued Operations – Cash flows from discontinued operations are presented separately on a single line in each section of the Consolidated Statement of Cash Flows. With the sale of the Engineered Films business in February 2006, we no longer have any businesses that are accounted for as discontinued operations.

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Balance Sheet

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

Other current assets – The decrease in other current assets was primarily due to payment received from the sale of the Lincoln and Southern Railroad that we sold in December 2006.

Accrued expenses – The increase in accrued expenses was primarily due to an increase in accrued interest expense caused by timing differences between the dates that the payment of interest is due and the periods in which the expense is recognized, partially offset by the reduction in accrued incentive compensation due to payments being made during the first quarter of 2007.

Capital Resources and Liquidity

As of March 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 \$724.3 million. As of March 31, 2007, we had used \$595.9 million of these facilities, and \$128.4 million was available to be drawn while remaining in compliance with covenants.

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

(In millions)	<u>Outstanding</u>	<u>Available</u>
Long-term debt	\$ 590.5	\$ —
Receivables sale facility	—	128.4
Short-term bank debt	5.4	—
	<u>\$ 595.9</u>	<u>\$ 128.4</u>

In addition, we could incur additional secured debt in an amount up to \$37.1 million while remaining in compliance with the debt coverage limit contained in the Guarantee and Agreement discussed below, and we also had a \$67.1 million cash and cash equivalents balance that exceeded our typical operating cash requirements of \$35 million to \$40 million, both of which add to our availability at March 31, 2007.

Long-term Debt – At March 31, 2007, we had long-term debt of \$590.5 million, with maturities through 2015. Current maturities of long-term debt at March 31, 2007 were \$22.5 million.

Receivables Sale Facility – The receivables sale facility expires in July 2010. This facility allows us to sell accounts receivable and obtain proceeds of up to \$175.0 million. The maximum proceeds that we may receive are limited to 85% of the eligible domestic accounts receivable sold. This facility also makes up to \$40.0 million available for issuing standby letters of credit, of which \$10.9 million was used at March 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 million or less. As of March 31, 2007, the fixed charge coverage ratio was 2.1 to 1 and availability under the facility was \$128.4 million.

Guarantee and Agreement – 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.

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Of the capital resource facilities available to us as of March 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 March 31, 2007, we had not sold any accounts receivable and had guaranteed \$67.0 million of SunBelt's debt.

We expect profitable operations in 2007 will enable us to maintain existing levels of available capital resources and meet our cash requirements. Expected sources of cash in 2007 include net income, ongoing working capital efficiency improvements, cash distributions from our equity affiliates, borrowings under existing loan agreements and proceeds from the sale of previously closed facilities and redundant assets. Expected uses of cash in 2007 include interest expense and discounts on the sale of accounts receivable, cash taxes, a contribution to a defined benefit pension plan, capital expenditures, early extinguishment of a portion of long-term debt and the retirement of medium-term notes maturing in 2007. Capital expenditures are currently estimated between \$45 million and \$50 million 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 the 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.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

- 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;

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- fluctuations in raw material prices, quality and supply and in energy prices and supply, in particular fluctuations outside the normal range of industry cycles;
- production outages or material costs associated with scheduled or unscheduled maintenance programs;
- costs, difficulties or delays related to the operation of joint venture entities;
- lack of day-to-day operating control, including procurement of raw materials, of equity affiliates or joint ventures;
- partial control over investment decisions and dividend distribution policy of the OxyVinyls partnership and other minority equity holdings of PolyOne;
- an inability to launch new products and/or services within PolyOne's various businesses;
- the possibility of further goodwill impairment;
- an inability to maintain any required licenses or permits;
- an inability to comply with any environmental laws and regulations;
- the cost of compliance with environmental laws and regulations, including any increased cost of complying with new or revised laws and regulations;
- unanticipated developments that could occur with respect to contingencies such as litigation and environmental matters, including any developments that would require any increase in our costs and/or reserves for such contingencies;
- an inability to achieve or delays in achieving or achievement of less than the anticipated financial benefit from initiatives related to cost reductions and employee productivity goals;
- a delay or inability to achieve targeted debt level reductions;
- an inability to access the receivables sale facility as a result of breaching covenants due to not achieving anticipated earnings performance or for any other reason;
- any poor performance of our pension plan assets and any obligation on our part to fund PolyOne's pension plan;
- any delay and/or inability to bring the North American Color and Additives and the North American Engineered Materials segments to profitability;
- 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 timing and amounts of any repurchases of outstanding senior notes and debentures of the Company, including the amount of any premiums paid;
- timing of completion of acquisitions, including the acquisition of Ngai Hing PlastChem Company;
- the future financial performance of acquisitions, including that of Ngai Hing PlastChem Company, and
- other factors affecting our business beyond our control, including, without limitation, changes in the general economy, changes in interest rates and changes in the rate of inflation.

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

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we

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make on related subjects in our reports on Forms 10-Q, 8-K and 10-K furnished to the SEC. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

PolyOne is exposed to market risk from changes in interest rates on debt obligations and from changes in foreign currency exchange rates. Information related to these risks and our management of the exposure is included in Item 7A “Qualitative and Quantitative Information about Market Risk” in PolyOne’s Annual Report on Form 10-K for the year ended December 31, 2006. PolyOne periodically enters into interest rate swap agreements that convert fixed-rate obligations to floating rates. PolyOne maintained interest rate swap agreements on six of its fixed-rate obligations in the aggregate amount of \$100.0 million at January 1, 2007. These exchange agreements are “perfectly effective” as defined by SFAS No. 133, “Accounting for Derivative Financial Instruments and Hedging Activities.” At March 31, 2007, the six agreements had a net fair value liability of \$4.4 million. The weighted-average interest rate for these six agreements was 9.2%. There have been no material changes in the market risk faced by the Company from December 31, 2006 to March 31, 2007. We have updated the disclosure concerning our financing arrangements, which is included in Note L to the Condensed Consolidated Financial Statements included in this quarterly report.

Item 4. Controls and Procedures

Disclosure controls and procedures

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

Changes in internal control over financial reporting

The following changes occurred in PolyOne’s internal control over financial reporting during the quarter ended March 31, 2007 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. A significant upgrade to the company’s information systems for non-raw material procurement was implemented on January 1, 2007 in a controlled environment. The upgrade includes new software functionality and a “hosted” hardware and software arrangement with the developer of the software. PolyOne believes that its internal control over financial reporting for the quarter ended March 31, 2007, following this upgrade, is effective and reliable.

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Part II – Other Information

Item 1A. Risk Factors

There have been no material changes to the risk factors that are included in our Annual Report on Form 10-K for the year ended December 31, 2006 that could affect our business, results of operations or financial condition.

Item 6. Exhibits

Exhibit No. Under Reg. S-K Item 601	Form 10-Q Exhibit No.	Description of Exhibit
(10)	10.1 +	Form of Award Agreement for Stock-Settled Stock Appreciation Rights
(10)	10.2 +	Form of Award Agreement for Performance Units
(10)	10.3 +	Form of Management Continuity Agreement
(31)	31.1	Certification of Stephen D. Newlin, Chairman, President and Chief Executive Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31)	31.2	Certification of W. David Wilson, Senior Vice President and Chief Financial Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	32.1	Certification of Stephen D. Newlin, Chairman, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32)	32.2	Certification of W. David Wilson, Senior Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

May 2, 2007

POLYONE CORPORATION

/s/ W. David Wilson

W. David Wilson

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

PolyOne Corporation
Index to Exhibits

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[DATE]

Attn: [_____]
PolyOne Corporation

POLYONE CORPORATION INCENTIVE AWARD

Grant of Stock-Settled SARs

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

Dear [_____]:

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

Target-Priced, Stock-Settled Stock Appreciation Rights ("SARs") in respect of an aggregate of [____] common shares of PolyOne, having a par value of \$.01 per share (the "Common Shares"). The price (the "Base Price") to be used as the basis for determining the Spread (as defined below) upon exercise of the SAR is \$____, the fair market value of one Common Share on [DATE].

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

1. Exercise of SARs.

- (a) Subject to the provisions of the Plan and this Agreement, the SARs will expire on [DATE] and shall be exercisable on or before [DATE]. Provided that you have been in the continuous employ of PolyOne on such date, vesting will occur when the market price of the Common Shares as reported on the New York Stock Exchange — Composite Transactions Listing or similar report reaches pre-determined levels for a minimum of three consecutive trading days as follows:

- One-third vests at a market price of \$ ___;
- One-third vests at a market price of \$ ___; and
- The remaining one-third vests at a market price of \$ ___;

provided, however, if the SARs become vested pursuant to the above vesting schedule at any time prior to [DATE], such SARs may not be exercised until on or after [DATE].

- (b) The SARs may be exercised as provided in this Section 1(b) as to all or any of the SARs that are exercisable in accordance with Section 1(a), as long as each exercise covers at least 1,000 SARs. To exercise the SARs, you must submit a SAR Exercise Form to PolyOne signed by you stating the number of SARs you are exercising at that time and certifying that you are in compliance with the terms and conditions of the Plan. PolyOne will then issue you the number of Common Shares determined under Section 1(c).
 - (c) The number of Common Shares to be issued will be determined by calculating (1) the difference between the fair market value of a Common Share on the date of exercise and the Base Price (the "Spread"); (2) multiplied by the number of SARs exercised; (3) less any withholding taxes (federal, state, local or foreign taxes) PolyOne determines are to be withheld in accordance with the Plan and with applicable law. The result of this calculation will then be divided by the fair market value of a Common Share on the date of exercise to determine the number of Common Shares to be issued, rounded down to the nearest whole share. For purposes of this Section 1(c), the term "fair market value" will mean the average of the high and low prices of the Common Shares for the relevant date as reported on the New York Stock Exchange — Composite Transactions Listing or similar report. In no event will you be entitled to acquire a fraction of one Common Share pursuant to this Agreement.
2. **Vesting Upon a Change of Control.** If a Change of Control (as defined on Exhibit A to this Agreement) occurs during the term of the SARs, the SARs, to the extent not previously fully exercisable, will become immediately exercisable in full.
 3. **Retirement, Disability or Death.** If your employment with PolyOne or a Subsidiary terminates before the expiration of the SARs due to (1) retirement at age 55 or older with at least 10 years of service or retirement under other circumstances entitling you to receive benefits under one of PolyOne's (including its predecessors) defined benefit pension plans, (2) permanent and total disability (as defined under the relevant disability plan or program of PolyOne or a Subsidiary in which you then participate) or (3) death, then:
 - (a) any SARs that are vested at the time of termination of employment as provided in Section 1(a) above may be exercised in whole or in part (subject to the proviso in Section 1(a) above) for the shorter of (i) a period of three years after your

termination of employment or (ii) the remainder of their term, but in no event beyond [DATE], after which such SARs will terminate; and

- (b) If any SARs become vested as provided in Section 1(a) above within the three year period following your termination of employment, you will be entitled to exercise, in whole or in part (subject to the proviso in Section 1(a) above), a number of SARs equal to the number of SARs that vest in such three-year period, provided that such number shall be pro-rated based on the portion of time you were employed by PolyOne during the period of [DATE] through [DATE] and provided that you shall be entitled to exercise such SARs for the shorter of (i) a period of three years after your termination of employment and (ii) the remainder of their term, but in no event beyond [DATE], after which such SARs will terminate.

4. Termination Following Change of Control.

- (a) If your employment with PolyOne or a Subsidiary terminates following a Change of Control because (i) your employment is involuntarily terminated without “cause” (as defined below), or (ii) if you are a party to a Management Continuity Agreement with PolyOne, you terminate your employment for “Good Reason” (as defined in your Management Continuity Agreement), or (iii) if you are not a party to a Management Continuity Agreement with PolyOne, you terminate your employment for “Good Reason” (as defined in the PolyOne Employee Transition Plan (as amended and restated, effective as of January 1, 2006) or any successor plan (the “PolyOne ETP”)), the SARs become immediately vested and may be exercised in whole or in part at any time and from time to time for the remainder of their term, but in no event beyond [DATE], after which the SARs will terminate.
- (b) For purposes of Section 4(a) above:
 - (i) If you are a party to a Management Continuity Agreement, “cause” shall mean the definition of “cause” as set forth in your Management Continuity Agreement; or
 - (ii) If you are not a party to a Management Continuity Agreement, “cause” shall mean: (A) the willful and continued failure by you to substantially perform your duties with PolyOne, which failure causes material and demonstrable injury to PolyOne (other than any such failure resulting from your incapacity due to physical or mental illness), after a demand for substantial performance is delivered to you by PolyOne which specifically identifies the manner in which you have not substantially performed your duties, and after you have been given a period (hereinafter known as the “Cure Period”) of at least thirty (30) days to correct your performance, or (B) the willful engaging by you in other gross misconduct materially and demonstrably injurious to PolyOne. For purposes of this Section 4(b)(ii), no act, or failure to act, on your part shall be considered “willful” unless

conclusively demonstrated to have been done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interests of PolyOne.

5. **Other Termination.** If your employment with PolyOne or a Subsidiary terminates before the expiration of the SARs for any reason other than as set forth in Sections 3 or 4 above, the SARs that are exercisable shall be limited to the number of SARs that could have been exercised under Section 1 above at the time of your termination of employment and shall terminate as to the remaining SARs and may be exercised as to such limited number of SARs at any time within ninety (90) days of your termination of employment, but in no event beyond [DATE], after which the SARs will terminate.
6. **Non-Assignability.** The SARs are personal to you and are not transferable by you other than by will or the laws of descent and distribution. They are exercisable during your lifetime only by you or by your guardian or legal representative.
7. **Adjustments.** In the event of any change in the number of Common Shares by reason of a merger, consolidation, reorganization, recapitalization, or similar transaction, or in the event of a stock dividend, stock split, or distribution to shareholders (other than normal cash dividends), the number and class of shares subject to outstanding SARs, the Base Price applicable to outstanding SARs and other value determinations, if any, applicable to outstanding SARs will be adjusted. Such adjustment shall be made automatically on the customary arithmetical basis in the case of any stock split, including a stock split effected by means of a stock dividend, and in the case of any other dividend paid in PolyOne common shares. If any such transaction or event occurs, the Committee may provide in substitution for outstanding SARs such alternative consideration (including, without limitation, in the form of cash, securities or other property) as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the SARs subject to this Agreement. No adjustment provided for in this Section 7 will require PolyOne to issue any fractional share.
8. **Miscellaneous.**
 - (a) The contents of this letter are subject in all respects to the terms and conditions of the Plan as approved by the Board and the shareholders of PolyOne, which are controlling. The interpretation and construction by the Board and/or the Committee of any provision of the Plan or this Agreement shall be final and conclusive upon you, your estate, executor, administrator, beneficiaries, personal representative and guardian and PolyOne and its successors and assigns.
 - (b) The grant of the SARs is discretionary and will not be considered to be an employment contract or a part of your terms and conditions of employment or of your salary or compensation. Your acceptance of this grant constitutes your consent to the transfer of data and information concerning or arising out of this grant to PolyOne and to non-PolyOne entities engaged by PolyOne to provide services in connection with this grant from non-U.S. entities related to PolyOne

for purposes of any applicable privacy, information or data protection laws and regulations.

- (c) Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto. The terms and conditions of this Agreement may not be modified, amended or waived, except by an instrument in writing signed by a duly authorized executive officer at PolyOne. Notwithstanding the foregoing, no amendment shall adversely affect your rights under this Agreement without your consent.
- (d) [FOR U.S. PARTICIPANTS ONLY:] It is a condition to your receipt of the SARs that you execute and agree to the terms of PolyOne's standard Employee Agreement. If you do not sign and return the Employee Agreement to PolyOne Human Resources within 60 days of your receipt of this Grant of Stock Settled SARs, this Grant of Stock Settled SARs and any rights to the SARs will terminate and become null and void.

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

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

- (a) To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to you. This Agreement and the Plan shall be administered in a manner consistent with this intent, and any provision that would cause this Agreement or the Plan to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by PolyOne without your consent).
- (b) Reference to Section 409A of the Code will also include any proposed, temporary or final regulations, or any other guidance, promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

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

Very Truly Yours,

POLYONE CORPORATION

By:

Kenneth M. Smith, Senior Vice President and Chief
Human Resources Officer

Accepted:

_____(Date)

Exhibit A

A “Change of Control” means:

(a) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of voting securities of 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 paragraph (a), the following acquisitions shall not be deemed to result in a Change of Control: (i) any acquisition directly from the Company that is approved by the Incumbent Board (as defined in paragraph (b) below), (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 paragraph (c) below; provided, further, that if any Person’s beneficial ownership of the Outstanding Company Voting Securities reaches or exceeds 25% as a result of a transaction described in clause (i) or (ii) above, and such Person subsequently acquires beneficial ownership of additional voting securities of 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% or more of the Outstanding Company Voting Securities inadvertently, and such Person divests as promptly as practicable a sufficient number of shares so that such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) less than 25% of the Outstanding Company Voting Securities, then no Change of Control shall have occurred as a result of such Person’s acquisition; or

(b) individuals who, as of August 31, 2000, constitute the Board (the “Incumbent Board” as modified by this paragraph (b)) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to August 31, 2000 whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (either by specific vote or by approval of the proxy statement of 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

(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 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 the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) 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 (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 except pursuant to a Business Combination that complies with clauses (i), (ii) and (iii) of paragraph (c) above.



[DATE]

Attn: [_____]
PolyOne Corporation

POLYONE CORPORATION INCENTIVE AWARD

Grant of Performance Units

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

Dear [_____]:

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

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

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

1. Performance Units.

- (a) Your right to receive all or any portion of the Performance Units will be contingent upon the achievement of certain management objectives (the "Management Objectives"), as set forth in your Statement of Performance Goals. The achievement of the Management Objectives will be measured during the period from January 1, 20__ through December 31, 20__ (the "Performance Period").



- (b) The Management Objectives for the Performance Period will be based solely on achievement of performance goals relating to PolyOne's operating income ("Operating Income"), as defined in your Statement of Performance Goals.

2. **Earning of Performance Units.**

- (a) The Performance Units shall be earned as follows:
- (i) If, upon the conclusion of the Performance Period, Operating Income equals or exceeds the threshold level, but is less than the 100% target level, as set forth in the Performance Matrix contained in your Statement of Performance Goals, a proportionate number of the Performance Units shall become earned, as determined by mathematical interpolation and rounded up to the nearest whole unit.
 - (ii) If, upon the conclusion of the Performance Period, Operating Income equals or exceeds the 100% target level, but is less than the maximum level, as set forth in the Performance Matrix contained in your Statement of Performance Goals, a proportionate number of the Performance Units shall become earned, as determined by mathematical interpolation and rounded up to the nearest whole unit.
 - (iii) If, upon the conclusion of the Performance Period, Operating Income equals or exceeds the maximum level, as set forth in the Performance Matrix contained in your Statement of Performance Goals, 200% of the Performance Units shall become earned.
- (b) In no event shall any Performance Units become earned if actual performance falls below the threshold level for Operating Income.
- (c) If the Committee determines that a change in the business, operations, corporate structure or capital structure of PolyOne, the manner in which it conducts business or other events or circumstances render the Management Objectives to be unsuitable, the Committee may modify such Management Objectives or the related levels of achievement, in whole or in part, as the Committee deems appropriate; provided, however, that no such action may result in the loss of the otherwise available exemption of the award under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").
- (d) Your right to receive any Performance Units is contingent upon your remaining in the continuous employ of PolyOne or a Subsidiary through the end of the Performance Period. Following the Performance Period, the Committee shall determine the number of Performance Units that shall have become earned hereunder. In all circumstances, the Committee shall have the ability and authority to reduce, but not increase, the amount of Performance Units that become earned hereunder.

3. **Change of Control.** If a Change of Control (as defined on Exhibit A to this Agreement) occurs during the Performance Period, PolyOne shall pay to you 100% of the Performance Units as soon as administratively practicable after the Change of Control.
 4. **Retirement, Disability or Death.** If your employment with PolyOne or a Subsidiary terminates before the end of the Performance Period due to (1) retirement at age 55 or older with at least 10 years of service or retirement under other circumstances entitling you to receive benefits under one of PolyOne's (including its predecessors) defined benefit pension plans, (2) permanent and total disability (as defined under the relevant disability plan or program of PolyOne or a Subsidiary in which you then participate) or (3) death, PolyOne shall pay to you or your executor or administrator, as the case may be, after the end of the Performance Period, the portion of the Performance Units to which you would have been entitled under Section 2 above, had you remained employed by PolyOne through the end of the Performance Period, prorated based on the portion of the Performance Period during which you were employed by PolyOne. The pro-rata portion of the Performance Units required to be paid under this Section 4 shall be paid to you within two and one-half months of the expiration of the Performance Period.
 5. **Other Termination.** If your employment with PolyOne or a Subsidiary terminates before the end of the Performance Period for any reason other than as set forth in Section 4 above, the Performance Units will be forfeited.
 6. **Payment of Performance Units.** Payment of any Performance Units that become earned as set forth herein will be made in cash. Payment will be made as soon as practicable after the receipt of audited financial statements of PolyOne relating to the last fiscal year of the Performance Period, the determination by the Committee of the level of attainment of the Management Objectives and certification by the Board that such Management Objectives were satisfied, but payment shall in all cases be made within two and one-half months of the expiration of the Performance Period. If PolyOne determines that it is required to withhold any federal, state, local or foreign taxes from any payment, PolyOne will withhold the amount of these taxes from the payment.
 7. **Non-Assignability.** The Performance Units subject to this grant of Performance Units are personal to you and may not be sold, exchanged, assigned, transferred, pledged, encumbered or otherwise disposed of by you until they become earned as provided in this Agreement; provided, however, that your rights with respect to such Performance Units may be transferred by will or pursuant to the laws of descent and distribution. Any purported transfer or encumbrance in violation of the provisions of this Section 7 shall be void, and the other party to any such purported transaction shall not obtain any rights to or interest in such Performance Units.
 8. **Miscellaneous.**
 - (a) The contents of this Agreement are subject in all respects to the terms and conditions of the Plan as approved by the Board and the shareholders of PolyOne, which are controlling. The interpretation and construction by the Board and/or the Committee of any provision of the Plan or this Agreement shall be final and
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conclusive upon you, your estate, executor, administrator, beneficiaries, personal representative and guardian and PolyOne and its successors and assigns.

- (b) The grant of the Performance Units is discretionary and will not be considered to be an employment contract or a part of your terms and conditions of employment or of your salary or compensation. Your acceptance of this grant constitutes your consent to the transfer of data and information concerning or arising out of this grant to PolyOne and to non-PolyOne entities engaged by PolyOne to provide services in connection with this grant from non-U.S. entities related to PolyOne for purposes of any applicable privacy, information or data protection laws and regulations.
- (c) Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto. The terms and conditions of this Agreement may not be modified, amended or waived, except by an instrument in writing signed by a duly authorized executive officer at PolyOne. Notwithstanding the foregoing, no amendment shall adversely affect your rights under this Agreement without your consent.
- (d) [FOR U.S. PARTICIPANTS ONLY:] It is a condition to your receipt of the Performance Units that you execute and agree to the terms of PolyOne's standard Employee Agreement. If you do not sign and return the Employee Agreement to PolyOne Human Resources within 60 days of your receipt of this Grant of Performance Units, this Grant of Performance Units and any rights to the Performance Units will terminate and become null and void.

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

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

- (a) To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to you. This Agreement and the Plan shall be administered in a manner consistent with this intent, and any provision that would cause this Agreement or the Plan to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by PolyOne without your consent).
- (b) To the extent you have a right to receive payment of the Performance Units, the payment is subject to Section 409A, 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 Agreement, the payment of the Performance Units will be made, to the extent necessary to comply with Section 409A of the Code, to you on the earliest of (a) your “separation from service” with PolyOne (determined in accordance with Section 409A of the Code); provided, however, that if you are a “specified employee” (within the meaning of Section 409A of the Code), your date of payment of the Performance Units shall be the date that is six months after the date of your separation from service with PolyOne; (b) the date of the end of the Performance Period; (c) your death; or (d) your disability (within the meaning of Section 409A(a)(2)(C) of the Code).

- (c) Reference to Section 409A of the Code will also include any proposed, temporary or final regulations, or any other guidance, promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

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

Very Truly Yours,

POLYONE CORPORATION

By:

Kenneth M. Smith, Senior Vice President and Chief
Human Resources Officer

Accepted:

_____(Date)

Exhibit A

A “Change of Control” means:

(a) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of voting securities of 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 paragraph (a), the following acquisitions shall not be deemed to result in a Change of Control: (i) any acquisition directly from the Company that is approved by the Incumbent Board (as defined in paragraph (b) below), (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 paragraph (c) below; provided, further, that if any Person’s beneficial ownership of the Outstanding Company Voting Securities reaches or exceeds 25% as a result of a transaction described in clause (i) or (ii) above, and such Person subsequently acquires beneficial ownership of additional voting securities of 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% or more of the Outstanding Company Voting Securities inadvertently, and such Person divests as promptly as practicable a sufficient number of shares so that such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) less than 25% of the Outstanding Company Voting Securities, then no Change of Control shall have occurred as a result of such Person’s acquisition; or

(b) individuals who, as of August 31, 2000, constitute the Board (the “Incumbent Board” as modified by this paragraph (b)) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to August 31, 2000 whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (either by specific vote or by approval of the proxy statement of 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

(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 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 the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), (ii) 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 (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 except pursuant to a Business Combination that complies with clauses (i), (ii) and (iii) of paragraph (c) above.

[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, ____, *provided, however,* that commencing on January 1, __ 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. 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 subsection (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 subsection (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 subsection (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% 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

- (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 subsection (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.

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(f)), then the Company shall be obligated to compensate you as follows:
- (a) The Company shall, at your election (which shall be made on the signing of this Agreement and which may be changed by you as of any January 1st that occurs prior to a Change of Control by giving prior written notice of such change to the Company), either (i) continue 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 (as hereinafter defined in Paragraph 7) ("Base Salary") for a period equal to the shorter of (A) [12 or 24 or 36] months, commencing on the Date of Termination, or (B) the period from the Date of Termination to your Mandatory Retirement Date, if any (whichever period applies shall hereinafter be known as the "Payment Period") or (ii) pay to you in a lump sum, by not later than the fifth day following the Date of Termination, an amount equal to one-twelfth of your annualized Base Salary, multiplied by the number of months, including fractional months, in the Payment Period;
 - (b) By not later than the fifth day following the Date of Termination, 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;
 - (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 in which you were entitled to participate immediately prior to the Date of Termination, 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, had you continued to participate in them as an employee of the Company plus an amount in cash equal to the amount necessary to cause the amount of the aggregate after-tax compensation and employee benefits you receive pursuant to this provision to be equal to the aggregate after-tax value of the benefits that you would have received if you continued to receive such benefits as an employee. Notwithstanding the preceding two sentences, this subsection 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) 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. Notwithstanding the preceding two sentences, this subsection 4(c)(ii) 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, for one year after the Date of Termination, provide financial planning services substantially similar to what you were entitled to receive immediately prior to the 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 at your normal retirement date (or earlier retirement date should you so elect), as defined in such retirement plans or programs, 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 subsection (i). For purposes of subsection (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 subsection (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 subsection (i).
- (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 within 30 calendar days following the Date of Termination 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 subsection (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 subsection (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.

(f) For purposes of this Agreement, "Good Reason" shall mean:

- (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, [FOR ALL EXECUTIVES EXCEPT THE CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND CHIEF LEGAL OFFICER: except that a diminution in your duties or responsibilities that occurs solely because the Company is no longer an independent publicly-held entity shall not be deemed to be a reduction in your duties or responsibilities,] (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 CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND CHIEF LEGAL OFFICER: 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.]

In order to have Good Reason, you must give the Company a Notice of Termination satisfying the requirements of Paragraph 6 [FOR THE CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND CHIEF LEGAL OFFICER: , except with respect to (iv) above,] within 60 calendar days of the occurrence of the event that constitutes Good Reason. For purposes of subsections (i)(A), (i)(B) and (i)(D) of subparagraph 4(f), Good Reason shall exist only if the Company fails to remedy the event or events constituting Good Reason within (x) 90 calendar days after receipt of the Notice of Termination from you, if the Notice was received by the Company within 90 calendar days after a Change of Control, or (y) 30 calendar days, for all other Notices. For purposes of subsection (i)(C) of subparagraph 4(f), Good Reason shall exist only if the Company fails to remedy the event or events constituting Good Reason within five business days after receipt of the Notice of Termination from you.

5. TERMINATION FOR CAUSE. 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), including the expiration of the Cure Period without the correction of your performance, or (ii) 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:

(a) If you terminate your employment for Good Reason, the date specified in the Notice of Termination, but in no event more than sixty (60) days after Notice of Termination is given, subject, however, to the expiration of the 90-day or five-day period specified in subparagraph 4(f), if applicable, in which the Company may remedy the event or events constituting Good Reason, except to the extent such remedy period is waived by the Company;

(b) If your employment is terminated for Cause under subparagraph 5(b), 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 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 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 Internal Revenue Code of 1986, as amended (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 within five (5) days of the receipt of the Accounting Firm's determination. 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 promptly paid by the Company to you or for your benefit.

- (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 it gives 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), you shall be entitled to designate the payments and/or benefits to be so reduced or repaid in order to give effect to this subparagraph 8(g). The Company shall provide you with all information reasonably requested by you to permit you to make such designation. In the event that you fail to make such designation within 10 business days prior to the Date of Termination or other due date, the Company may effect such reduction or repayment in any manner it deems appropriate.

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, including, without limitation, any Employment Agreement or Management Continuity Agreement, such applicable plan, program, agreement or arrangement shall be deemed to have been satisfied by the payment made or benefit provided under this Agreement.

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. [FOR THE CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND CHIEF LEGAL OFFICER: This Agreement supersedes, as of the date first above written, any prior agreements between you and the Company covering the same subject of this Agreement. You agree that you have no further rights under any such prior agreement.] 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. §§ 1-16, 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) 100% 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.

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 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 and 21 shall survive any termination or expiration of this Agreement or the termination of your employment following a Change of Control for any reason whatsoever.

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

ACCEPTED AND AGREED TO AS OF THE DATE HEREOF.

By direction of the Compensation Committee of the Board of Directors

[Name]

By _____
Kenneth M. Smith
Vice President and
Chief Human Resources Officer

I hereby elect to take any base salary amounts which may be payable under subparagraph 4(a)

_____ in a lump sum
or (check one)
_____ in installments

[Name]

Exhibit A

GENERAL RELEASE OF ALL CLAIMS

This General Release of all Claims (this "Agreement") is made and entered into as of _____, __, by and between POLYONE CORPORATION, an Ohio corporation (the "Company"), and _____ (the "Executive"). As used in this Agreement, the term "Company" will include its predecessors, subsidiaries, divisions, related or affiliated companies, officers, directors, stockholders, employees, successors, assigns, representatives, agents and counsel, unless the context clearly requires otherwise.

In consideration of the promises set forth in this Agreement, Executive and the Company agree as follows:

1. Effectiveness of Agreement. This Agreement will be effective on the eighth day after it is executed by Executive, provided that Executive has not revoked Executive's release as provided in Section 5.2 below (the "Effective Date").
2. Termination of Employment; Resignations. The parties acknowledge that Executive's employment relationship with the Company ceased on _____ (the "Termination Date"). Executive hereby agrees, that effective the day after the Termination Date, Executive will resign (a) as an employee of the Company, (b) from all Company boards and offices, including those of any affiliate or subsidiary of the Company, and (c) from all administrative, fiduciary or other positions Executive may hold or have held with respect to arrangements or plans for, of or relating to the Company. The Company consents to and accepts all such resignations. After the Termination Date, neither the Company nor Executive will represent or state to any other party that Executive has any authority to act for or on behalf of the Company or has any relationship with the Company [other than as a stockholder].
3. Severance. In consideration of the promises contained herein, within five (5) days after the Effective Date, the Company will deliver to Executive a check in the amount of \$_____, payable to Executive. Such payment will be in [full and complete] satisfaction of the Company's obligations under Paragraphs 4(a) and 4(b) of Executive's Management Continuity Agreement, dated as of _____, _____ (the "Management Continuity Agreement") and may also include all or a portion of the Company's obligations under Paragraph 8 of the Management Continuity Agreement. In addition, the Company acknowledges its obligation to deliver to Executive on _____, a check in the amount of \$_____, payable to Executive in satisfaction of the Company's obligation to Executive under Paragraph 4(e) of the Management Continuity Agreement.
4. Benefits. The benefits described by subparagraphs 4(c) and 4(d) of the Management Continuity Agreement will be provided to Executive in accordance with the terms of the Management Continuity Agreement.
5. Mutual Releases.

- 5.1. In accordance with Paragraph 24 of the Management Continuity Agreement, in consideration for the promises contained herein, Executive hereby releases and forever discharges the Company from, and agrees not to sue or join in any suit against the Company for, any and all charges, complaints, liabilities, claims, promises, agreements, controversies, damages, causes of action, suits or expenses of any kind or nature whatsoever, known or unknown, foreseen or unforeseen to the date upon which Executive executes this Agreement (collectively, "Claims"), including (but not limited to) claims arising in any way from Executive's employment with the Company, Executive's service as an officer [and director] of the Company, Executive's status as a shareholder of the Company, or Executive's agreements to resign Executive's employment as provided in Section 2, above, including, without limitation, any and all alleged discrimination or acts of discrimination that occurred or may have occurred on or before the date upon which Executive executes this Agreement based upon race, color, sex, creed, national origin, age, disability or any other violation of any equal employment opportunity law, ordinance, rule, regulation or order (including, but not limited to, Title VII of the Civil Rights Act of 1964, as amended ("Title VII"); the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967, as amended ("ADEA") (as further described in Section 5.2 below); the Americans with Disabilities Act ("ADA"); claims under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"); or any other federal, state or local laws or regulations regarding employment discrimination or termination of employment) and any claims for wrongful discharge, fraud, or misrepresentation under any statute, rule, regulation or under the common law. Excluded from this Agreement are any claims which cannot be waived by law, including but not limited to the right to file a charge with or participate in an investigation conducted by the Equal Employment Opportunity Commission ("EEOC"). Executive is waiving, however, Executive's right to any monetary recovery or relief should the EEOC or any other agency pursue any claims on Executive's behalf.
- 5.2. Executive acknowledges that the Company encouraged Executive to consult with an attorney of Executive's choosing prior to executing this Agreement, and through this Agreement encourages Executive to consult with Executive's attorney with respect to possible claims under the ADEA and that Executive understands that the ADEA is a federal statute that prohibits discrimination, on the basis of age, in employment, benefits, and benefit plans. Executive wishes to waive any and all claims under the ADEA that Executive may have, as of the date upon which Executive executes this Agreement, against the Company, and hereby waives such

claims. Executive further understands that by signing this Agreement, Executive is in fact waiving, releasing and forever giving up any claim under the ADEA that may have existed on or prior to the date upon which Executive executes this Agreement. Executive acknowledges that Executive is receiving consideration for Executive's waiver of any and all claims under the ADEA in addition to anything of value to which Executive is already entitled. Executive also acknowledges that the Company has informed Executive that Executive has at Executive's option, twenty-one (21) days from the date this Agreement was first presented to Executive in order to consider this Agreement, and, if executed prior to the expiration of the twenty-one (21) day period, Executive does hereby knowingly and voluntarily waive all or part of said twenty-one (21) day period. Executive also understands that Executive has seven (7) days following the date upon which Executive executes this Agreement within which to revoke the release contained in this Section 5.2 (the "Revocation Period") by providing a written notice of Executive's revocation of the release and waiver contained in this Section 5.2 to the Company. The release of claims under the ADEA contained in this Section 5.2 does not become effective or enforceable until the Revocation Period has expired.

- 5.3. Notwithstanding the foregoing, Executive does not, and will not, release, discharge or waive any rights to indemnification that Executive may have under the By-Laws of the Company, the laws of the State of Ohio, any indemnification agreement between Executive and the Company or any insurance coverage maintained by or on behalf of the Company, nor will the Company take any action, directly or indirectly, to encumber or adversely affect Executive's rights under any such indemnification arrangement. Further, the release contained in this Section 5 will not affect any rights granted to Executive, or obligations of the Company, under the terms of this Agreement or under the terms of any employee benefit plan (within the meaning of Section 3(3) of ERISA) maintained by the Company or, except to the extent such rights have previously been satisfied or are satisfied pursuant to this Agreement, under the terms of the Management Continuity Agreement.
- 5.4. Except for Claims based upon fraud or intentional misrepresentation, the Company, as a material inducement to Executive to enter this Agreement, and in consideration of the promises contained herein, hereby releases and forever discharges Executive, and Executive's family, heirs, successors, assigns, agents and attorneys from, and agrees not to sue or join in any suit against such parties for, any and all Claims, which the Company

now has or owns or claims or could claim to have or own against Executive and Executive's family, heirs, successors, assigns, agents and attorneys arising from Executive's employment by the Company, Executive's service as an officer, employee or director of the Company, and Executive's status as a shareholder of the Company [, other than _____]; provided, however, that the release contained in this Section 5.4 will not affect any rights granted to the Company, or Executive's obligations, under the terms of this Agreement.

5.5. All Company files, access keys, desk keys, ID badges and credit cards, and such other property of the Company as the Company may reasonably request, in Executive's possession must be returned no later than the Termination Date.

5.6. Nothing contained in this Agreement will be deemed or construed as an admission of wrongdoing or liability on the part of the Company or Executive.

6. No Mitigation or Offset. Executive is under no obligation to mitigate damages or the amount of any payment or benefit provided for under this Agreement by seeking other employment or otherwise. Except as otherwise expressly provided in the Management Continuity Agreement, any and all amounts payable and benefits to be provided by the Company to Executive under the terms of this Agreement will not be subject to set-off or counterclaim for amounts claimed by the Company to be owed to it by Executive, but will be subject to restitution in accordance with Section 9.8.

7. Survival. The expiration or termination of this Agreement will not impair the rights or obligations of any party hereto that accrue hereunder prior to such expiration or termination, except to the extent specifically stated herein. In addition to the foregoing, (a) Executive's and the Company's obligations contained in Section 5 will survive the expiration or termination of this Agreement, and (b) the Company's and Executive's respective rights and obligations as specified in Paragraph 25 of the Management Continuity Agreement will survive any termination or expiration of this Agreement or the Management Continuity Agreement, or the termination of the Executive's employment for any reason whatsoever.

8. Dispute Resolution.

8.1. Except to the extent governed by Section 9.8, all disputes arising out of, relating to or concerning this Agreement or the breach, termination or validity thereof, shall be resolved pursuant to this Section 8. 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, the ADA, the ADEA, 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. §§ 1-16, 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.

- 8.2. Executive and the Company agree that either party 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.
- 8.3. 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 the Executive 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 the Executive 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 Section 8, the provisions of this Section 8 shall control.

9. Miscellaneous Provisions.

- 9.1. Binding on successors; assignment. This Agreement will be binding upon and inure to the benefit of the Company, Executive and each of their respective successors, assigns, personal and legal representatives, executors, administrators, heirs, distributees, devisees, and legatees, as applicable; provided, however, that neither this Agreement nor any rights or obligations hereunder will be assignable or otherwise subject to hypothecation by Executive (except by will or by operation of the laws of intestate succession) or by the Company, except that the Company may assign this Agreement to any successor (whether by merger, purchase or otherwise) to all or substantially all of the stock, assets or businesses of the Company, if such successor expressly agrees to assume the obligations of the Company hereunder.

- 9.2. Governing law. This Agreement will be governed, construed, interpreted and enforced in accordance with the substantive laws of the State of Ohio, without regard to conflicts of law principles.
- 9.3. Severability. Any provision of this Agreement that is deemed invalid, illegal or unenforceable in any jurisdiction will, as to that jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions hereof in such jurisdiction or rendering that or any other provisions of this Agreement invalid, illegal or unenforceable in any other jurisdiction.
- 9.4. Notices. For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or three business days after having been sent by a nationally recognized overnight courier service such as FedEx, UPS, or Purolator, addressed to the Company (to the attention of the Secretary of the Company) at its principal executive office and to Executive at Executive's principal residence, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address will be effective only upon receipt.
- 9.5. Counterparts. This Agreement may be executed in several counterparts, each of which will be deemed to be an original, but all of which together will constitute one and the same Agreement.
- 9.6. Entire agreement. The terms of this Agreement are intended by the parties to be the final expression of their agreement with respect to the matters addressed herein and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement will constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative or other legal proceeding to vary the terms of this Agreement.
- 9.7. Amendments; waivers. This Agreement may not be modified, amended, or terminated except by an instrument in writing, signed by Executive and the Company. Failure on the part of either party to complain of any action or omission, breach or default on the part of the other party, no matter how long the same may continue, will never be deemed to be a waiver of any rights or remedies

hereunder, at law or in equity. Executive or the Company may waive compliance by the other party with any provision of this Agreement that such other party was or is obligated to comply with or perform only through an executed writing; provided, however, that such waiver will not operate as a waiver of, or estoppel with respect to, any other or subsequent failure.

- 9.8. No inconsistent actions; enforcement. The Company and Executive will not voluntarily undertake or fail to undertake any action or course of action that is inconsistent with the provisions or essential intent of this Agreement. Furthermore, it is the intent of the parties hereto to act in a fair and reasonable manner with respect to the interpretation and application of the provisions of this Agreement. In the event Executive initiates or voluntarily participates in any suit (as provided in Section 5.1), or if Executive fails to abide by any of the terms of this Agreement, the Company may, in addition to any other remedies it may have, reclaim any amounts paid to Executive under the provisions of this Agreement or terminate any benefits or payments that are subsequently due under this Agreement, without waiving the release granted herein. In the event Executive revokes the ADEA release contained in Sections 5.1 and 5.2 within the seven-day period provided under Section 5.2, the Company may, in addition to any other remedies it may have, reclaim any amounts paid to Executive under the provisions of this Agreement or terminate any benefit or payments that are subsequently due under this Agreement. Executive acknowledges and agrees that the remedy at law available to the Company for breach of any of Executive's obligations under Section 5 would be inadequate and that damages flowing from such a breach may not readily be susceptible to being measured in monetary terms. Accordingly, Executive acknowledges, consents and agrees 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 Executive's violation of any such provision of this Agreement, the Company will 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. Executive understands that by entering into this Agreement, Executive will be limiting the availability of certain remedies that Executive may have against the Company and limiting also Executive's ability to pursue certain claims against the Company.
- 9.9. Headings and section references. The headings used in this Agreement are intended for convenience or reference only and will not in any manner amplify, limit, modify or otherwise be used in the construction or interpretation of any provision of this

Agreement. All section references are to sections of this Agreement, unless otherwise noted.

- 9.10. Withholding. The Company will be entitled to withhold from payment any amount of withholding required by law.
- 9.11. Authority. The Company represents and warrants that it and its signatory hereto are duly authorized and empowered to execute and enter into this Agreement without any further action or approval.

THIS AGREEMENT INCLUDES A COMPLETE AND PERMANENT RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. EXECUTIVE ACKNOWLEDGES THAT EXECUTIVE HAS READ THIS AGREEMENT AND THAT EXECUTIVE FULLY KNOWS, UNDERSTANDS, AND APPRECIATES ITS CONTENTS, AND THAT EXECUTIVE HEREBY EXECUTES THE SAME AND MAKES THIS AGREEMENT AND THE RELEASE AND AGREEMENTS PROVIDED FOR HEREIN VOLUNTARILY AND OF EXECUTIVE'S OWN FREE WILL.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

POLYONE CORPORATION,
an Ohio corporation

By: _____

Name: _____

Title: _____

[Executive]

CERTIFICATION

I, Stephen D. Newlin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PolyOne Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 2, 2007

/s/ Stephen D. Newlin

Stephen D. Newlin
Chairman, President and Chief Executive
Officer

CERTIFICATION

I, W. David Wilson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PolyOne Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 2, 2007

/s/ W. David Wilson

W. David Wilson
Senior Vice President and Chief Financial
Officer

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

In connection with the Quarterly Report on Form 10-Q of PolyOne Corporation (the "Company") for the period ended March 31, 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
May 2, 2007

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

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

In connection with the Quarterly Report on Form 10-Q of PolyOne Corporation (the "Company") for the period ended March 31, 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
May 2, 2007

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.