

POLYONE CORP  
Form 10-K  
February 18, 2010

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United States  
Securities and Exchange Commission  
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-16091

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

Ohio  
(State or other jurisdiction of  
incorporation or organization)

34-1730488  
(IRS Employer Identification No.)

33587 Walker Road,  
Avon Lake, Ohio  
(Address of principal executive offices)

44012  
(Zip Code)

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's outstanding common stock held by non-affiliates on June 30, 2009, determined using a per share closing price on that date of \$2.71, as quoted on the New York Stock Exchange, was \$228,620,378.

The number of shares of common stock outstanding as of February 16, 2010 was 92,542,800.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement with respect to the 2010 Annual Meeting of Shareholders.

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**PART I**

**CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS**

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

the effect on foreign operations of currency fluctuations, tariffs and other political, economic and regulatory risks;

changes in polymer consumption growth rates where we conduct 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 we participate;

fluctuations in raw material prices, quality and supply and in energy prices and supply;

production outages or material costs associated with scheduled or unscheduled maintenance programs;

unanticipated developments that could occur with respect to contingencies such as litigation and environmental matters, including any developments that would require any increase in our costs and/or reserves for such contingencies;

an inability to achieve or delays in achieving or achievement of less than the anticipated financial benefit from initiatives related to our specialization strategy, operational excellence initiatives, cost reductions and employee productivity goals;

an inability to raise or sustain prices for products or services;

an inability to maintain appropriate relations with unions and employees;

the possibility of further degradation in the North American building and construction market;

amounts for non-cash charges relating to property, plant and equipment that differ from the original estimates because of the ultimate fair market value of such property, plant and equipment;

amounts required for capital expenditures at remaining locations changing based on the level of expenditures required to shift production capacity;

our ability to continue to realize anticipated savings and operational benefits from our realigning of assets, including those related to closure of certain production facilities;

disruptions, uncertainty or volatility in the credit markets that may limit our access to capital;

other factors affecting our business beyond our control, including, without limitation, changes in the general economy, changes in interest rates and changes in the rate of inflation; and

other factors described in this Annual Report on Form 10-K under Item 1A, Risk Factors.

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

## **ITEM 1. BUSINESS**

### **Business Overview**

We are a premier provider of specialized polymer materials, services and solutions with operations in thermoplastic compounds, specialty polymer formulations, color and additive systems, thermoplastic resin distribution and specialty PVC resins. We also have two equity investments: SunBelt Chlor-Alkali Partnership, a manufacturer of caustic soda and chlorine and BayOne Urethane Systems, L.L.C., a formulator of polyurethane compounds. When used in this Annual Report on Form 10-K, the terms we, us, our and the Company mean PolyOne Corporation and its subsidiaries.

We are incorporated in Ohio and our headquarters are in Avon Lake, Ohio. We employ approximately 3,900 people and have 47

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manufacturing sites and 11 distribution facilities in North America, Europe and Asia, and joint ventures in North America. We offer more than 35,000 polymer solutions to over 10,000 customers across the globe. In 2009, we had sales of \$2.1 billion, 37% of which were to customers outside the United States.

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

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

## **Polymer Industry Overview**

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

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

Thermoplastic resins are found in a number of end-use products and in a variety of markets, including packaging, building and construction, wire and cable, transportation, medical, furniture and furnishings, durable goods, institutional products, electrical and electronics, adhesives, inks and coatings. Each type of thermoplastic resin has unique characteristics (such as flexibility, strength or durability) suitable for use in a particular end-use application. The packaging industry, the largest consumer of plastics, requires plastics that help keep food fresh and free of contamination while providing a variety of options for product display, and offering advantages in terms of weight and user-friendliness. In the building and construction industry, plastic provides an economical and energy efficient

replacement for other traditional materials in piping applications, siding, flooring, insulation, windows and doors, as well as structural and interior or decorative uses. In the wire and cable industry, thermoplastics serve to protect by providing electrical insulation, flame resistance, durability, water resistance, and color coding to wire coatings and connectors. In the transportation industry, plastic has proved to be durable, lightweight and corrosion resistant while offering fuel savings, design flexibility and high performance. In the medical industry, plastics help save lives by safely providing a range of transparent and opaque thermoplastics that are used for a vast array of devices including blood and intravenous bags, medical tubing, masks, lead replacement for radiation shielding, clamps and connectors to bed frames, curtains and sheeting, and electronic enclosures. In the electronics industry, plastic enclosures and connectors not only enhance safety through electrical insulation, but thermally and electrically conductive plastics provide heat transferring, cooling, antistatic, electrostatic discharge, and electromagnetic shielding performance for critical applications including integrated circuit chip packaging.

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

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### **PolyOne Segments**

We operate in six reportable segments: International Color and Engineered Materials; Specialty Engineered Materials; Specialty Color, Additives and Inks; Performance Products and Solutions; PolyOne Distribution; and Resin and Intermediates. Our segments are further discussed in Note 16, *Segment Information*, to the accompanying consolidated financial statements.

#### **International Color and Engineered Materials**

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

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

#### **Specialty Engineered Materials**

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

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

This segment also includes GLS Corporation (GLS), which we acquired in January 2008. GLS is a global developer of innovative thermoplastic elastomer (TPE) compounds and offers the broadest range of soft-touch TPE materials in the industry.

#### **Specialty Color, Additives and Inks**

The Specialty Color, Additives and Inks operating segment is a leading provider of specialized color and additive concentrates as well as inks and latexes.

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



processing enhancement.

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

This segment also provides custom-formulated liquid systems that meet a variety of customer needs and chemistries, including vinyl, natural rubber and latex, polyurethane and silicone. Products include proprietary fabric screen-printing inks and latexes for diversified markets that range from recreational and athletic apparel, construction and filtration to outdoor furniture and healthcare. In addition, we have a 50% interest in BayOne, a joint venture between PolyOne and Bayer Corporation, which sells liquid polyurethane systems into many of the same markets.

### **Performance Products and Solutions**

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

Much of the revenue and income for Performance Products and Solutions is generated in North America. However, sales in Asia and Europe constitute a minor but growing portion of this segment. In addition, we owned 50% of a joint venture producing and marketing vinyl compounds in Latin America through the disposition date of October 13, 2009.

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

This operating segment also includes Producer Services, which offers custom compounding services to resin producers and processors that design and develop their own compound and masterbatch recipes. Customers often require high quality, cost effective and confidential services. As a strategic and integrated supply chain partner, Producer Services offers resin producers a way to develop custom products for niche markets by using our compounding expertise and multiple manufacturing platforms.

### **PolyOne Distribution**

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

### **Resin and Intermediates**

We report the results of our Resin and Intermediates operating segment on the equity method. This segment consists almost entirely of our 50% equity interest in SunBelt and our former 24% equity interest in OxyVinyls LP (OxyVinyls), through its disposition date of July 6, 2007. SunBelt, a producer of chlorine and caustic soda, is a partnership with Olin Corporation. OxyVinyls, a producer of PVC resins, VCM and chlorine and caustic soda, was a partnership with Occidental Chemical Corporation. In 2009, SunBelt had production capacity of approximately 320 thousand tons of chlorine and 358 thousand tons of caustic soda. Most of the chlorine manufactured by SunBelt is consumed by OxyVinyls to produce PVC resin. Caustic soda is sold on the merchant market to customers in the pulp and paper, chemical, building and construction and consumer products industries.

## **Competition**

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

The distribution of polymer resin is also highly competitive. Speed, service, reputation, product line, brand recognition, delivery, quality and price are the principal factors affecting competition. We compete against other national independent resin distributors in North America, along with other regional distributors. Growth in the thermoplastic resin and compound distribution market is directly correlated with growth in the base polymer resins market.

We believe that the strength of our company name and reputation, the broad range of product offerings from our suppliers and our speed and responsiveness, coupled with the quality of products and flexibility of our distribution

network, allow us to compete effectively.

### **Raw Materials**

The primary raw materials used by our manufacturing operations are PVC resin, VCM, polyolefin and other thermoplastic resins, plasticizers, inorganic and organic pigments, all of which we believe are in adequate supply. We have long-term supply contracts with OxyVinyls under which the majority of our PVC resin and all of our VCM is supplied. These contracts will expire in 2013, although they contain two five-year renewal provisions that are at our option. We believe these contracts should assure the availability of adequate amounts of PVC resin and VCM. We also believe that the pricing under these contracts provides PVC resins and VCM to us at a competitive cost. We also periodically obtain raw materials from foreign suppliers. See discussion of risks associated with raw material supply and costs in Item 1A. Risk Factors.

### **Patents and Trademarks**

We own and maintain a large number of U.S. and foreign patents and trademarks that contribute to our competitiveness in the markets we serve because they protect our inventions and product names against infringement by others. Patents exist for 20 years if all fees are paid, and trademarks have an indefinite life based upon continued use. While we view our patents and trademarks to be valuable because of the broad scope of our products and services and brand recognition we enjoy, we do not believe that the loss or expiration of any single patent or trademark would have a material adverse effect on our results of operations, financial position or the continuation of our business. Nevertheless, we have implemented management processes designed to protect our inventions and trademarks.

### **Seasonality and Backlog**

Sales of our products and services are slightly seasonal as demand is generally slower in the first and fourth calendar quarters of the year. Because of the nature of our business, we do not believe that

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our backlog is a meaningful indicator of the level of our present or future business.

### **Working Capital Practices**

Our products are generally manufactured with a short turnaround time, and the scheduling of manufacturing activities from customer orders generally includes enough lead time to assure delivery of an adequate supply of raw materials. We offer payment terms to our customers that are competitive. We generally allow our customers to return merchandise if pre-agreed quality standards or specifications are not met; however, we employ quality assurance practices that seek to minimize customer returns. Our customer returns are immaterial.

### **Significant Customers**

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

### **Research and Development**

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

Our investment in product research and development was \$22.9 million in 2009, \$26.5 million in 2008 and \$21.6 million in 2007. In 2010, we expect our investment in research and development to increase moderately as we deploy greater resources to focus on material and service innovations.

### **Methods of Distribution**

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

### **Employees**

As of February 1, 2010, we employed approximately 3,900 people. Less than 2% of our employees are represented by labor unions under collective bargaining agreements. We believe that relations with our employees are good, and we do not anticipate significant operating issues to occur as a result of current negotiations or when we renegotiate collective bargaining agreements as they expire.

### **Environmental, Health and Safety**

We are subject to various environmental laws and regulations that apply to the production, use and sale of chemicals, emissions into the air, discharges into waterways and other releases of materials into the environment and the

generation, handling, storage, transportation, treatment and disposal of waste material. We endeavor to ensure the safe and lawful operation of our facilities in the manufacture and distribution of products, and we believe we are in material compliance with all applicable laws and regulations.

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

We are strongly committed to safety as evidenced by our injury incidence rate of 0.9 per 100 full-time workers per year in 2009, an improvement from 1.1 in 2008. The 2008 average injury incidence rate for our NAICS Code (326 Plastics and Rubber Products Manufacturing) was 5.7.

In our operations, we must comply with product-related governmental law and regulations affecting the plastics industry generally and also with content-specific law, regulations and non-governmental standards. We believe that compliance with current governmental laws and regulations and with non-governmental content-specific standards will not have a material adverse effect on our financial position, results of operations or cash flows. The risk of additional costs and liabilities, however, is inherent in certain plant operations and certain products produced at these plants, as is the case with other companies in the plastics industry. Therefore, we may incur additional costs or liabilities in the future. Other developments, such as increasingly strict environmental, safety and health laws, regulations and related enforcement policies, including those under the Restrictions on the Use of Certain Hazardous Substances (RoHS) and the Consumer Product Safety Information Act of 2008, the implementation of additional content-specific standards, discovery of unknown conditions, and claims for damages to property, persons or natural resources resulting from plant emissions or products could also result in additional costs or liabilities.

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

During 2004, the U.S. Environmental Protection Agency (EPA) conducted multimedia audits at two of our facilities, pursuant to which certain fines and penalties have been asserted by the EPA. See Item 3., Legal Proceedings , for additional information.

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

Based on September 2007 court rulings (see Note 12, *Commitments and Related-Party Information*, to the accompanying consolidated financial statements) in the case of Westlake Vinyls, Inc. v. Goodrich Corporation, et al. and a settlement agreement related to the former Goodrich Corporation (now owned by Westlake Vinyls, Inc.) Calvert City facility, we recorded a charge during 2007 of \$15.6 million for past remediation costs payable to Goodrich Corporation. We also adjusted our environmental reserve for future remediation costs, a portion of which already related to the Calvert City site, resulting in an additional charge of \$28.8 million in 2007.

We incurred environmental expenses of \$11.7 million in 2009, \$17.1 million in 2008 and \$48.8 million in 2007. Our environmental expense in 2009 related mostly to ongoing remediation. Our environmental expense in 2008 consisted of higher utility cost estimates necessary to support remediation. Our environmental expenses in 2007 were largely driven by the charges stemming from the aforementioned Calvert City settlement and subsequent reserve adjustment. Additionally, in 2009, we received \$23.9 million from our former parent company as partial reimbursement of certain previously incurred environmental remediation costs. In 2008, we received \$1.5 million of insurance recoveries. There were no insurance recoveries in 2007.

We also conduct investigations and remediation at certain of our active and inactive facilities and have assumed responsibility for the resulting environmental liabilities from operations at sites we or our predecessors formerly owned or operated. We believe that our potential continuing liability at these sites will not have a material adverse effect on our results of operations or financial position. In addition, we voluntarily initiate corrective and preventive environmental projects at our facilities. Based on current information and estimates prepared by our environmental engineers and consultants, we had reserves as of December 31, 2009 on our accompanying consolidated balance sheet totaling \$81.7 million to cover probable future environmental expenditures related to previously contaminated sites. This figure represents our best estimate of probable costs for remediation, based upon the information and technology currently available and our view of the most likely remedy.

Depending upon the results of future testing, the ultimate remediation alternatives undertaken, changes in regulations, new information, newly discovered conditions and other factors, it is reasonably possible that we could incur additional costs in excess of the amount accrued at December 31, 2009. Such costs, if any, cannot be currently estimated. We may revise our estimate of this liability as new regulations or technologies are developed or additional information is obtained.

We expect cash paid for environmental remediation expenditures will be approximately \$15 million in 2010.

## **International Operations**

Our international operations are subject to a variety of risks, including currency fluctuations and devaluations, exchange controls, currency restrictions and changes in local economic conditions. While the impact of these risks is difficult to predict, any one or more of them could adversely affect our future operations. For more information about our international operations, see Note 16, *Segment Information*, to the accompanying consolidated financial statements, which is incorporated by reference into this Item 1.

## **Where You Can Find Additional Information**

Our principal executive offices are located at 33587 Walker Road, Avon Lake, Ohio 44012, and our telephone number is (440) 930-1000. We are subject to the information reporting requirements of the Exchange Act, and, in accordance with these requirements, we file annual, quarterly and other reports, proxy statements and other information with the SEC relating to our business, financial results and other matters. The reports, proxy statements and other information we file may be inspected and copied at prescribed rates at the SEC's Public Reference Room and via the SEC's website (see below for more information).

You may inspect a copy of the reports, proxy statements and other information we file with the SEC, without charge, at the SEC's Public Reference Room, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, and you may obtain copies of the reports, proxy statements and other information we file with the SEC, from those offices for a fee. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings are available to the public at the SEC's website at <http://www.sec.gov>.

Our Internet address is [www.polyone.com](http://www.polyone.com). Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished

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pursuant to Section 13(a) or 15(d) of the Exchange Act are available, free of charge, on our website ([www.polyone.com](http://www.polyone.com), select **Investors** and then **SEC Edgar filings**) or upon written request, as soon as reasonably practicable after we electronically file or furnish them to the SEC. These reports are also available on the SEC's website at [www.sec.gov](http://www.sec.gov).

**ITEM 1A. RISK FACTORS**

The following are certain risk factors that could affect our business, financial position, results of operations or cash flows. These risk factors should be considered along with the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause our actual results or financial condition to differ materially from those projected in forward-looking statements. The following discussion is not an all-inclusive listing of risks, although we believe these are the more material risks that we face. If any of the following occur, our business, financial position, results of operations or cash flows could be negatively affected.

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

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

economic downturns in the significant end markets that we serve;

product obsolescence or technological changes that unfavorably alter the value / cost proposition of our products and services;

competition from existing and unforeseen polymer and non-polymer based products;

declines in general economic conditions or reductions in industrial production growth rates, both domestically and globally, which could impact our customers ability to pay amounts owed to us;

changes in environmental regulations that would limit our ability to sell our products and services in specific markets; and

inability to obtain raw materials or supply products to customers due to factors such as supplier work stoppages, supply shortages, plant outages or regulatory changes that may limit or prohibit overland transportation of certain hazardous materials and exogenous factors, like severe weather.

If any of these events occur, the demand for and supply of our products and services could suffer, which would adversely affect our financial position, results of operations and cash flows.

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

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

explosions, fires, inclement weather and natural disasters;

mechanical failure resulting in protracted or short duration unscheduled downtime;



regulatory changes that affect or limit the transportation of raw materials;

inability to obtain or maintain any required licenses or permits;

interruptions and environmental hazards such as chemical spills, discharges or releases of toxic or hazardous substances or gases into the environment or workplace; and

storage tank leaks or other issues resulting from remedial activities.

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

***Extensive environmental, health and safety laws and regulations impact our operations and assets and compliance with these regulations could adversely affect our financial position, results of operations or cash flows.***

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

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

We may also incur additional costs and liabilities as a result of increasingly strict environmental, safety and health laws, regulations and related enforcement policies, restrictions on the use of lead and phthalates under the Restriction on the Use of Certain Hazardous Substances (RoHS) and the Consumer Product Safety Information Act of 2008 and restrictions on greenhouse gases emissions.

The European Union has adopted REACH, a legislative act to cover Registration, Evaluation, Authorization and Restriction of Chemicals. The goal of this legislation, which became effective in June 2007, is to minimize risk to human health and to the environment by regulating the use of chemicals. As these regulations evolve, we will endeavor to remain in compliance with REACH.

We accrue costs for environmental matters that have been identified when it is probable that these costs will be required and when they can be reasonably estimated. However, we may be subject to additional environmental liabilities or potential liabilities that have not been identified. We expect that we will continue to be subject to increasingly stringent environmental, health and safety laws and regulations. We anticipate that compliance with these laws and regulations will continue to require capital expenditures and operating costs, which could adversely affect our financial position, results of operations or cash flows.

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

As noted above in Item 1. Business, we have extensive operations outside of the United States. Revenue from these operations (principally from Canada, Mexico, Europe and Asia) was approximately 37% in each of 2009, 2008 and 2007. Long-lived assets of our foreign operations represented 36% in 2009, 35% in 2008 and 36% in 2007 of our total long-lived assets.

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

changes in local government regulations and policies including, but not limited to foreign currency exchange controls or monetary policy; repatriation of earnings; expropriation of property; duty or tariff restrictions; investment limitations; and tax policies;

political and economic instability and disruptions, including labor unrest, civil strife, acts of war, guerilla activities, insurrection and terrorism;

legislation that regulates the use of chemicals;

disadvantages of competing against companies from countries that are not subject to U.S. laws and regulations, including the Foreign Corrupt Practices Act (FCPA);

difficulties in staffing and managing multi-national operations;

limitations on our ability to enforce legal rights and remedies;

reduced protection of intellectual property rights; and

other risks arising out of foreign sovereignty over the areas where our operations are conducted.

In addition, we could be adversely affected by violations of the FCPA and similar worldwide anti-bribery laws. The FCPA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. We cannot assure you that our internal controls and procedures always will protect us from the reckless or criminal acts committed by our employees or agents. If we are found to be liable for FCPA violations, we could suffer from criminal or civil penalties or other sanctions, which could have a material adverse effect on our business.

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

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

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

***Our results of operations may be adversely affected by the results of operations of SunBelt.***

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

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

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

Additionally, our products used in housing, transportation and building and construction markets are impacted by changes in demand in these sectors, which may be significantly affected by changes in economic and other conditions such as gross domestic product levels, employment levels, demographic trends, legislative actions and consumer confidence. These factors can lower the demand for and pricing of our products, which could cause our net sales and net income to decrease.

***We face competition from other polymer and chemical companies, which could adversely affect our sales, results of operations or cash flows.***

We actively compete with companies that produce the same or similar products, and in some instances with companies that produce different products that are designed for the same end uses. We encounter competition in price,

delivery, service, performance, product innovation, product recognition and quality, depending on the product involved.

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

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

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

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

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

***Adverse credit market conditions may significantly affect our access to capital, cost of capital and ability to meet liquidity needs.***

Disruptions, uncertainty or volatility in the credit markets may adversely impact our ability to access credit already arranged

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and the availability and cost of credit to us in the future. These market conditions may limit our ability to replace maturing liabilities in a timely manner and access the capital necessary to grow and maintain our business. Accordingly, we may be forced to delay raising capital, issue shorter tenors than we prefer or pay unattractive interest rates, which could increase our interest expense, decrease our profitability and significantly reduce our financial flexibility. There can be no assurances that government responses to the disruptions in the financial markets will stabilize the markets or increase liquidity and the availability of credit. Longer term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures could include deferring capital expenditures and reducing or eliminating future share repurchases or other discretionary uses of cash. Overall, our results of operations, financial condition and cash flows could be materially adversely affected by disruptions in the credit markets.

***The recent global financial crisis may have significant effects on our customers and suppliers that would result in material adverse effects on our business and operating results.***

The recent global financial crisis, which has included, among other things, significant reductions in available capital and liquidity from banks and other providers of credit, substantial reductions and fluctuations in equity and currency values worldwide, and concerns that the worldwide economy may enter into a prolonged recessionary period, may materially adversely affect our customers' access to capital or willingness to spend capital on our products or their ability to pay for products that they will order or have already ordered from us. In addition, the current global financial crisis may materially adversely affect our suppliers' access to capital and liquidity with which to maintain their inventories, production levels and product quality, which could cause them to raise prices or lower production levels.

Also, availability under our receivables sales facility may be adversely impacted by credit quality and performance of our customer accounts receivable. The availability under the receivable sales facility is based on the amount of receivables that meet the eligibility criteria of the receivables sales facility. As sales decline, receivable losses increase or credit quality deteriorates, the amount of eligible receivables declines and, in turn, lowers the availability under the facility.

These potential effects of the recent global financial crisis are difficult to forecast and mitigate. As a consequence, our operating results for a particular period are difficult to predict, and, therefore, prior results are not necessarily indicative of results to be expected in future periods. Any of the foregoing effects could have a material adverse effect on our business, results of operations and financial condition.

***We have a significant amount of goodwill, and any future goodwill impairment charges could adversely impact our results of operations.***

As of December 31, 2009, we had goodwill of \$163.5 million. The future occurrence of a potential indicator of impairment, such as a significant adverse change in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, a material negative change in relationships with significant customers, strategic decisions made in response to economic or competitive conditions, loss of key personnel or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed of, could result in goodwill impairment charges, which could adversely impact our results of operations.

***Poor investment performance by our pension plan assets may increase our pension liability and expense, which may increase the required funding of our pension obligations and divert funds from other potential uses.***

We provide defined benefit pension plans to eligible employees. Our pension expense and our required contributions to our pension plans are directly affected by the value of plan assets, the projected rate of return on plan assets, the actual rate of return on plan assets and the actuarial assumptions we use to measure our defined benefit pension plan obligations, including the rate at which future obligations are discounted to a present value, or the discount rate. As of December 31, 2009, for pension accounting purposes, we assumed an 8.5% rate of return on pension assets.

Poor investment performance by our pension plan assets resulting from a decline in the stock market could significantly increase the deficit position of our plans. Should the assets earn an average return less than 8.5% over time, it is likely that future pension expenses and funding requirements would increase.

We establish the discount rate used to determine the present value of the projected and accumulated benefit obligation at the end of each year based upon the available market rates for high quality, fixed income investments. An increase in the discount rate would reduce the future pension expense and, conversely, a lower discount rate would raise the future pension expense.

Based on current guidelines, assumptions and estimates, including stock market prices and interest rates, we anticipate that we will be required to make a cash contribution of approximately \$20.8 million to our pension plans in 2010.

We cannot predict whether changing market or economic conditions, regulatory changes or other factors will further increase our pension expense or funding obligations, diverting funds we would otherwise apply to other uses.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

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

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As of February 1, 2010, we operated facilities in the United States and internationally. Our corporate office is located in Avon Lake, Ohio. We employ approximately 3,900 people and have 47 manufacturing sites and 11 distribution facilities in North America, Europe, and Asia, and joint ventures in North America. We own substantially all of our manufacturing sites and lease our distribution facilities. We believe that the quality and production capacity of our facilities is sufficient to maintain our competitive position for the foreseeable future. The following table identifies the principal facilities of our segments:

<b><u>Performance Products and Solutions</u></b>	<b><u>International Color and Engineered Materials</u></b>	<b><u>Specialty Color, Additives and Inks</u></b>	<b><u>PolyOne Distribution</u></b>
Long Beach, California Commerce, California	Assesse, Belgium Pudong (Shanghai), China	Glendale, Arizona Kennesaw, Georgia	Livermore, California Rancho Cucamonga, California
Kennesaw, Georgia <sup>(1)</sup> Henry, Illinois Terre Haute, Indiana	Shenzhen, China Suzhou, China Tianjin, China <sup>(2)</sup>	Suwanee, Georgia <sup>(2)</sup> Elk Grove Village, Illinois St. Louis, Missouri	Chicago, Illinois <sup>(4)</sup> Ayer, Massachusetts Chesterfield Township, Michigan
Louisville, Kentucky Sullivan, Missouri	Cergy, France Tossiat, France	Massillon, Ohio Norwalk, Ohio	Eagan, Minnesota Statesville, North Carolina
Pedricktown, New Jersey Avon Lake, Ohio North Baltimore, Ohio Clinton, Tennessee	Bendorf, Germany Gaggenau, Germany Melle, Germany Gyor, Hungary	Lehigh, Pennsylvania Vonore, Tennessee Shenzhen, China <sup>(1)</sup> Toluca, Mexico	Massillon, Ohio La Porte, Texas Fife, Washington Mississauga, Ontario, Canada
Dyersburg, Tennessee Pasadena, Texas Seabrook, Texas Orangeville, Ontario, Canada St. Remi de Napierville, Quebec, Canada Dongguan, China (16 manufacturing plants)	Kutno, Poland Mumbai, India Jurong, Singapore <sup>(3)</sup> Barbastro, Spain Pamplona, Spain Angered, Sweden Bangkok, Thailand Istanbul, Turkey (18 manufacturing plants)	(9 manufacturing plants)	(11 distribution facilities)
		<b><u>Specialty Engineered Materials</u></b> McHenry, Illinois Avon Lake, Ohio Dyersburg, Tennessee <sup>(1)</sup> North Haven, Connecticut Seabrook, Texas <sup>(1)</sup> Suzhou, China Gaggenau, Germany <sup>(1)</sup> Jurong, Singapore <sup>(1)</sup> Barbastro, Spain <sup>(1)</sup> (4 manufacturing plants)	<b><u>Resin and Intermediates</u></b> SunBelt joint venture McIntosh, Alabama <sup>(5)</sup>

<sup>(1)</sup> Facility is not included in manufacturing plants total as it is also included as part of another segment.

<sup>(2)</sup> Facility is not included in manufacturing plants total as it is a design center/lab.

<sup>(3)</sup> As part of the restructuring actions announced in January 2009, the Jurong, Singapore facility will be closed during 2010.



- (4) Facility is not owned by PolyOne, however it is included in distribution facility total as it is a primary distribution location.
- (5) Facility is shared as part of a joint venture, not included in manufacturing plants total.

**ITEM 3. LEGAL PROCEEDINGS**

During 2004, the EPA conducted multimedia inspections at our polyvinyl chloride resin manufacturing facilities located in Henry, Illinois and Pedricktown, New Jersey. In December 2007, the EPA met with the Company for the first time since those inspections to discuss possible violations of the Clean Air Act, the Clean Water Act and the Resource Conservation and Recovery Act at each of the Henry, Illinois and Pedricktown, New Jersey facilities. Discussions between representatives for the Company and the EPA occurred in 2008, during which we provided additional information as well as our position regarding the compliance status of the facilities and discussed certain modifications to testing procedures and record keeping. In January 2009, we received a letter from the EPA proposing a resolution of any violations identified as a result of the 2004 inspection that would include our payment of fines and penalties in the amount of \$1.3 million. We continue to discuss with the EPA resolution of proposed violations on a mutually agreed basis.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2009.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

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

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Executive officers are elected by our Board of Directors to serve one-year terms. The following table lists the name of each person currently serving as an executive officer of our company, his age as of February 18, 2010 and his current position with our company:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Stephen D. Newlin	57	Chairman, President and Chief Executive Officer
Robert M. Patterson	37	Senior Vice President and Chief Financial Officer
Bernard P. Baert	60	Senior Vice President, President of Europe and International
Michael E. Kahler	52	Senior Vice President, Chief Commercial Officer
Thomas J. Kedrowski	51	Senior Vice President, Supply Chain and Operations
Craig M. Nikrant	48	Senior Vice President, President of Global Specialty Engineered Materials
Michael L. Rademacher	59	Senior Vice President, President of Distribution
Robert M. Rosenau	55	Senior Vice President, President of Performance Products and Solutions
Kenneth M. Smith	55	Senior Vice President, Chief Information and Human Resources Officer
John V. Van Hulle	52	Senior Vice President, President of Global Color, Additives and Inks

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

**Robert M. Patterson**: Senior Vice President and Chief Financial Officer, May 2008 to date. Vice President and Treasurer of Novelis, Inc. (an aluminum rolled products manufacturer) from 2007 to May 2008. Vice President, Controller and Chief Accounting Officer of Novelis from 2006 to 2007. Mr. Patterson served as Vice President and Segment Chief Financial Officer, Thermal and Flow Technology Segments of SPX Corporation (a multi-industry manufacturer and developer) from 2005 to 2006 and as Vice President and Chief Financial Officer, Cooling Technologies and Services of SPX from 2004 to 2005. Mr. Patterson served as Vice President and Chief Financial Officer of Marley Cooling Tower Company, a cooling tower manufacturer and subsidiary of SPX, from 2002 to 2004.

**Bernard P. Baert**: Senior Vice President, President of Europe and International, January 2010 to date. Senior Vice President and General Manager, Color and Engineered Materials, Europe and Asia, May 2006 to January 2010. Vice President and General Manager, Colors and Engineered Materials, Europe and Asia, September 2000, upon formation of PolyOne, to April 2006. General Manager, Color Europe, M.A. Hanna Company, 1997 to August 2000.

**Michael E. Kahler**: Senior Vice President, Chief Commercial Officer, January 2010 to date. Senior Vice President, Commercial Development, May 2006 to January 2010. President, Process Technology Division, Alfa Laval Inc. (a global provider of heat transfer, separation and fluid handling products and engineering solutions) from January 2004 to March 2006. Group Vice President, Nalco Chemical Company (a manufacturer of specialty chemicals, services and systems) from December 1999 to October 2002.

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

Craig M. Nikrant: Senior Vice President, President of Global Specialty Engineered Materials, January 2010 to date. Vice President and General Manager, Specialty Engineered Materials, September 2006 to December 2009. General Manager, Specialty Film & Sheet, General Electric Plastics, June 2004 to September 2006. Director, Global Commercial Effectiveness, General Electric Plastics (a former division of General Electric specializing in supplying plastics), December 2003 to June 2004. Six Sigma Master Black Belt, General Electric Company Plastics Business, March 2001 to December 2002. General Manager, Commercial Operations, North Central Region, General Electric Plastics, June 1999 to March 2001.

Michael L. Rademacher: Senior Vice President, President of Distribution, January 2010 to date. Senior Vice President and General Manager, Distribution, May 2006 to January 2010. Vice President and General Manager, PolyOne Distribution, September 2000, upon formation of PolyOne, to April 2006. Senior Vice President Plastics Americas, M.A. Hanna Company, January 2000 to August 2000. Vice President and General Manager, Industrial Chemical and Solvents Division, Ashland Chemical Company (chemical manufacturing and distribution), 1998 to January 2000.

Robert M. Rosenau: Senior Vice President, President of Performance Products and Solutions, January 2010 to date. Senior Vice President and General Manager, Performance Products and Solutions, June 2008 to January 2010, Senior Vice President and General Manager, Vinyl Business, May 2006 to June 2008. Vice President and General Manager, Vinyl Compounds, January 2003 to April 2006. General Manager, Extrusion Products, September 2000 to December 2002. General Manager, Custom Profile Compounds, The Geon Company, April 1998 to August 2000.

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

**John V. Van Hulle**: Senior Vice President, President of Global Color, Additives and Inks, January 2010 to date. Senior Vice President and General Manager, Specialty Color, Additives and Inks, July 2006 to January 2010. President and Chief Executive Officer ChemDesign Corporation (a custom chemical manufacturer), December 2001 to July 2006. President, Specialty & Fine Chemicals Cambrex Corporation (a specialty chemical and pharmaceutical business) August 1994 to November 2000.

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**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The following table sets forth the range of the high and low sale prices for our common stock, \$0.01 par value per share, as reported by the New York Stock Exchange, where the shares are traded under the symbol POL, for the periods indicated:

	2009 Quarters				2008 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Common stock price:								
High	\$ 7.74	\$ 7.19	\$ 3.65	\$ 3.56	\$ 6.39	\$ 8.57	\$ 8.23	\$ 7.15
Low	\$ 5.45	\$ 2.50	\$ 2.23	\$ 1.32	\$ 2.33	\$ 6.26	\$ 6.30	\$ 5.11

As of February 16, 2010, there were 2,514 holders of record of our common stock.

We did not pay dividends in 2009 or 2008. Future declarations of dividends on common stock are at the discretion of the Board of Directors, and the declaration of any dividends will depend on, among other things, earnings, capital requirements and our financial position, results of operations and cash flows. Additionally, the agreements that govern our receivables sale facility contain restrictions that could limit our ability to pay future dividends.

The table below sets forth information regarding repurchases of our common shares during the fourth quarter of 2009:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program <sup>(1)</sup>
October 1 to October 31		\$		8,750,000
November 1 to November 30				8,750,000
December 1 to December 31				8,750,000
Total		\$		

<sup>(1)</sup> On August 18, 2008, our Board of Directors approved a stock repurchase program authorizing us, depending upon market conditions and other factors, to repurchase up to 10.0 million shares of our common stock, in the open

market or in privately negotiated transactions.

## **ITEM 6. SELECTED FINANCIAL DATA**

You should refer to Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in Part II of this Annual Report on Form 10-K and the notes to our accompanying consolidated financial statements for additional information regarding the financial data presented below, including matters that might cause this data not to be indicative of our future financial condition, results of operations or cash flows.

<b>(In millions, except per share data)</b>	<b>2009<sup>(1)</sup></b>	<b>2008<sup>(2)</sup></b>	<b>2007</b>	<b>2006<sup>(3)</sup></b>	<b>2005</b>
Sales	\$ 2,060.7	\$ 2,738.7	\$ 2,642.7	\$ 2,622.4	\$ 2,450.6
Operating income (loss)	\$ 98.4	\$ (129.3)	\$ 33.9	\$ 190.6	\$ 141.3
Income (loss) before discontinued operations	\$ 67.8	\$ (272.9)	\$ 11.4	\$ 125.6	\$ 63.2
Discontinued operations				(2.7)	(15.3)
Net income (loss)	\$ 67.8	\$ (272.9)	\$ 11.4	\$ 122.9	\$ 47.9
Basic and diluted (loss) earnings per common share:					
Before discontinued operations	\$ 0.73	\$ (2.94)	\$ 0.12	\$ 1.36	\$ 0.69
Discontinued operations				(0.03)	(0.17)
Basic and diluted (loss) earnings per common share	\$ 0.73	\$ (2.94)	\$ 0.12	\$ 1.33	\$ 0.52
Total assets	\$ 1,385.9	\$ 1,277.7	\$ 1,583.0	\$ 1,780.8	\$ 1,695.3
Long-term debt, net of current portion	\$ 389.2	\$ 408.3	\$ 308.0	\$ 567.7	\$ 638.7

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- (1) Included in operating income for 2009 results are charges of \$27.2 million related to employee separation and plant phaseout and benefits of \$23.9 million related to reimbursement of previously incurred environmental expenses and \$21.1 million related to a curtailment gain from amendments to certain of our employee benefit plans.
- (2) Included in operating expense for 2008 results are charges of \$39.7 million related to employee separation and plant phaseout and \$170.0 million related to goodwill impairment. Included in net loss for 2008 are charges of \$105.9 million to record deferred a deferred tax valuation allowance.
- (3) In February 2006, we sold 82% of our Engineered Films business. This business was previously reported as discontinued operations and is recognized as such in our historical results. The retained ownership of 18% is reported on the cost method of accounting and is recognized in our accompanying consolidated financial statements as such.

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

**Overview**

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide information that is supplemental to, and should be read together with, our consolidated financial statements and the accompanying notes contained in this Annual Report on Form 10-K. Information in this Item 7 is intended to assist the reader in obtaining an understanding of our consolidated financial statements, the changes in certain key items in those financial statements from year to year, the primary factors that accounted for those changes, and any known trends or uncertainties that we are aware of that may have a material effect on our future performance, as well as how certain accounting principles affect our consolidated financial statements. MD&A includes the following sections:

Our Business

Business Model and Key Concepts

Key Challenges

Strategy and Key Trends

Recent Developments

Highlights and Executive Summary

Results of Operations an analysis of our consolidated results of operations for the three years presented in our consolidated financial statements

Liquidity and Capital Resources an analysis of the effect of our operating, financing and investing activities on our liquidity and capital resources

Off-Balance Sheet Arrangements a discussion of such arrangements

Contractual Obligations a summary of our aggregate contractual obligations

Critical Accounting Policies and Estimates a discussion of accounting policies that require significant judgments and estimates

New Accounting Pronouncements a summary and discussion of our plans for the adoption of new accounting standards relevant to us

The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this Annual Report on Form 10-K particularly in Cautionary Note On Forward-Looking Statements and Item 1A. Risk Factors.

## **Our Business**

We are a premier provider of specialized polymer materials, services and solutions with operations in thermoplastic compounds, specialty polymer formulations, color and additive systems, thermoplastic resin distribution and specialty vinyl resins. We also have two equity investments: one in a manufacturer of caustic soda and chlorine and one in a formulator of polyurethane compounds. Headquartered in Avon Lake, Ohio, with 2009 sales of \$2.1 billion, we have manufacturing sites and distribution facilities in North America, Europe and Asia and joint ventures in North America. We currently employ approximately 3,900 people and offer more than 35,000 polymer solutions to over 10,000 customers across the globe. We provide value to our customers through our ability to link our knowledge of polymers and formulation technology with our manufacturing and supply chain to provide an essential link between large chemical producers (our raw material suppliers) and designers, assemblers and processors of plastics (our customers).

### ***Business Model and Key Concepts***

The central focus of our business model is to provide specialized material and service solutions to our customers by leveraging our global footprint, product and technology breadth, manufacturing expertise, fully integrated information technology network, broad market reach and raw material procurement strength. These resources enable us to capitalize on dynamic changes in the end markets we serve, which include appliances, building and construction materials, electrical and electronics, medical, industrial, packaging, transportation, and wire and cable markets.

### ***Key Challenges***

Overall, our business faces a number of issues resulting from the recent economic downturn, especially as it relates to critically affected markets such as building and construction and transportation. Maintaining profitability during periods of raw material price volatility is another critical challenge. Further, we need to capitalize

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on the opportunity to accelerate development of products that meet a growing body of environmental laws and regulations such as lead and phthalate restrictions included in the RoHS and the Consumer Product Safety Information Act of 2008.

### ***Strategy and Key Trends***

To address these challenges and achieve our vision, we have implemented a strategy with four core components: specialization, globalization, operational excellence and commercial excellence. Specialization differentiates us through products, services, technology, and solutions that add value. Globalization takes us into growth markets to service our customers with consistency wherever their operations might be. Operational excellence empowers us to respond to the voice of the customer while focusing on continuous improvement. Commercial excellence enables us to deliver value to customers by supporting their growth and profitability.

In the short term, we will maintain our focus on top-line growth, improving or maintaining the cost/price relationship with regard to raw materials and improving working capital efficiency. In addition to driving top-line growth, we have established margin improvement targets for all businesses. In 2010, most of our capital expenditures will be focused on maintenance spending and supporting growth in top-line sales. We will also consider smaller, bolt-on strategic acquisitions and other synergy opportunities that complement our core platforms. These actions will ensure that we continue to invest in capabilities that advance the pace of our transformation but do not adversely impact our liquidity.

We will continue our enterprise-wide Lean Six Sigma program directed at improving profitability and cash flow by applying proven management techniques and strategies to key areas of the business, such as pricing, supply chain and operations management, productivity and quality.

Long-term trends that currently provide opportunities to leverage our strategy include the drive toward sustainability in polymers and their processing, the emergence of biodegradable and bio-based polymers, consumer concern over the use of bisphenol-A (BPA) in infant-care products and developing legislation that bans lead and certain phthalates from toys and child-care items.

### ***Recent Developments***

#### **Acquisition of New England Urethane**

On December 23, 2009, we acquired substantially all of the assets of New England Urethane, Inc. (NEU), a specialty healthcare engineered materials provider for a cash purchase price of \$11.5 million paid at close and an earnout of up to \$0.5 million payable in 2011, resulting in goodwill of \$4.5 million and \$5.9 million of identifiable intangible assets. NEU had sales of \$7.7 million for the year ended December 31, 2008. Our purchase price allocation is preliminary as of December 31, 2009.

#### **Sale of Columbian Joint Venture Interest**

On October 13, 2009, we sold our investment in Geon Polimeros Andinos (GPA), previously a 50% owned equity affiliate and part of the Performance Products and Solutions operating segment, to Mexichem Compuestos, S.A. de C.V. We received cash proceeds of \$13.5 million and recorded a pre-tax gain of \$2.8 million in our fourth quarter 2009 results of operations.

#### **Pension plan changes**

On January 15, 2009, we adopted amendments to the Geon Pension Plan (Geon Plan), the Benefit Restoration Plan (BRP), the voluntary retirement savings plan (RSP) and the Supplemental Retirement Benefit Plan (SRP). Effective March 20, 2009, the amendments to the Geon Plan and the BRP permanently froze future benefit accruals and provide that participants will not receive credit under the Geon Plan or the BRP for any eligible earnings paid on or after that date. Additionally, certain benefits provided under the RSP and SRP were eliminated after March 20, 2009. These actions resulted in a reduction of our 2009 annual benefit expense of \$3.7 million and are expected to reduce our future pension fund contribution requirements by approximately \$20 million.

On September 1, 2009, we adopted changes to our post-retirement healthcare plan whereby, effective January 1, 2010, the plan, for certain eligible retirees, was discontinued, and benefits will be phased out through December 31, 2012. As a result of the plan change, our liability for post-retirement healthcare was reduced by \$58.1 million.

## Highlights and Executive Summary

### *Selected Financial Data*

(In millions)	2009	2008	2007
Sales	\$ 2,060.7	\$ 2,738.7	\$ 2,642.7
Operating income (loss)	\$ 98.4	\$ (129.3)	\$ 33.9
Net income (loss)	\$ 67.8	\$ (272.9)	\$ 11.4
Cash and cash equivalents	\$ 222.7	\$ 44.3	\$ 79.4
Accounts receivable availability	112.8	121.4	151.2
Liquidity	\$ 335.5	\$ 165.7	\$ 230.6
Debt, short- and long-term	\$ 409.6	\$ 434.3	\$ 336.7

### *2009 vs. 2008*

The decrease in sales was primarily attributable to a 21.6% decline in volume in 2009 as compared to 2008, reflecting the adverse impact of the global recession on demand levels across all end markets. Particularly hardest hit were the transportation and building and construction end markets. Additionally, changes in currency exchange rates had a negative impact on sales of approximately 3% in 2009.

The improvement in operating income for 2009 reflects the favorable impact of higher margin business gains, lower raw material costs, the realization of restructuring savings, and an incremental benefit from LIFO related to the significant inventory reduction in

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the United States. These factors more than offset the impact of the decrease in volumes and the negative impact of changes in currency exchange rates in 2009. Operating income in 2009 also included gains of \$21.9 million associated with the curtailment of certain of our employee benefit plans, \$23.9 million related to the reimbursement of previously incurred environmental costs and a \$2.8 million gain associated with the sale of our interest in a previously 50% owned equity affiliate, GPA. We recognized charges of \$27.2 million related to restructuring and employee separation in 2009 as compared to \$39.7 million in 2008. Our operating income was also negatively impacted by a \$170.0 million goodwill impairment charge in 2008, and a subsequent \$5.0 million charge to finalize this preliminary estimate in the first quarter of 2009. Changes in currency exchange rates unfavorably impacted operating income by \$5.2 million in 2009 as compared to 2008, driven primarily by changes in the U.S. dollar versus the Euro and Canadian dollar.

The increase in net income in 2009 as compared to 2008 was primarily due to the items discussed in the paragraph above. Additionally, net interest expense was lower in 2009 than in the prior year primarily due to lower average interest rates on our variable rate debt and a lower average debt balance. Income tax benefit was \$13.3 million in 2009 as compared to expense of \$101.8 million in 2008 as the 2008 amount reflects a \$105.9 million charge to record a tax valuation allowance.

Since December 31, 2008, our liquidity increased by \$169.8 million to \$335.5 million as the increase in our cash balance has more than offset the decrease in our borrowing capacity under the accounts receivable facility. The increase in cash and cash equivalents of \$178.4 million was primarily the result of improved earnings coupled with substantially lower working capital investment at December 31, 2009 as compared to December 31, 2008. Our cash balance was favorably impacted by the \$23.9 million reimbursement of previously incurred environmental costs and \$13.5 million of proceeds associated with the sale of our interest in GPA. These items more than offset the impact of \$17.2 million of pension contributions, \$31.3 million of payments in 2009 for our previously announced restructuring activities, the payment of \$11.5 million related to the acquisition of NEU, the repayment of \$20.0 million aggregate principal amount of our 6.91% medium-term notes and a reduction in short-term debt of \$5.7 million.

***2008 vs. 2007***

The acquisition of GLS in January of 2008, the favorable impact from foreign exchange and higher prices driven by an improved sales mix and the result of offsetting rising raw material and energy costs helped counterbalance the adverse impact of lower volume driven by a significant slowing in global economic activity in the late third quarter and the fourth quarter of 2008. This downturn in economic activity and the underlying financial credit crisis that precipitated it had a significant negative impact on our businesses, particularly the Performance Products and Solutions segment. The International Color and Engineered Materials business, while benefiting from favorable foreign exchange rates, saw demand contract in the third quarter and then more dramatically in the fourth quarter of 2008 as the economies in Europe and Asia slowed and declining exports from Asia offset any sales increase during the prior quarters in 2008.

Operating income declined due to a \$170 million goodwill impairment charge taken in the fourth quarter of 2008, \$39.7 million of restructuring charges, and year-over-year declines in Performance Products and Solutions and International Color and Engineered Materials segment operating income. The acquisition of GLS, margin and mix improvements and the impact from foreign exchange were favorable items that partially offset the overall decrease.

The decline in net income was due to the items described previously and the recording of a \$105.9 million tax valuation allowance.

Liquidity declined \$64.9 million due to a lower available pool of receivables to sell and a year-over-year decline in cash and cash equivalents driven by a higher investment in working capital, pension funding, and lower dividends

from our equity affiliates due primarily to the divestiture of our ownership stake in OxyVinyls. The increase in total debt resulted from the financing activities necessary to support the acquisition of GLS.

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**Results of Operations**

(Dollars in millions, except per share data)	2009	2008	2007	Variances Favorable (Unfavorable)		
				2009 versus 2008	2008 versus 2007	2007 versus 2006
				Change	Change	Change
					%	%
Sales	\$ 2,060.7	\$ 2,738.7	\$ 2,642.7	\$ (678.0)	(24.8)%	\$ 96.0