POLYONE CORP
Form 10-K/A
November 30, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
(Amendment No. 1)

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2005

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

Commission file number 1-16091
POLYONE CORPORATION
(Exact name of registrant as specified in its charter)

OHIO	**34-1730488**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
33587 Walker Road, Avon Lake, Ohio	**44012**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **(440) 930-1000**
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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 þ No o

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

The aggregate market value of the registrant s outstanding voting common stock held by non-affiliates on June 30, 2005, determined using a per share closing price on that date of $6.62, as quoted on the New York Stock Exchange, was $469,571,000.

The number of shares of common stock outstanding as of March 13, 2006 was 92,204,460.

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 to be filed on or about March 30, 2006 with respect to the 2006 Annual Meeting of Shareholders.

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EXPLANATORY NOTE

We are filing this Form 10-K/A Amendment No. 1 (this Amendment) to amend and restate certain segment reporting and disclosure items and the financial statements that were included in our original Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K).

These changes are being made to (1) reflect an increase in the number of our operating and reportable segments in response to comments from the Staff of the Securities and Exchange Commission in the course of its review of our 2005 Form 10-K and (2) reflect a noncash goodwill impairment charge in 2003 that resulted from this increase in the number of our segments.

We re-evaluated our operating segments and reportable segments under Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131), and, as a result, we increased them from three operating and reportable segments (Performance Plastics, PolyOne Distribution, and Resin and Intermediates) to eight operating and six reportable segments. Our new reportable segments are Vinyl Compounds, Specialty Resins, North American Color and Additives, International Color and Engineered Materials, PolyOne Distribution, and Resin and Intermediates, as well as an All Other segment. All Other consists of our North American Engineered Materials and Polymer Coating Systems operating segments, neither of which meets the quantitative thresholds that would require separate disclosure as a reportable segment.

The changes in our operating and reportable segments had the related effect of increasing the number of our reporting units for the purpose of assessing goodwill impairment under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). Under our previous segment reporting, we had three reporting units. We now consider each of our eight operating segments to be an individual reporting unit.

As a result of this change in our reporting units, we reassessed goodwill impairment of the new reporting units as of December 31, 2003 (the effective date that our operating segments changed), and again as of July 1, 2004 and July 1, 2005. Under SFAS No. 142, goodwill of each reporting unit must be reviewed for impairment on at least an annual basis. The evaluations for 2004 and 2005 were performed as of July 1 of each year because we had previously chosen July 1 as our annual goodwill impairment testing date. In addition to this annual review, we must review goodwill for impairment whenever events or changes in circumstances indicate that the carrying value of a reporting unit may be greater than its fair value. These impairment reviews resulted in a noncash pre-tax and after-tax (after consideration of a tax valuation allowance) goodwill impairment charge of $28.3 million, or $0.31 per diluted share, for the year ended December 31, 2003, which reduced goodwill and shareholders equity by $28.3 million. The 2004 and 2005 annual impairment tests did not result in any further goodwill impairment.

As a result of this charge in 2003, we had goodwill of $305.7 million and total shareholders equity of $338.5 million at December 31, 2003, compared to goodwill of $334.0 million and total shareholders equity of $366.8 million as originally reported. For the year ended December 31, 2003, the operating loss was $43.2 million, the loss before income taxes and discontinued operations was $122.2 million, the loss before discontinued operations was $134.7 million and the net loss was $279.4 million, compared to an operating loss of $14.9 million, a loss before income taxes and discontinued operations of $93.9 million, a loss before discontinued operations of $106.4 million and a net loss of $251.1 million as originally reported. The loss per basic and diluted common share was $1.48 before discontinued operations as compared to a loss of $1.17 as originally reported, and the loss per basic and diluted common share was $3.07 as compared to a loss of $2.76 as originally reported.

As of December 31, 2004, we had goodwill of $292.7 million and total shareholders equity of $352.1 million, compared to goodwill of $321.0 million and total shareholders equity of $380.4 million as originally reported. As of December 31, 2005, we had goodwill of $287.0 million and total shareholders equity of $387.4 million, compared to goodwill of $315.3 million and total shareholders equity of $415.7 million as originally reported.

We also determined that a control deficiency regarding how we determined our operating and reportable segments under SFAS No. 131 and, and as a result, our reporting units under SFAS No. 142, gave rise to these restatements, and that this constituted a material weakness in our internal control over financial reporting. Accordingly, we have re-evaluated our disclosure controls and procedures and management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 in light of this material weakness. We have fully remediated

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this material weakness as of the date of this Amendment. See Item 9A Controls and Procedures in Part II of this Amendment for additional information.

For the convenience of the reader, this Amendment sets forth the entire 2005 Form 10-K. However, this Amendment amends and restates only Items 1 and 2 of Part I and Items 6, 7, 8 and 9A of Part II of the 2005 Form 10-K. The other Items are not being amended. Except as described in this Explanatory Note, this Amendment does not modify or update the disclosures in our 2005 Form 10-K. Therefore, this Amendment does not reflect any other events that occurred after the original March 15, 2006 filing date of the 2005 Form 10-K.

Forward-looking statements in this Amendment have also not been updated from the 2005 Form 10-K that we filed on March 15, 2006. For updated information, please see the reports that we have filed with the SEC for subsequent periods.

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ITEM 1. BUSINESS

Business Overview

PolyOne Corporation is a leading global provider of specialized polymer materials, services and solutions with operations in thermoplastic compounds, specialty polyvinyl chloride (PVC) vinyl resins, specialty polymer formulations, color and additive systems, and thermoplastic resin distribution, with equity investments in manufacturers of PVC resin and its intermediates. When used in this report, the terms we, us, our and the Company mean PolyOne Corporation and its subsidiaries.

We are incorporated in Ohio and our headquarters are in Avon Lake, Ohio. We employ approximately 4,500 people and have 53 manufacturing sites and 14 warehouses in North America, Europe, Asia and Australia, and joint ventures in North America and South America. We sell more than 35,000 different specialty and commodity products to over 10,000 customers in 35 countries. In 2005, we had sales of $2.5 billion, 21% of which were to customers outside North America.

We provide value to our customers through our ability to link our knowledge of polymers and formulation technology with our manufacturing and supply chain 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 global reach and product platforms, low-cost manufacturing operations, a fully integrated information technology network, broad market knowledge and raw material procurement leverage. Our end markets are primarily in the automotive, building materials, durable goods, packaging, business equipment 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 go 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 shed its historic mining and shipping businesses to focus on polymers. Hanna purchased its first polymer company in 1986 and completed its 26th polymer company acquisition in 2000.

Recent Developments

Sale of businesses and discontinued operations

As of December 31, 2003, our Engineered Films and Specialty Resins operating segments qualified for accounting treatment as discontinued operations.

In September 2005, we announced that we had signed a letter of intent to sell our Engineered Films business. On February 15, 2006, we sold 82% of our Engineered Films business, retaining an 18% ownership interest. All historical financial information for the Engineered Films business has been accounted for as a discontinued operation.

In December 2005, we announced that the Specialty Resins divestment process was unlikely to result in a sale of the business at acceptable terms. As a result, its financial results have been reclassified from discontinued operations to continuing operations for all historic periods presented as of December 31, 2005.

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Unless otherwise noted, disclosures contained in this report relate to continuing operations. For more information about our discontinued operations, see Note C to the Consolidated Financial Statements.

Purchase of businesses

In January 2005, we completed the purchase of the remaining 16% of equity ownership in Star Color, a color additives manufacturing subsidiary in Thailand, for $1.6 million. This business is included in the International Color and Engineered Materials segment.

In May 2005, we purchased equipment, compounding recipes and a customer list from Novatec Plastics Corporation, a compounding business owned by PVC Container Corporation, for $1.1 million. These assets are included in the Vinyl Compounds segment and are used to serve our customers in the custom profile and custom molding markets.

Executive management changes

In October 2005, Thomas A. Waltermire resigned as our president and chief executive officer, and as a director. William F. Patient, non-executive chairman of the board, served as interim chief executive officer until a permanent successor was named.

In January 2006, V. Lance Mitchell, group vice president and general manager of North American Color and Additives and North American Engineered Materials, resigned to accept a position with another company. Robert Bindner, director of sales for North American Color and Additives, is filling this position until a permanent successor is selected. Mr. Bindner will continue to handle his current duties in the interim.

In February 2006, Stephen D. Newlin joined the company as chairman, president and chief executive officer. He was president of the Industrial Sector of Ecolab, Inc. from 2003 to 2006, and prior to that was president and a director with Nalco Chemical Company from 1998 to 2001 and served as chief operating officer and vice-chairman from 2000 to 2001.

Restructuring initiatives and facility closures

In November 2005, we announced that we would close our Manchester, England plastic color additives facility to reduce costs and align capacity with market demand. Production is being phased out while business with key customers is either being transitioned to other PolyOne facilities or customers secure alternative sources for products. The facility had 44 employees. We expect that the process will be completed by the end of the first quarter of 2006.

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 also tend to move in tandem with costs, and with supply and demand. Through our equity interests in Oxy Vinyls, LP (OxyVinyls) and SunBelt Chlor-Alkali

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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 is 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, transportation, furniture and furnishings, consumer durables, institutional products, electrical, 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 product. 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 transportation industry, plastic has proved to be durable, lightweight and corrosion resistant while offering fuel savings, design flexibility and high performance.

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 ranging from automobile parts to construction materials. Plastic compounds offer relatively low cost, reduced weight and comparatively better performance. Plastics have a reputation for durability, aesthetics, ease of handling and recyclability.

PolyOne Segments

We operate within six reportable segments: Vinyl Compounds, Specialty Resins, North American Color and Additives, International Color and Engineered Materials, PolyOne Distribution, and Resin and Intermediates. Additionally, we have an All Other segment that includes our North American Engineered Materials and Polymer Coating Systems operating segments. For more information about our segments, see Note S to the Consolidated Financial Statements, which is incorporated by reference.

Vinyl Compounds:

Our Vinyl Compounds operating segment is a global leader offering an extensive array of products and services for vinyl molding and extrusion processors. Our product offerings include rigid, flexible and dry blend vinyl compounds. We also offer a wide range of polymer services to meet the ever changing needs of our multi-market customer base. These services include materials testing and component analysis, color management, custom compound development, colorant and additive services, design assistance, structural analyses, process simulations, extruder screw design and specialty products.

Vinyl is one of the most widely used plastics, utilized in a wide range of applications in building and construction, wire and cable, consumer and recreation markets, automotive, packaging and healthcare. Vinyl resin can be combined with a broad range of additives, resulting in performance versatility, particularly when fire resistance, chemical resistance or weatherability is required. We are structured to

meet the stringent quality, service and innovation requirements of this diverse and highly competitive marketplace.
Our Vinyl Compounds segment had sales to external customers of $653.8 million, operating income of $36.0 million and total assets of $369.2 million in 2005.

Specialty Resins:

PolyOne s Specialty Resins operating segment provides industry-leading dispersion, blending, and specialty suspension grade vinyl resins to a wide variety of manufacturers of predominately consumer-oriented products. Our resins are designed to specific customer requirements and used in markets such as coatings, resilient flooring, carpeting, automotive interiors, coated fabrics, graphics, inks and various other industrial and construction applications. Our specialty resins are also used to formulate vinyl compounds in a liquid form and are intended for flexible product applications or coatings, and can be customized to specific end-use applications. Our specialty resins are one of the primary raw materials used by our Polymer Coatings Systems operating segment.

Approximately 13% of our specialty vinyl resins are used in our Polymer Coating Systems products as one of the primary raw materials.

Our Specialty Resins segment had sales to external customers of $136.6 million, operating income of $23.8 million and total assets of $69.5 million in 2005.

North American Color and Additives:

Our North American Color and Additives operating segment is a leading provider of specialized colorants and additive concentrates that offer an innovative array of colors, special effects and performance-enhancing 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 vast array of specialized colors and effects 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 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 types of plastics manufacturing processes, including injection molding, extrusion, sheet, film, rotational molding and blow molding throughout the plastics industry, particularly in outdoor decking, packaging, automotive, consumer, pipe, and wire and cable. They are also incorporated into such end-use products as stadium seating, toys, housewares, vinyl siding, pipe, food packaging and medical packaging.

Our North American Color and Additives segment had sales to external customers of $249.7 million, an operating loss of $9.5 million and total assets of $118.3 million in 2005.

International Color and Engineered Materials:

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

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

Our International Color and Engineered Materials segment had sales to external customers of $473.2 million, operating income of $16.2 million and total assets of $334.2 million in 2005.

PolyOne Distribution:

Our PolyOne Distribution operating segment distributes more than 3,500 grades of engineering and commodity grade resins including PolyOne-produced compounds to the North American market. These products are sold to over 5,000 custom injection molders and extruders who, in turn, convert them into plastic parts that are sold to end-users in a wide range of industries. Representing 20 major suppliers, we offer our customers a broad product portfolio, just-in-time delivery from 24 stocking locations, and local technical support.

Our PolyOne Distribution segment had sales to external customers of $672.0 million, operating income of $19.5 million and total assets of $178.8 million in 2005.

Resin and Intermediates:

We report the results of our Resin and Intermediates segment on the equity method. This segment consists almost entirely of our 24% equity interest in OxyVinyls and our 50% equity interest in SunBelt. OxyVinyls, a producer of PVC resins, vinyl chloride monomer (VCM), and chloride and caustic soda, is a partnership with Occidental Chemical Corporation and is our principal supplier of PVC resin. SunBelt, a producer of chlorine and caustic soda, is a partnership with Olin Corporation. OxyVinyls is North America s second largest and the world s third largest producer of PVC resin. In 2005, OxyVinyls had production capacity of approximately 4.3 billion pounds of PVC resin, 6.2 billion pounds of VCM, which is an intermediate chemical in the production of PVC, 580 thousand tons of chlorine and 667 thousand tons of caustic soda. The 6.2 billion pounds of VCM capacity includes approximately 2.4 billion pounds owned by OxyMar, a partnership that is 50% owned by OxyVinyls. In 2005, SunBelt had production capacity of approximately 290 thousand tons of chlorine and 320 thousand tons of caustic soda. Most of the chlorine manufactured by OxyVinyls and SunBelt is consumed by OxyVinyls to produce PVC resin. Caustic soda is sold on the merchant market to customers in the pulp and paper, chemical, construction and consumer products industries.

In addition to providing us with a secure and high-quality supply of PVC resin, our Resin and Intermediates segment provides us with backward integration through our ownership position and contractual arrangements. First, our purchases of PVC resin and VCM from OxyVinyls are at competitive prices based on long-term supply contracts. The PVC resin is used to make our vinyl compounds, and the VCM is used to make our specialty resins. Second, our equity investment in OxyVinyls provides a hedge against a portion of raw material price increases to the extent that OxyVinyls can pass on increased raw material costs to its other customers. Finally, our equity position in chlorine and caustic soda through OxyVinyls and SunBelt provides economic integration to the chlorine chain.

Our Resin and Intermediates segment had operating income of $90.9 million and total assets of $259.9 in 2005. We also received $67.4 million of cash from dividends, distributions and returns on capital from all of our Resin and Intermediates segment equity affiliates.

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All Other:

Our All Other segment includes our North American Engineered Materials and Polymer Coating Systems operating segments.

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

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

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

Our All Other segment had sales to external customers of $265.3 million, operating income of $2.9 million and total assets of $232.3 million in 2005.

Competition

The production of compounded plastics and the manufacture of custom and proprietary formulated color and additives systems for the plastics industry is highly competitive. Competition is based on price, delivery, service, performance, product innovation, product recognition and quality. 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 small independent custom compounders whose focus is a specific market niche.

The distribution of polymer resin is also highly competitive. Price, delivery, service, product recognition and quality are the principal factors affecting competition. In less-than-truckload thermoplastic resin and compound distribution, we believe that we are the second largest independent thermoplastic resin distributor in North America. We compete against Ashland Distribution, a division of Ashland Inc., the largest independent resin distributor in North America, along with other smaller regional distributors. Growth in the thermoplastic resin and compound distribution market correlates directly with growth in the market for base polymer resins.

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

Raw Materials

The primary raw materials used by our manufacturing operations are PVC resin, VCM, polyolefin and other thermoplastic resins, plasticizers, inorganic and organic pigments, all of which are in adequate supply. Hurricane-related raw material shortages and supply allocations that occurred in the second half of 2005 impacted our ability to obtain raw materials. Many of our suppliers declared force majeure, causing us to also declare force majeure. However, raw material availability issues were substantially resolved by the end of the year. We have long-term supply contracts with OxyVinyls, under which the majority of our PVC resin and all of our VCM is supplied. These contracts will expire in 2013, although they contain two five-year renewal provisions that are at our option. We believe these contracts should assure the availability of adequate amounts of PVC resin and VCM. We also believe that the pricing under these contracts provides PVC resins and VCM to us at a competitive cost.

Patents and Trademarks

We own and maintain a large number of U.S. and foreign patents and trademarks, which are important because they protect our inventions and product names against infringement by others and, as a result, enhance our position in the marketplace. Patents vary in duration up to 20 years, and trademarks have an indefinite life based upon continued use. While we view our patents and trademarks to be valuable, because of the broad scope of our products and services, 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.

Seasonality and Backlog

Sales of our products and services tend not to be seasonal, though 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 our backlog is a meaningful indicator of the level of our present or future business.

Working Capital Practices

We, along with other companies in our industry, are generally not subject to unusual working capital practices. The nature of our business does not require us to carry significant amounts of inventories to meet rapid delivery requirements of our products or services or assure ourselves of a continuous allotment of goods from suppliers. Our manufacturing processes are generally performed with a short turnaround time, and the scheduling of manufacturing activities from customer orders generally includes enough lead time to assure delivery of adequate supply of raw materials. We do not generally offer extended payment terms to our customers. We generally allow our customers to return merchandise for failure to meet pre-agreed quality standards or specifications; however, we employ quality assurance practices that seek to minimize customer returns.

Significant Customers

None of our customers accounts for more than two percent of our consolidated revenues, and none of our segments is dependent upon a single customer, or a few customers, the loss of which would have a material adverse effect on the segment.

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Research and Development

We have substantial research 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 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 to rapidly translate new technologies into new products.

Our investment in product research and development totaled $16.9 million in 2005, $15.6 million in 2004 and $18.5 million in 2003. In 2006, we expect our product research and development investment to be consistent with prior years levels.

Methods of Distribution

We sell products primarily through direct sales personnel who are supplemented with distributors, including our PolyOne Distribution segment, and through 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 for each of these segments. We also ship some of our manufactured products to customers by railroad cars.

Employees

As of February 17, 2006, we employed approximately 4,500 people. Sixty persons were represented by labor unions under collective bargaining agreements that expire from December 31, 2006 to May 31, 2008, and another 120 persons are currently in negotiations to enter into a collective bargaining agreement. We believe that relations with our employees are good and we do not anticipate significant problems in current negotiations or in renegotiating our collective bargaining agreements as they expire.

Environmental, Health and Safety

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

We maintain a disciplined environmental and occupational safety and health compliance program and conduct periodic internal and external regulatory audits at our facilities to identify and categorize potential environmental exposures, including compliance issues and the actions 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 incurred environmental expense of $0.2 million in 2005, $10.3 million in 2004 and $4.1 million in 2003. Environmental expense is presented net of insurance recoveries of $2.2 million in 2005, $1.8 million in 2004 and $0.1 million in 2003. We expect future environmental remediation expense will be approximately $3 million to $5 million per year.

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With respect to safety, our injury incidence rate was 1.4 in 2005, down from 1.9 in 2004. The average injury incidence rate for our SIC Code (30 Rubber and Miscellaneous Plastic Products) is 8.5. The U.S. Department of Labor defines the incidence rate as the number of injuries per 100 full-time workers per year.

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

A number of foreign countries and domestic communities have enacted, or are considering enacting, laws and regulations concerning the use and disposal of plastic materials. Widespread adoption of these laws and regulations, along with public perception, may have an adverse impact on 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.

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

We also conduct investigations and remediation at several of our active and inactive facilities and have assumed responsibility for the resulting environmental liabilities from operations at sites formerly owned or operated by us or our predecessors. We believe that our potential continuing liability at these sites will not have a material adverse effect on our results of operations or financial position. In addition, we voluntarily initiate corrective and preventive environmental projects at our facilities. Based on current information and estimates prepared by our environmental engineers and consultants, we had reserves on our December 31, 2005 Consolidated Balance Sheet totaling $55.2 million to cover probable future environmental expenditures related to previously contaminated sites. This figure represents management s best estimate of costs for probable remediation, based upon the information and technology currently available and management s view of the most likely remedy.

Depending upon the results of future testing, the ultimate remediation alternatives undertaken, changes in regulations, new information, newly discovered conditions and other factors, it is reasonably possible that we could incur additional costs in excess of the amount accrued at December 31, 2005. Such costs, if any, cannot be currently estimated. Our estimate of the liability may be revised as new regulations or technologies are developed or additional information is obtained.

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 S to the Consolidated Financial Statements, which is incorporated by reference.

Available Information

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

ITEM 1A. RISK FACTORS

The following are certain risk factors that could affect our business, results of operations and financial condition. These risk factors should be considered in connection with evaluating 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. Before you invest in us, you should know that making such an investment involves some risks, including the risks we describe below. The risks that are discussed below are not the only ones we face. If any of the following risks occur, our business, results of operations or financial condition could be negatively affected.

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

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

- end of application life-cycle, model change-over or obsolescence issues due to more cost effective alternative materials;
- changes in the market acceptance of our products and services;
- competition from other polymer and chemical companies;
- declines in the general level of industrial production;
- declines in general economic conditions;
- changes in world or regional plastic or PVC consumption growth rates;
- changes in capacity in the PVC, VCM or chlor-alkali industries;
- changes in environmental regulations that would limit our ability to sell our products and services in specific markets; and
- inability to obtain raw materials due to factors such as weather, supplier work stoppages, or plant outages.

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

Increased raw material and energy costs could reduce our income.

The primary raw material in our manufactured products is PVC resin. The majority of our PVC resin is purchased from our Resin and Intermediates segment equity affiliate, OxyVinyls, under a long-term supply contract. However, the price of PVC resin fluctuates under this contract in tandem with the industry market prices for PVC resin and the prices of raw materials (primarily ethylene, chlorine and natural gas) that are used to manufacture PVC resin. In 2005, the price of natural gas rose significantly and the available supply

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of raw materials was adversely impacted to a lesser degree primarily due to Hurricanes Rita and Katrina. Any increases in the costs of energy will increase our production costs and those of our suppliers. Although we attempt to pass on higher raw material and energy costs to our customers, given our competitive markets, it is often not possible to pass on all of these increased costs in a timely manner.

Our sales and operating results are sensitive to global economic conditions and cyclicality, and could be adversely affected during economic downturns.

General economic conditions and business conditions of our customers industries affect demand for our products. The business of most of our customers, particularly our industrial, automotive, construction and electronics customers, are cyclical to varying degrees and have historically experienced periodic downturns. Political instability, particularly in the Middle East, may lead to financial and economic instability, which could lead to deterioration in general global economic conditions. A downturn in economic conditions could adversely affect the demand for our products and services, which could adversely affect our sales and operating results. In addition, downturns in our customers industries, even during periods of strong general economic conditions, could adversely affect our sales and operating results.

Our participation in joint ventures may adversely affect our results of operations.

We participate in joint ventures both in the United States and Colombia. In some joint ventures, such as SunBelt, we are equal partners with another corporation, while in others, such as OxyVinyls, we hold a minority interest. We may enter into additional joint ventures in the future. The nature of a joint venture requires us to share control with unaffiliated third parties. If our joint venture partners do not fulfill their obligations, the joint venture may not be able to operate according to its business plan. In that case, our results of operations may be adversely affected or we may be required to increase our level of commitment to the joint venture. Also, differences in views among joint venture participants may result in delayed decisions, or failures to agree on major issues could have an adverse effect on our business, results of operations or financial condition.

OxyVinyls and SunBelt are our two largest equity investments. OxyVinyls manufactures PVC resins and chlor-alkali, and SunBelt manufactures chlor-alkali. The earnings of each of these partnerships may be significantly affected by changes in the commodity cycle for hydrocarbon feedstocks and for chlor-alkali products. The principal factors impacting OxyVinyls profitability include the PVC resin spread (which is the PVC resin selling price less the material cost of chlorine and ethylene), caustic soda selling prices, natural gas prices and customer product demand. The principal factors impacting SunBelt s profitability are caustic soda prices, chlorine prices and the cost of electricity. If the profitability of either OxyVinyls or SunBelt is adversely affected, we may receive less cash dividends from that partnership or we may choose to make additional cash contributions to that partnership, which could adversely affect our results of operations.

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

We depend upon integrated information systems to process orders, respond to customer inquiries, manage inventory, purchase, sell and ship goods on a timely basis, maintain cost-efficient operations, prepare financial information and reports, and operate our website. 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 orders to be lost or delayed and could damage our reputation with our customers or cause our customers to cancel orders, which could adversely affect our results of operations.

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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, including, but not limited to:

- explosions, fires, inclement weather and natural disasters;
- mechanical failure;
- unscheduled downtime;
- labor difficulties;
- 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. In addition, individuals could seek damages for alleged personal injury or property damage due to exposure to chemicals at our facilities or to chemicals owned or controlled by us. Furthermore, we are subject to present and future claims with respect to workplace exposure, workers compensation and other matters. Although we maintain property and casualty insurance of the types and in the amounts that we believe are customary for the industry, we are not fully insured against all potential hazards that are incident to our business.

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

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

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

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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 based on operations at sites formerly owned or operated by our predecessors or by us.

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

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

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

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

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

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

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

Our level of indebtedness may adversely affect our business.

As of December 31, 2005, our debt totaled $646.5 million, which is 38% of our total assets. This level of indebtedness could have significant consequences, including:

- we may need to use a significant portion of our cash flow to repay principal and pay interest on our debt, which would reduce the amount of funds that would be available to finance our operations and other business activities;

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- our debt level may make us vulnerable to economic downturns or adverse developments in our businesses and markets; and
- our debt level may limit our ability to pursue other business opportunities, implement our business strategies or borrow money for operations or capital expenditures in the future.

We expect to pay our expenses and pay principal and interest on our debt from cash provided by operating activities. Our ability to meet these payment obligations will depend upon our future financial performance, which could be affected by financial, business, economic and other factors.

We cannot control many of these factors, including economic conditions in the markets in which we operate. We cannot be certain that future cash provided by operating activities would be sufficient to allow us to pay principal and interest on our debt and meet our other obligations. If it is not sufficient, we may be unable to access our revolving credit facility or receivables sale facility as a result of breaching covenants in the agreements that govern our debt. We may also be required to refinance all or part of our existing debt, sell assets, borrow more money or issue additional equity. We cannot be sure that we will be able to do so on commercially reasonable terms or interest rates.

Because our operations are conducted worldwide, they are affected by risks of doing business abroad.

We generate export sales revenue from our operations conducted outside the United States as well as from our U.S. operations. Revenue from foreign operations (principally Canada, Mexico, Europe and Asia) amounted to 33% in 2005, 34% in 2004 and 35% in 2003 of our total revenue during these respective periods. Long-lived assets of our foreign operations represented 24% of our total long-lived assets at December 31, 2005, 2004 and 2003.

Our international operations are subject to risks of doing business abroad, including but not limited to the following:

- fluctuations in currency from devaluation, exchange rates or high inflation;
- transportation delays and interruptions;
- political and economic instability and disruptions;
- expropriation or nationalization of our property;
- risk of loss due to civil strife, acts of war, guerilla activities, insurrection and terrorism;
- restrictions on the transfer of funds or the ability to pay dividends offshore;
- limitations on our ability to invest in local businesses overseas;
- the imposition of duties and tariffs;
- import and export controls;
- changes in governmental policies and regulatory environments;
- labor unrest;
- disadvantages of competing against companies from countries that are not subject to U.S. laws and regulations, including the Foreign Corrupt Practices Act;
- the uncertainty of product acceptance by different cultures;
- the risks of divergent business expectations or cultural incompatibility that is inherent in establishing joint ventures with foreign partners;

difficulties in staffing and managing multi-national operations;

limitations on our ability to enforce legal rights and remedies;

reduced protection of intellectual property rights in some countries;

potentially adverse tax consequences; and

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

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

Other increases in operating costs could affect our profitability.

Scheduled or unscheduled maintenance programs could cause significant production outages, higher costs and/or reduced production capacity at our equity affiliates and suppliers due to the industry in which they operate. The inability to achieve or the delay in achieving the anticipated financial benefits from our cost reduction initiatives and employee productivity goals could also affect our future profitability.

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

As of December 31, 2005, we had goodwill of $287.0 million. We completed the annual impairment review required by SFAS No. 142 as of July 1, 2005 and determined that there was no impairment. However, the occurrence of a potential indicator of impairment, such as a significant adverse change in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key personnel or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed of, would require us to perform another valuation analysis, as required under SFAS No. 142, for some or all of our reporting units prior to the next required annual assessment. These types of events and the resulting analysis could result in additional charges for goodwill, which could adversely impact our results of operations.

Lower investment performance by our pension plan assets may require us to increase our pension liability and expense, which may also lead us to accelerate funding of our pension obligations and divert funds from other potential uses.

Lower investment performance by our pension plan assets or a decline in the stock market could result in an increase in our defined benefit pension plan obligations. We cannot predict whether changing economic conditions or other factors will require us to make contributions in excess of our current expectations, diverting funds that we could apply to other uses. As a result, we may need to modify our capital expenditure plans to meet our obligations. In addition, federal legislation has been proposed that could, if enacted, require us to increase our funding obligations and the premiums that we would pay to the Pension Benefit Guaranty Corporation. The impact of this legislation depends upon the requirements of the legislation, if enacted, and the investment performance of our pension plan assets, and could adversely affect our results of operations, financial position and cash flows.

An inability to collect the remaining balances owed to us from purchasers of our former businesses could affect our financial position.

In the third quarter of 2004, we sold our Elastomers and Performance Additives business, and in February 2006, we sold our Engineered Films business. These transactions included seller financing, where we retained notes receivable for a portion of the purchase price that is owed to us. The ability to collect these funds from the purchasers of these businesses depends upon the future results of operations, financial position and cash flows of the purchasers. The purchasers may not have the funds necessary to repay the principal and interest due to us on these notes when they become due.

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We have some employee benefit plans that are self-insured.

Many of our U.S. employees participate in health care plans that we self-insure. We maintain a stop-loss insurance policy that covers the cost of certain individually large claims under these plans. Actual costs under these plans can be affected by rising medical costs, and are subject to variability depending primarily upon employee enrollment and demographics, the actual number and costs of claims made, and how much the stop-loss insurance we purchase covers the cost of these claims. If our cost estimates differ from actual costs, our results of operations and financial condition could be adversely impacted.

Our business depends upon good relations with our employees.

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

The guarantee of our SunBelt joint venture s debt could result in our having to pay the outstanding principal and interest if SunBelt cannot make these payments when due.

We guaranteed $73.1 million of SunBelt s outstanding senior secured notes at December 31, 2005 in connection with the construction of a chlor-alkali facility. These notes mature in 2017. If SunBelt is unable to make the future payments required on this debt as they come due, it could result in our having to make those payments on SunBelt s behalf, which could adversely impact our financial condition.

The value of our intangible assets depends upon realizing future cash flows.

Our intangible assets are primarily non-contractual customer relationships, sales contracts, patents and technology. The carrying value of each of these assets is reduced, if necessary, to its estimated net future cash flows at the end of each year, or more often if an indicator of impairment exists. There is no assurance that the future expected cash flows will be realized, which could negatively affect the carrying value or recoverability of these assets.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

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ITEM 2. PROPERTIES

As of December 31, 2005, we operated facilities in the United States and internationally. We own substantially all of our facilities. During 2005, we made effective use of our productive capacity at our principal facilities. We believe that the quality and productive capacity of our facilities is sufficient to maintain our competitive position for the foreseeable future. Following are the principal facilities of our segments:

Continuing Operations

Vinyl Compounds

Long Beach, California
Terre Haute, Indiana
Louisville, Kentucky
Plaquemine, Louisiana
Avon Lake, Ohio
Pasadena, Texas
Niagara Falls, Ontario, Canada
Orangeville, Ontario, Canada
St. Remi de Napierville, Quebec, Canada
Cartagena, Colombia (joint venture)

International Color and Engineered Materials

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

North American Engineered Materials

Broadview Heights, Ohio
Macedonia, Ohio
Dyersburg, Tennessee
Valleyfield, Quebec, Canada
Clinton, Tennessee (joint venture)

Polymer Coating Systems

Los Angeles, California
Kennesaw, Georgia
St. Louis, Missouri
Sullivan, Missouri
Massillon, Ohio
North Baltimore, Ohio
Sussex, Wisconsin
Melbourne, Australia

Bolton, England
Shenzhen, China
Dartford, England
Hyde, England
Widnes, England

Specialty Resins

Henry, Illinois
Pedricktown, New Jersey

North American Color and Additives

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

PolyOne Distribution Facilities

Lemont, Illinois
Ayer, Massachusetts
Massillon, Ohio
Rancho Cucamonga, California
Statesville, North Carolina
Denver, Colorado
Chesterfield Township, Michigan
Eagan, Minnesota
Hazelwood, Missouri
Grand Prairie, Texas
Mississauga, Ontario, Canada

Resin and Intermediates Facilities

OxyVinyls joint venture	various locations in North America
SunBelt joint venture	McIntosh, Alabama

Discontinued operations

Engineered Films Facilities

Lebanon, Pennsylvania
Winchester, Virginia

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ITEM 3. LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2005.

EXECUTIVE OFFICERS OF THE COMPANY

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

The following table lists information, as of March 1, 2006, about each executive officer of our company, including his or her position with us as of that date and other positions held by him or her for at least the past five years. Executive officers are elected by our Board of Directors to serve one-year terms.

Stephen D. Newlin

Age: 53

Chairman, President and Chief Executive Officer, February 21, 2006 to date. President Industrial Sector of Ecolab Inc. (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 (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 Board of Directors of Black Hills Corp. (NYSE: BKH).

Michael L. Rademacher

Age: 55

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

Robert M. Rosenau

Age: 51

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

Wendy C. Shiba

Age: 55

Chief Legal Officer, November 2001 to date, and Vice President and Secretary, December 2001 to date. Vice President, Bowater Incorporated (pulp and paper), 1997 to November 2001, and Secretary and Assistant General Counsel, 1993 to November 2001.

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Kenneth M. Smith
Age: 51
Chief Human Resources Officer, January 2003 to date, and Vice President and Chief Information Officer, September 2000 to date. Vice President, Information Technology, The Geon Company, May 1999 to August 2000, and Chief Information Officer, August 1997 to May 1999.
W. David Wilson
Age: 52
Vice President and Chief Financial Officer, September 2000 to date. Vice President and Chief Financial Officer, The Geon Company, May 1997 to August 2000.

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PART II

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

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

	2005 Quarters				2004 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Common stock price:								
High	$6.57	$7.73	$9.40	$10.25	$9.70	$7.70	$7.55	$7.13
Low	$5.31	$5.75	$6.00	$ 8.05	$7.00	$6.22	$6.30	$5.28

As of March 13, 2006, there were 2,926 holders of record of our common stock.

Effective with the first quarter of 2003, we suspended payment of our quarterly dividend. Future declarations of dividends on common stock are at the discretion of the Board of Directors, and the declaration of any dividends will depend upon, among other things, earnings, capital requirements and our company s financial condition. The Board of Directors does not anticipate paying any dividends on common stock in the foreseeable future. Additionally, the indenture governing our 10.625% senior notes due in 2010 and the agreements that govern our revolving credit and receivables sale facilities contain restrictions that limit our ability to pay dividends.

ITEM 6. SELECTED FINANCIAL DATA

(In millions, except per share data)	2005 (restated)	2004 (restated)	2003 (restated)	2002	2001
Sales	$2,450.6	$2,267.7	$2,048.1	$1,981.1	$2,019.3
Operating income (loss)	$ 140.3	$ 128.4	$ (43.2)	$ 13.7	$ (43.3)
Income (loss) before discontinued operations and change in accounting	$ 62.2	$ 27.6	$ (134.7)	$ (18.9)	$ (55.5)
Discontinued operations	(15.3)	(4.1)	(144.7)	13.7	9.4
Change in method of accounting				(53.7)	
Net income (loss)	$ 46.9	$ 23.5	$ (279.4)	$ (58.9)	$ (46.1)
Basic and diluted earnings (loss) per share:				&nb	