POLYONE CORP
Form DEF 14A
March 21, 2007

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant þ

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Check the appropriate box:

o Preliminary Proxy Statement
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POLYONE CORPORATION
(Name of Registrant as Specified In Its Certificate)

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POLYONE CORPORATION

Notice of 2007
Annual Meeting of Shareholders
and Proxy Statement

POLYONE CORPORATION

**NOTICE OF ANNUAL MEETING
OF SHAREHOLDERS**

The Annual Meeting of Shareholders of PolyOne Corporation will be held at The Forum Conference and Education Center, 1375 E. Ninth Street, Cleveland, Ohio at 9:00 a.m. on Thursday, May 10, 2007. The purposes of the meeting are:

1. To elect Directors;

2. To ratify the appointment of Ernst & Young LLP as PolyOne Corporation s independent registered public accounting firm for the fiscal year ending December 31, 2007; and

3. To consider and transact any other business that may properly come before the meeting.

Shareholders of record at the close of business on March 12, 2007 are entitled to notice of and to vote at the meeting.

For the Board of Directors

Wendy C. Shiba
Senior Vice President, Chief Legal
Officer and Secretary

March 21, 2007

POLYONE CORPORATION
PolyOne Center
33587 Walker Road
Avon Lake, Ohio 44012

PROXY STATEMENT
Dated March 21, 2007

Our Board of Directors respectfully requests your proxy for use at the Annual Meeting of Shareholders to be held at The Forum Conference and Education Center, 1375 E. Ninth Street, Cleveland, Ohio at 9:00 a.m. on Thursday, May 10, 2007, and at any adjournments of that meeting. This proxy statement is to inform you about the matters to be acted upon at the meeting.

If you attend the meeting, you may vote your shares by ballot. If you do not attend, your shares may still be voted at the meeting if you sign and return the enclosed proxy card. Common shares represented by a properly signed card will be voted in accordance with the choices marked on the card. If no choices are marked, the shares will be voted to elect the nominees listed on pages 3 through 4 of this proxy statement and to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2007. You may revoke your proxy before it is voted by giving notice to us in writing or orally at the meeting. Persons entitled to direct the vote of shares held by the following plans will receive a separate voting instruction card: The PolyOne Retirement Savings Plan, DH Compounding Company Savings and Retirement Plan and Trust and PolyOne Canada Inc. Retirement Plan. If you receive a separate voting instruction card for one of these plans, you must sign and return the card as indicated on the card in order to instruct the trustee on how to vote the shares held under the plan. You may revoke your voting instruction card before the trustee votes the shares held by it by giving notice in writing to the trustee.

Shareholders may also submit their proxies by telephone or over the Internet. The telephone and Internet voting procedures are designed to authenticate votes cast by use of a personal identification number. These procedures allow shareholders to appoint a proxy to vote their shares and to confirm that their instructions have been properly recorded. Instructions for voting by telephone and over the Internet are printed on the proxy cards.

We are mailing this proxy statement and the enclosed proxy card and, if applicable, the voting instruction card, to shareholders on or about March 26, 2007. Our headquarters are located at PolyOne Center, 33587 Walker Road, Avon Lake, Ohio 44012 and our telephone number is (440) 930-1000.

PROPOSAL 1 ELECTION OF DIRECTORS

Our Board of Directors currently consists of ten Directors. Each Director serves for a one-year term and until a successor is duly elected and qualified, subject to the Director s earlier death, retirement or resignation. Our Corporate Governance Guidelines provide that all non-employee Directors will retire from the Board not later than the first Annual Meeting of Shareholders following the Director s 70th birthday. In accordance with these Guidelines, Mr. Embry will retire from the Board at the 2007 Annual Meeting of Shareholders. Following Mr. Embry s retirement, our Board will consist of nine Directors.

A shareholder who wishes to suggest a Director candidate for consideration by the Compensation and Governance Committee must provide written notice to our Secretary in accordance with the procedures specified in Regulation 12 of our Regulations. Generally, the Secretary must receive the notice not less than 60 nor more than 90 days prior to the first anniversary of the date on which we first mailed our proxy materials for the preceding year s annual meeting. The notice must set forth, as to each nominee, the name, age, principal occupations and employment during the past five years, name and principal business of any corporation or other organization in which such occupations and employment were carried on, and a brief description of any arrangement or understanding between such person and any others pursuant to which such person was selected as a nominee. The notice must include the nominee s signed consent to serve as a Director if elected. The notice must set forth the name and address of, and the number of our common shares owned by, the shareholder giving the notice and the beneficial owner on whose behalf the nomination is made and any other shareholders believed to be supporting such nominee.

Following are the nominees for election as Directors for terms expiring in 2008 and a description of the business experience of each nominee. Each of the nominees is a current member of the Board. The reference below each Director s name to the term of service as a Director includes the period during which the Director served as a Director of The Geon Company (Geon) or M.A. Hanna Company (M.A. Hanna), each one of our predecessors. The information is current as of March 21, 2007.

J. Douglas Campbell Director since 1993 Age 65	Retired Chairman and Chief Executive Officer of ArrMaz Custom Chemicals, Inc., a specialty mining and asphalt additives and reagents producer. Mr. Campbell served in this capacity from December 2003 until the company was sold in July 2006. Mr. Campbell served as President and Chief Executive Officer and was a Director of Arcadian Corporation, a nitrogen chemicals and fertilizer manufacturer, from December 1992 until the company was sold in 1997.
Carol A. Cartwright Director since 1994 Age 65	Retired President of Kent State University, a public higher education institution. Ms. Cartwright served in this capacity from 1991 until her retirement in July 2006. Ms. Cartwright serves on the Boards of Directors of KeyCorp, FirstEnergy and The Davey Tree Expert Company.
Gale Duff-Bloom Director since 1994 Age 67	Retired President of Company Communications and Corporate Image of J.C. Penney Company, Inc., a major retailer. Ms. Duff-Bloom served in this capacity from June 1999 until her retirement in April 2000. From 1996-June 1999, Ms. Duff-Bloom served as President of Marketing and Company Communications of J.C. Penney.

Richard H. Fearon Director since 2004 Age 51	Executive Vice President, Chief Financial and Planning Officer of Eaton Corporation, a global manufacturing company, since April 2002. Mr. Fearon served as a Partner of Willow Place Partners LLC from 2001-2002 and was the Senior Vice President Corporate Development for Transamerica Corporation from 1995-2000.
Robert A. Garda Director since 1998 Age 68	Retired Director of McKinsey & Company, Inc., a management consulting firm. Mr. Garda served in this capacity from 1978-1994. He served as an Executive-in-Residence of The Fuqua School of Business, Duke University, from 1997-2005, as an independent consultant from 1995-1997 and as President and Chief Executive Officer of Aladdin Industries from 1994-1995. Mr. Garda serves on the Boards of Directors of Edge Seal Technologies and Ryan Herco Flow Solutions.
Gordon D. Harnett Director since 1997 Age 64	Retired Chairman, President and Chief Executive Officer of Brush Engineered Materials Inc., an international supplier and producer of high performance engineered materials. Mr. Harnett served in this capacity from 1991 until his retirement in May 2006. Mr. Harnett serves on the Boards of Directors of The Lubrizol Corporation and EnPro Industries, Inc.
Edward J. Mooney Director since 2006 Age 65	Retired Chairman and Chief Executive Officer of Nalco Chemical Company, a specialty chemicals company. Mr. Mooney served in this capacity from 1994-2000. Mr. Mooney also served as Déléqué Général North America, of Suez Lyonnaise des Eaux from 2000-2001, following its acquisition of Nalco. Mr. Mooney serves on the Boards of Directors of FMC Corporation, FMC Technologies, Inc., Northern Trust Corporation and Cabot Microelectronics Corporation.
Stephen D. Newlin Director since 2006 Age 54	Chairman, President and Chief Executive Officer of PolyOne since February 2006. Mr. Newlin served as President Industrial Sector of Ecolab, Inc., a global developer and marketer of cleaning and sanitizing specialty chemicals, products and services from 2003-2006. Mr. Newlin served as President and a director of Nalco Chemical Company, a manufacturer of specialty chemicals, services and systems, from 1998-2001 and was Chief Operating Officer and Vice Chairman from 2000-2001. Mr. Newlin serves on the Board of Directors of Black Hills Corporation.
Farah M. Walters Director since 1998 Age 62	Lead Director of our Board of Directors since May 2006 and President and Chief Executive Officer of QualHealth, LLC, a healthcare consulting firm that designs healthcare delivery models, since 2005. From 1992 until her retirement in June 2002, Ms. Walters was the President and Chief Executive Officer of University Hospitals Health System and University Hospitals of Cleveland.

CORPORATE GOVERNANCE AND BOARD MATTERS

Director Independence

Our Corporate Governance Guidelines require that a substantial majority of the members of our Board of Directors be independent under the listing standards of the New York Stock Exchange (NYSE). To be considered independent, the Board of Directors must make an affirmative determination that the Director has no material relationship with us other than as a Director, either directly or indirectly (such as an officer, partner or shareholder of another entity that has a relationship with us or any of our subsidiaries). In each case, the Board of Directors considers all relevant facts and circumstances in making an independence determination.

A Director will not be deemed to be independent if, within the preceding three years:

(a) the Director was our employee, or an immediate family member of the Director was either our executive officer or the executive officer of any of our affiliates;

(b) the Director received, or an immediate family member of the Director received, more than $100,000 per year in direct compensation from us, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation was not contingent in any way on continued service);

(c) the Director, or an immediate family member of the Director, is a current partner of Ernst & Young LLP, our external auditor or within the last three years was a partner or employee of Ernst & Young LLP and personally worked on our audit during that time;

(d) the Director was employed, or an immediate family member of the Director was employed, as an executive officer of another company where any of our present executive officers serve on that company s compensation committee; or

(e) the Director was an executive officer or an employee, or an immediate family member of the Director was an executive officer, of a company that makes payments to, or receives payments from, us for property or services in an amount which, in any single fiscal year, exceeds the greater of $1,000,000, or 2% of such other company s consolidated gross revenues.

An immediate family member includes a Director s spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such Director s home.

A Director s service as an executive officer of a not-for-profit organization will not impair his or her independence if, within the preceding three years, our charitable contributions to the organization in any single fiscal year, in the aggregate, did not exceed the greater of $1,000,000 or 2% of that organization s consolidated gross revenues.

The NYSE independent director listing standards also provide that employment as an interim Chairman, Chief Executive Officer or other officer will not disqualify a director from being considered independent following that employment. William F. Patient, our former Director, ceased serving as interim Chief Executive Officer on February 21, 2006.

The Board of Directors determined that J. Douglas Campbell, Carol A. Cartwright, Gale Duff-Bloom, Wayne R. Embry, Richard H. Fearon, Robert A. Garda, Gordon D. Harnett, Edward J. Mooney, William F. Patient, and Farah M. Walters are independent under the NYSE independent director listing standards. In making this determination, the Board reviewed significant transactions, arrangements or relationships that a Director might have with our customers or suppliers.

Lead Director

Our independent Directors meet regularly in executive sessions. In 2006, the Board of Directors amended our Corporate Governance Guidelines to allow the independent directors to designate a lead director to preside at executive sessions. The Lead Director acts as the key liaison between the independent directors and the Chief Executive Officer and is responsible for coordinating the activities of the other independent directors and for performing various other duties as may from time to time be determined by the independent directors. In May 2006, the Board elected Ms. Walters to serve as the Lead Director. Mr. Patient served as our Lead Director from February 2006 until his retirement in May 2006.

Board Attendance

The Board met eight times during 2006, the calendar year being our fiscal year. Each Director is expected to attend the Annual Meeting of Shareholders. In 2006, all of our Directors attended the Annual Meeting of Shareholders.

Committees of the Board of Directors; Attendance

As of the date of this proxy statement, our Board has ten directors and the following four committees: the Audit Committee, the Compensation and Governance Committee, the Environmental, Health & Safety Committee and the Financial Policy Committee. The following table sets forth the membership of the standing committees of our Board of Directors, as of the date of this proxy statement, and the number of times each committee met in 2006. The current function of each committee is described below.

Director	**Audit Committee**	**Compensation & Governance Committee**	**Environmental, Health & Safety Committee**	**Financial Policy Committee**
Mr. Campbell		X	X	X*
Ms. Cartwright	X	X		
Ms. Duff-Bloom		X	X	X
Mr. Embry(1)		X	X*	X
Mr. Fearon	X	X		
Mr. Garda	X	X		
Mr. Harnett	X*	X		
Mr. Mooney		X		X
Mr. Newlin			X	X
Ms. Walters		X*		X
Number of Meetings in 2006	9	10	2	5

X Member

* Chairperson

(1) Mr. Embry will retire from the Board at the 2007 Annual Meeting of Shareholders.

The Audit Committee meets with appropriate financial and legal personnel and independent auditors to review our corporate accounting, internal controls, financial reporting and compliance with legal and regulatory requirements. The Committee exercises oversight of our independent auditors, internal auditors and financial management. The Audit Committee appoints the independent auditors to serve as auditors in examining our corporate accounts. Our common shares are listed on the New York Stock Exchange and are governed by its listing standards. All members of the Audit Committee meet the financial literacy and independence requirements as set forth in the New York Stock Exchange listing standards. The Board of Directors has determined that Mr. Harnett meets the requirements of an audit committee financial expert as defined by the Securities and Exchange Commission.

The Compensation and Governance Committee reviews and approves the compensation, benefits and perquisites afforded our executive officers and other highly-compensated personnel. The Committee has similar responsibilities with respect to non-employee Directors, except that the Committee s actions and determinations are subject to the approval of the Board of Directors. The Committee also has oversight responsibilities for all of our broad-based compensation and benefit programs and provides policy guidance and oversight on selected human resource policies and practices. To help it perform its responsibilities, the Committee makes use of PolyOne resources, including members of senior management in our human resources, legal and finance departments. In addition, the Committee directly engages the resources of Towers Perrin as an independent outside compensation consultant (the Consultant) to assist the Committee in assessing the competitiveness and overall appropriateness of our executive compensation programs. In 2006, the Committee, assisted by the Consultant, analyzed competitive market compensation data relating to salary, annual incentive and long-term incentive. In analyzing competitive market data, the Committee reviewed data from a peer group of similarly-sized U.S. chemical companies and reviewed data from the Consultant s Compensation Data Bank and other published surveys. The Consultant then assisted the Committee in benchmarking base salaries and annual and long-term incentive targets to approximate the market median. The Consultant, assisted by our human resources department, also prepared tally sheets to provide the Committee with information regarding our executive officers total annual compensation, termination benefits and wealth accumulation. More detailed information about the compensation awarded to our executive officers in 2006 is provided in the Compensation Discussion and Analysis section of this proxy statement. The Consultant maintains regular contact with the Committee and interacts with management to gather the data needed to prepare reports for Committee review.

The Committee recommends to the Board of Directors candidates for nomination as Directors, and the Committee advises the Board with respect to governance issues and directorship practices, reviews succession planning for the Chief Executive Officer and other executive officers and oversees the process by which the Board annually evaluates the performance of the Chief Executive Officer. All members of the Compensation and Governance Committee have been determined to be independent as defined by the New York Stock Exchange listing standards.

The Compensation and Governance Committee will consider shareholder suggestions for nominees for election to our Board of Directors as described on page 3. The Committee uses a variety of methods for identifying and evaluating nominees for Directors, including third-party search firms, recommendations from current Board members and recommendations from shareholders. Nominees for election to the Board of Directors are selected on the basis of the following criteria:

- Business or professional experience;
- Knowledge and skill in certain specialty areas such as accounting and finance, international markets, physical sciences and technology or the polymer or chemical industry;

Personal characteristics such as ethical standards, integrity, judgment, leadership and the ability to devote sufficient time to our affairs;

Substantial accomplishments with demonstrated leadership capabilities;

Freedom from outside interests that conflict with our best interests;

The diversity of backgrounds and experience each member will bring to the Board of Directors; and

Our needs from time to time.

The Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, the need for Audit Committee expertise and the evaluations of other prospective nominees. The Committee has established these criteria that any Director nominee, whether suggested by a shareholder or otherwise, should satisfy. A nominee for election to the Board who is suggested by a shareholder will be evaluated by the Committee in the same manner as any other nominee for election to the Board. Finally, if the Committee determines that a candidate should be nominated for election to the Board, the Committee will present its findings and recommendation to the full Board for approval. Edward J. Mooney, who is standing for election by the shareholders for the first time, was recommended as a Board member by the Committee.

In the past, the Committee has used Christian & Timbers as a third-party search firm, at our expense, to assist in identifying qualified nominees for the Board. The search firm was asked to identify possible candidates who meet the minimum and desired qualifications, to interview and screen such candidates (including conducting appropriate background and reference checks), to act as a liaison among the Board, the Committee and each candidate during the screening and evaluation process, and thereafter to be available for consultation as needed by the Committee. The Committee did not use the services of Christian & Timbers in 2006, but has asked them, in 2007, to assist it again in identifying potential nominees to the Board.

The Environmental, Health and Safety Committee exercises oversight with respect to our environmental, health, safety, security and product stewardship policies and practices and our compliance with related laws and regulations.

The Financial Policy Committee exercises oversight with respect to our capital structure, borrowing and repayment of funds, financial policies, management of foreign exchange risk and other matters of risk management, banking relationships and other financial matters.

The Board of Directors has adopted a written charter for each of the standing committees of the Board of Directors. These charters are posted and available on our investor relations internet website at www.polyone.com under the Corporate Governance page. Shareholders may request copies of these charters, free of charge, by writing to PolyOne Corporation, 33587 Walker Road, Avon Lake, Ohio 44012, Attention: Secretary, or by calling (440) 930-1000.

The Board and each Committee conduct an annual self-evaluation. During 2006, each incumbent Director attended at least 75% of the meetings of the Board of Directors and of the Committees on which he or she served.

Code of Ethics, Code of Conduct and Corporate Governance Guidelines

In accordance with applicable NYSE Listing Standards and Securities and Exchange Commission Regulations, the Board of Directors has adopted a Code of Ethics, Code of Conduct and Corporate Governance Guidelines. These are also posted and available on our investor relations

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internet website at www.polyone.com under the Corporate Governance page. Shareholders may request copies of these corporate governance documents, free of charge, by writing to PolyOne Corporation, 33587 Walker Road, Avon Lake, Ohio 44012, Attention: Secretary, or by calling (440) 930-1000.

Communication with Board of Directors

Shareholders and other interested parties interested in communicating directly with the Board of Directors as a group, the non-management Directors as a group, or with any individual Director may do so by writing to the Secretary, PolyOne Corporation, 33587 Walker Road, Avon Lake, Ohio 44012. The mailing envelope and letter must contain a clear notation indicating that the enclosed letter is either a Shareholder-Board of Directors Communication or an Interested Party-Board of Directors Communication, as appropriate.

The Secretary will review all such correspondence and regularly forward to the Board of Directors a log and summary of all such correspondence and copies of all correspondence that, in the opinion of the Secretary, deals with the functions of the Board or Committees of the Board or that she otherwise determines requires their attention. Directors may at any time review a log of all correspondence we receive that is addressed to members of the Board and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of our internal audit department and handled in accordance with procedures established by the Audit Committee for such matters.

Director Compensation

We pay our non-employee Directors an annual retainer of $100,000, quarterly in arrears, consisting of a cash retainer of $50,000 and an award of $50,000 in value of fully vested common shares. We grant the shares quarterly and determine the number of shares to be granted by dividing the dollar value by the arithmetic average of the high and low stock price on the last trading day of each quarter. We pay individual meeting fees only as follows: fees of $2,000 for each unscheduled Board and committee meeting attended and fees of $1,000 for participation in each unscheduled significant telephonic Board and committee meeting. In addition, the Chairpersons of each committee receive a fixed annual cash retainer, payable quarterly, as follows: $5,000 for Environmental, Health and Safety and Financial Policy Committees and $10,000 for Audit and Compensation and Governance Committees. We reimburse Directors for their expenses associated with each meeting attended.

We grant each new non-employee Director at the time of his or her initial election or appointment as a Director an award of 8,500 common shares. The share awards made to Directors are awarded under either our Deferred Compensation Plan for Non-Employee Directors or our 2005 Equity and Performance Incentive Plan.

Directors who are not our employees may defer payment of all or a portion of their compensation as a Director under our Deferred Compensation Plan for Non-Employee Directors. A Director may defer the compensation as cash or elect to have it converted into our common shares at a rate equal to 125% of the cash compensation amount. Deferred compensation, whether in the form of cash or common shares, is held in trust for the participating Directors. Interest is earned on the cash amounts and dividends, if any, on the common shares deferred accrue for the benefit of the participating Directors.

2006 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash[3] ($)	Stock Awards[4][6] ($)	Option Awards[6] ($)	Total ($)
J.D. Campbell	$ 62,000	$ 50,000		$ 112,000
C.A. Cartwright	56,000	50,000		106,000
G. Duff-Bloom	57,000	50,000		107,000
W.R. Embry	60,000	50,000		110,000
R.H. Fearon	59,000	50,000		109,000
R.A. Garda	59,000	50,000		109,000
G.D. Harnett	68,000	50,000		118,000
E.J. Mooney[1]	4,167	71,359[5]		75,526
W.F. Patient[2]				
F.M. Walters	67,000	50,000		117,000

(1) Mr. Mooney was elected as a Director on December 6, 2006.

(2) Mr. Patient served as our Chairman, President and Chief Executive Officer until his retirement from these positions on February 21, 2006. Mr. Patient retired as a member of our Board of Directors on May 25, 2006. All compensation received by Mr. Patient (including compensation for serving as a Director) is reported in the 2006 Summary Compensation Table contained in this proxy statement.

(3) Non-employee Directors may defer payment of all or a portion of their cash compensation as a Director (cash retainer of $50,000, meeting fees, and chair fees) under our Deferred Compensation Plan for Non-Employee Directors. A Director may defer his or her compensation as cash or elect to have it converted into our common shares at a rate equal to 125% of the cash compensation amount. The following have elected to defer all or a portion of their cash compensation into our common shares and have received the 25% premium on the amount deferred into stock: Mr. Campbell ($15,500 in premiums); Ms. Cartwright ($14,000 in premiums); Ms. Duff-Bloom ($10,688 in premiums); Mr. Embry ($7,500 in premiums); Mr. Garda ($7,375 in premiums); Mr. Harnett ($17,000 in premiums); Mr. Mooney ($1,042 in premiums); and Ms. Walters ($8,375 in premiums).

(4) We pay non-employee Directors an annual award of $50,000 in value of fully vested common shares, which the Directors may elect to defer under our Deferred Compensation Plan for Non-Employee Directors. We grant the shares quarterly and determine the number of shares to be granted by dividing the dollar value by the arithmetic average of the high and low stock price on the last trading day of each quarter. We used the following quarterly fair market values in calculating the number of shares: March 31, 2006- $9.180; June 30, 2006- $8.740; September 29, 2006- $8.360; and December 29, 2006- $7.495.

(5) Mr. Mooney received a one time grant of 8,500 common shares upon his election to the Board of Directors. The dollar amount recognized for financial statement reporting purposes for fiscal year 2006 (*i.e.*, the fair market value on the date of grant) is included in this number.

(6) In 2006, no grants, exercises or vesting of stock options occurred with respect to our Directors. The number of outstanding stock options held by each Non-Employee Director at the end of the fiscal year is set forth in the following table. All of these options are fully exercisable. In addition, the number of fully-vested deferred shares held in an account for each Director at the end of the fiscal year is set forth in the following table.

Name	**Option Awards Number of Securities Underlying Unexercised Options (#)**	**Stock Awards Number of Deferred Shares (#)**
J.D. Campbell	48,000	102,933
C.A. Cartwright	39,000	68,471
G. Duff-Bloom	48,000	83,559
W.R. Embry	39,000	32,764
R.H. Fearon	15,000	0
R.A. Garda	61,500	36,892
G.D. Harnett	61,500	89,115
E.J. Mooney	0	9,749
W.F. Patient	0	0
F.M. Walters	54,000	84,698

BENEFICIAL OWNERSHIP OF COMMON SHARES

The following table shows the number of our common shares beneficially owned on March 12, 2007 (including options exercisable within 60 days of that date) by each of our Directors and nominees, any Director who served during 2006, each of the executive officers named in the 2006 Summary Compensation Table on page 29 and by all Directors and executive officers as a group.

Name	Number of Shares Owned[(1)]	Right to Acquire Shares[(3)]	Total Beneficial Ownership
J. Douglas Campbell	104,989[(2)]	48,000	152,989
Carol A. Cartwright	87,284[(2)]	39,000	126,284
Gale Duff-Bloom	84,057[(2)]	48,000	132,057
Wayne R. Embry	43,311[(2)]	39,000	82,311
Richard H. Fearon	13,437[(2)]	15,000	28,437
Robert A. Garda	70,786[(2)]	61,500	132,286
Gordon D. Harnett	105,926[(2)]	61,500	167,426
Edward J. Mooney	9,749[(2)]	0	9,749
Farah M. Walters	85,754[(2)]	54,000	139,754
Stephen D. Newlin	219,300	0	219,300
William F. Patient	81,431	146,000	227,431
W. David Wilson	128,976	344,136	473,112
Wendy C. Shiba	67,927	116,590	184,517
Kenneth M. Smith	68,487	160,892	229,379
Bernard P. Baert	21,000	17,072	38,072
18 Directors and executive officers as a group	1,298,870	1,362,132	2,661,002

(1) Except as otherwise stated in the following notes, beneficial ownership of the shares held by each individual consists of sole voting power and sole investment power, or of voting power and investment power that is shared with the spouse of the individual. It includes approximate number of shares credited to the named executives accounts in our Retirement Savings Plan, a tax-qualified defined contribution plan. The number of common shares allocated to these individuals is provided by the savings plan administrator in a statement for the period ending December 31, 2006, based on the market value of the applicable plan units held by the individual. Additional common shares may have been allocated to the accounts of participants in the savings plan since the date of the last statements received from the plan administrator. No Director, nominee or executive officer beneficially owned, on March 12, 2007, more than 1% of our outstanding common shares. As of that date, the Directors and executive officers as a group beneficially owned approximately 2.82% of the outstanding common shares.

(2) With respect to the Directors, beneficial ownership includes shares held under the Directors Deferred Compensation Plan as follows: J.D. Campbell, 102,933 shares; C.A. Cartwright, 68,471 shares; G. Duff-Bloom, 83,559 shares; W.R. Embry, 32,764 shares; R.H. Fearon, 0 shares; R.A. Garda, 36,892 shares; G.D. Harnett, 89,115 shares; E. J. Mooney, 9,749 shares; and F.M. Walters, 84,698 shares.

(3) Includes shares the individuals have a right to acquire on or before May 11, 2007. The executive officers named in the table (the Named Executive Officers) also have the right to acquire common shares upon the exercise of vested stock-settled stock appreciation rights as follows: Mr. Newlin, 116,600 SARs; Mr. Wilson, 42,000 SARs; Ms. Shiba, 32,000 SARs; Mr. Smith, 29,800 SARs; and Mr. Baert, 25,000 SARs. The number of shares to be

acquired cannot be determined because it depends on the market value of our common shares on the date of exercise and the applicable withholding taxes.

The following table shows information relating to all persons who, as of March 12, 2007, were known by us to beneficially own more than five percent of our outstanding common shares based on information provided in Schedule 13Gs filed with the Securities and Exchange Commission (the Commission):

Name and Address	Number of Shares	% of Shares
Barclays Global Investors, NA 45 Fremont Street San Francisco, California 94105	6,639,933(1)	7.2%
Barrow, Hanley, Mewhinney & Strauss, Inc 2200 Ross Avenue, 31st Floor Dallas, Texas 75201-2761	5,992,320(2)	6.5%
Dimensional Fund Advisors LP 1299 Ocean Avenue Santa Monica, California 90401	5,795,047(3)	6.2%
New York Life Trust Company, Trustee 51 Madison Avenue New York, New York 10010	5,566,350(4)	6.0%
FMR Corp. 82 Devonshire Street Boston, Massachusetts 02109	5,444,700(5)	5.9%

(1) As of January 23, 2007, based upon information contained in a Schedule 13G filed with the Commission. Barclays Global Investors, NA, as an investment advisor and reporting on behalf of a group of affiliate entities, has sole voting power with respect to 6,277,281 of these shares and has sole dispositive power with respect to all of these shares.

(2) As of February 9, 2007, based upon information contained in a Schedule 13G/A filed with the Commission. Barrow, Hanley, Mewhinney & Strauss, Inc. has sole voting power with respect to 2,729,400 of these shares and has sole dispositive power with respect to all of these shares.

(3) As of February 9, 2007, based upon information contained in a Schedule 13G/A filed with the Commission. Dimensional Fund Advisors LP, as an investment advisor, has sole voting power and sole dispositive power with respect to all of these shares.

(4) As of February 15, 2007, based upon information contained in a Schedule 13G/A filed with the Commission. New York Life Trust Company, as Trustee for The PolyOne Retirement Savings Plan and Excel Polymers Retirement Savings Plan, as a bank, has sole voting power and sole dispositive power with respect to all of these shares.

(5) As of February 14, 2007, based upon information contained in a Schedule 13G/A filed with the Commission. FMR Corp., as a holding company reporting on behalf of its subsidiaries, has sole voting power with respect to 0 of these shares and has sole dispositive power with respect to all of these shares.

Share Ownership Guidelines

We have established share ownership guidelines for our non-employee Directors, executive officers and other elected corporate officers to better align their financial interests with those of shareholders by requiring them to own a minimum level of our shares. These individuals are expected to make continuing progress towards compliance with the guidelines and to comply fully within five years of becoming subject to the guidelines. These policies, as they relate to our Named Executive Officers, are discussed in the Compensation Discussion and Analysis section of this proxy statement. The required share ownership level for non-employee Directors is 17,000 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our executive officers and Directors, and persons who own more than 10% of a registered class of our equity securities, file reports of ownership and changes in ownership with the Commission. Executive officers, Directors and greater than 10% shareholders are required by Commission rules to furnish us with copies of all forms they file. Based solely on our review of the copies of such forms received by us and written representation from certain reporting persons, we believe that, during 2006 and until the date of this proxy statement, all Section 16(a) filing requirements applicable to our executive officers, Directors and 10% shareholders were satisfied, except for one Form 4 filing for each of our executive officers relating to an award of stock appreciation rights on March 8, 2007, which were made two days after the due date. During 2006, we amended one Form 4 report that was timely filed but that omitted, due to a technical complication, a transaction line item relating to a purchase of shares by Mr. Newlin (which shares were reflected in the aggregate number of shares beneficially owned on the original filing).

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

Our executive compensation programs are approved and overseen by the Compensation and Governance Committee of the Board of Directors (the Committee), which is composed entirely of independent directors. The Committee has selected and retained an independent compensation consultant, Towers Perrin (the Consultant). The Committee works in conjunction with the Consultant and with input from members of senior management, principally the Chairman, President and Chief Executive Officer, the Chief Human Resources Officer, the Chief Financial Officer and the Chief Legal Officer.

This report contains management s discussion and analysis of the compensation awarded to, earned by, or paid to the following executive officers (the Named Executive Officers[1]):

Stephen D. Newlin Chairman, President and Chief Executive Officer

W. David Wilson Senior Vice President and Chief Financial Officer

Wendy C. Shiba Senior Vice President, Chief Legal Officer and Secretary

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

Bernard P. Baert Senior Vice President & General Manager, Colors and Engineered Materials, Europe and Asia

Executive Compensation Programs Objectives and Overview

The objectives of our executive compensation programs are to: (1) attract, retain and motivate the management team who leads in setting and achieving the overall goals and objectives of our company; (2) foster a pay-for-performance culture by rewarding the achievement of specified financial goals and growth of our share price; and (3) align our goals and objectives with the interests of our shareholders by recognizing and rewarding business results through incentive programs.

While we believe that all components of total compensation (which are identified in the 2006 Summary Compensation Table) should be valued and considered when making decisions regarding pay, the primary focus of our executive compensation program is on base salary, annual incentive and long term incentives. We believe that compensation opportunities should be competitive with the industry compensation practices of the companies we compete with for executive talent and that total compensation should be fair to both employees and shareholders.

Our incentive programs focus on the critical performance measures that determine our company s overall success. For positions with significant business unit responsibilities, incentive

([1] Mr. William F. Patient served as PolyOne s principal executive officer for a portion of 2006. He had been a Director and Chairman of the Board since November 2003 and served as President and Chief Executive Officer from October 2005 to February 21, 2006, when Mr. Newlin became Chairman, President and Chief Executive Officer. Mr. Patient served as Lead Director of the Board of Directors from February 21, 2006 until his retirement at the Annual Meeting of Shareholders on May 25, 2006. The compensation that Mr. Patient received is disclosed in the 2006 Summary Compensation Table. He did not participate in our annual or long-term incentive plans or receive the perquisites generally provided to executive officers. Consequently, the references to Named Executive Officers in this report do not apply to Mr. Patient.

programs also emphasize success at the business unit level, which often leads to Named Executive Officers at comparable levels being paid differently across the organization. The structure of base salary and annual and long-term incentive opportunities is designed to reward executives for the efficient execution of their day-to-day responsibilities and attainment of short term results, balanced with the need for sustainable, long-term success.

The following table outlines the major elements of compensation for our Named Executive Officers.

Compensation Element	Definition	Rationale
Base Salary	Fixed compensation payable bi-weekly	Standard market practice Intended to pay for completing day-to-day job responsibilities assigned to the position
Annual Incentive Plan	Variable, cash compensation that is earned when pre-established annual performance goals are achieved	Standard market practice Limits fixed expenses; payment is required only upon achievement of specified goals Builds accountability for important annual financial goals
Long-Term Incentive Plan (2 Components)		
60% Cash-settled Performance Units	Variable, cash compensation that is earned when pre-established three-year financial goals are achieved	Multi-year incentive is standard market practice Emphasizes achievement of long-term strategic goals and objectives Limits fixed expenses; payment is required only upon achievement of specified goals Avoids stock dilution through cash awards
40% Stock-settled Stock Appreciation Rights	Variable compensation that vests only if, and grows in value as, our share price rises Paid in PolyOne common shares	Multi-year incentive is standard market practice Limits fixed expenses; payment is required only upon achievement of specified goals Emphasizes stock price growth Vesting conditions require growing stock price before any value can be realized by participant
Retirement Plans		

U.S. Defined Contribution Plans	Qualified 401(k) defined contribution plan	The qualified defined contribution plan is a standard tax-qualified benefit offered to all employees subject to limitations on compensation and benefits under the Internal Revenue Code

Compensation Element	Definition	Rationale
	Nonqualified excess 401(k) defined contribution plan	Restores benefits that are limited by the Internal Revenue Code in the qualified plan for most highly-paid executives
Belgium Defined Contribution Plan	Tax-efficient defined contribution plan	Mr. Baert is a participant in a standard tax-efficient defined contribution plan provided to most Belgium employees
Defined Benefit Plans (These plans have been closed to new participants since formation of PolyOne)	Qualified defined benefit pension plan	Messrs. Wilson and Smith are participants in a legacy defined benefit pension plan offered to certain heritage employees
	Nonqualified, excess defined benefit plan	Restores benefits that are limited by the Internal Revenue Code in the qualified plan and applies to all eligible plan participants; as of December 31, 2004, this benefit has been frozen
Post-Retirement Medical Plan (This plan has been closed to new participants since formation of PolyOne)	Capped Company-paid subsidy of premiums for medical coverage for retirees similar to coverage provided to active employees	Messrs. Wilson and Smith are participants in a legacy post-retirement medical plan offered to certain heritage employees
Perquisites	Car allowance Financial planning and tax preparation Excess liability insurance Relocation benefits	Standard market practice Relocation benefits assist in attracting new executive talent Other perquisites are modest and are typical for executives at comparable companies

Setting the Level of Compensation

We have designed our compensation programs to be competitive with companies of comparable size and industry as well as companies with whom we compete for executive talent. The Committee obtains advice from the Consultant relating to competitive salaries, annual incentives, and long-term incentives. Management and the Committee review the specific pay disclosures of the defined peer group of chemical companies as well as survey data of similarly-sized chemical and other companies, as provided by the Consultant. The Committee discusses and considers this information when making compensation decisions. This process is described in the Compensation Oversight Processes section of this report. The Committee manages compensation so as to align each of the pay elements with market practices.

The Committee targets base salaries at the median of observed market practice and sets annual and long-term incentive targets (incentive as a percent of salary) to approximate the market median. We believe the maximum potential annual incentive payouts (no award shall be greater than double the target award) are consistent with the typical market range around target awards.

Our actual awards of performance units and stock appreciation rights (SARs) are a product of the market data and other considerations. In 2006:

We delivered 60% of the assigned long-term incentive target opportunity for a position, based upon competitive median long-term incentive practices, in the form of cash-settled performance units in order to avoid the dilution associated with share-based awards.

We delivered the remaining 40% of the assigned long-term incentive target opportunity in the form of stock-settled SARs because they align executive and shareholder interests and because they help preserve cash.

We assigned a value to a single performance unit and a single SAR based on the Black-Scholes option pricing model. We then determined the actual number of performance units and SARs by dividing the targeted dollar value allocated to each element by the value of a single performance unit and SAR, respectively.

The following table summarizes the allocation of the compensation opportunity at target that was granted in 2006 to the Named Executive Officers (and not the compensation opportunity that could be earned in 2006), based upon the primary elements of compensation (2006 base salary, Annual Incentive Plan 2006 target opportunity and long-term incentive grants made in 2006, including performance units that will pay out in 2009, if earned). The compensation opportunity is consistent with the company s overall pay-for-performance philosophy. Generally, employees at more senior levels in the organization, including the Named Executive Officers, have a greater proportion of their compensation tied to incentive compensation. Targeted pay opportunity levels align with the market in each individual pay element.

	Proportionate Size of Primary Elements of Compensation				
Element	**Newlin**	**Wilson**	**Shiba**	**Smith**	**Baert**
Base Salary	24%	36%	40%	40%	43%
Annual Incentive Opportunity	24%	18%	20%	20%	22%
Long-Term Incentive Opportunity*	52%	46%	40%	40%	35%

* *Long-term incentive relating to the performance units for the 2006-2008 performance period would be paid in 2009, if earned.*

Benchmarking Competitive Compensation

Each year, we analyze competitive market compensation data relating to salary, annual incentive, and long-term incentive. Periodically, we also analyze competitive market compensation data relating to retirement benefits and perquisites.

In analyzing competitive market data, we draw from two independent sources. First, we review proxy statement disclosures of a peer group of similarly-sized U.S. chemical companies (listed below) to establish an estimate of market compensation for our most senior executives. This approach provides insight into explicit company practices at business competitors or companies facing similar operating challenges. However, it does not provide market information for positions below the senior management level, nor does it address competitors for talent outside the chemical industry.

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Albemarle Corporation	Eastman Chemical Company	Hercules Incorporated
Arch Chemicals, Inc.	Ferro Corporation	The Lubrizol Corporation
A. Schulman, Inc.	FMC Corporation	RPM International Inc.
Cabot Corporation	Georgia Gulf Corporation	Spartech Corporation
Chemtura Corporation	H.B. Fuller Company	The Valspar Corporation
Cytec Industries Inc.		

Note: Lyondell Chemical Company was considered a peer for the purpose of the 2006-2008 performance unit plan, but given its growth in size over the period it has been removed from the comparison group.

Second, we review data from Towers Perrin s Compensation Data Bank and other published surveys, as provided by the Consultant, to augment the peer proxy analysis and provide a more robust sense of market practices. To obtain comparability based on company size, the data either references a specific sample of companies or calibrates the pay of a broad sample of companies against company size. Specific benefits of using the survey data include:

Addresses more than just the named executive officers;

Provides target incentive levels;

Includes similarly-sized chemical companies; and

Considers similarly-sized companies across a broad range of industries.

This data is used as one of several inputs into management s and the Committee s deliberation on appropriate compensation levels. Other inputs include performance, scope of responsibilities, internal equity considerations and other factors.

Elements of Compensation

The following discussion provides additional details about the main elements of compensation for the Named Executive Officers.

Base Salary

As described above, our policy is to target base pay at the market median but does allow actual pay levels to deviate from target based on performance, responsibility, experience and marketability unique to each individual. Based on data provided by the Consultant, the salaries of the Named Executive Officers range from 93% to 104% of the market median for comparable positions.

Annual Incentive

The Senior Executive Annual Incentive Plan (the Annual Plan) was approved by shareholders in 2005 and includes a set of performance measures that can be used in setting bonuses under the plan. The Annual Plan determines how participants (including all Named Executive Officers) can earn annual cash awards. In 2006, the performance measures used for the corporate staff participants in the Annual Plan (including Messrs. Newlin, Wilson and Smith and Ms. Shiba) were company operating income (53% weighting with a $90 million performance target), company-controlled cash flow (34% weighting with a $93.4 million performance target) and equity investment performance (13% weighting with a 10% ROIC performance target). The performance measures used for Mr. Baert as a participant in the Annual Plan were business unit operating income (53% weighting with a $28 million performance target), company controlled cash flow (34% weighting with a $93.4 million performance target) and revenue growth in Asia (13% weighting with a 13% performance target).

The definitions of certain performance measures are as follows:

Equity investment performance is a measure of the Return on Invested Capital (ROIC) based on the earnings before taxes of our equity investments in two joint ventures, OxyVinyls, LP and Sunbelt Chlor-Alkali Partnership. Through these equity investments, we realize a portion of the economic benefits of a base resin producer for PVC resin, one of our major raw materials. This performance measure was used for Messrs. Newlin, Smith and Wilson and Ms. Shiba.

Company-controlled cash flow is a measure of (operating income plus depreciation and amortization) plus/minus (changes in average working capital less capital expenditures, interest and other expenses).

Growth in Asia is a measure of the revenue growth rate in Asia expressed as a percentage.

The Committee chose these performance measures in order to incent profitability and promote consistency in operational performance. Goals were generally set so that individual business units needed to exceed 2005 performance to achieve a threshold (50% of target) level of attainment.

Consistent with our approach described above to approximate the market median in targeting annual incentives, the 2006 target bonus levels for the Named Executive Officers were: $700,000 for Mr. Newlin, $177,029 for Mr. Wilson, $168,885 for Ms. Shiba, $156,741 for Mr. Smith and an equivalent of $174,961 for Mr. Baert (whose compensation is based in Euros). These targeted levels are set at 100% of base salary for Mr. Newlin and 50% of salary earned during the year for each of the other Named Executive Officers.

Achievement of a performance goal at the threshold level would result in payment of 50% of the targeted award for that particular performance goal; achievement of a performance goal at the target level would result in payment of 100% of the targeted award for that performance goal; and, achievement at the maximum level or greater would result in payment of 200% of the targeted award for that goal. The awards are interpolated if performance falls between the levels.

The Annual Plan as it applies to the Named Executive Officers is structured to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). In order to qualify the amounts earned under the Annual Plan as performance-based , the Committee may exercise discretion only to reduce an award. The Annual Plan is structured so that achievement of the threshold level of performance in any of the measures described above will result in the funding of the plan at maximum. Actual awards are calculated using the Plan formula described above and if funded at maximum as described above, the maximum awards are reduced, as necessary, to deliver awards that are consistent across all of our management incentive plan participants. For a more detailed discussion of Section 162(m) of the Internal Revenue Code, see the Tax Considerations section of this report.

Performance measures for the Annual Plan have been revised for 2007. The purpose of the revision was to simplify and clarify the Plan, providing even greater focus on those metrics most important to creating shareholder value. Specifically, we have increased the emphasis on operating income on both a business unit and corporate basis while continuing to focus on cash flow. In order to emphasize controllable results of our operating businesses, the financial impact of our equity investments will not be included in the performance measures for the 2007 Annual Plan.

Long-Term Incentive

The 2005 Equity and Performance Incentive Plan was approved by shareholders in 2005 and permits a variety of types of incentive awards. In January 2006, long-term incentive awards were

granted using two vehicles. Sixty percent of the award s value was in the form of performance units for the performance period 2006-2008, with the remaining 40% in the form of stock-settled SARs.

(1) Cash-Settled Performance Units

The performance units will be paid in cash, subject to achievement of three types of performance goals discussed below. Each of the following performance measures are weighted equally (*i.e.*, at 331/3%). The awards represented 60% of the total long-term incentive opportunity. The performance units granted in 2006 are subject to the following performance measures and goals for the three-year period from January 1, 2006 through December 31, 2008:

Return on Invested Capital (ROIC), modified based on our performance versus a group of chemical companies (consisting of the same peers as reported under the Benchmarking Competitive Compensation section of this report but including Lyondell Chemical Company)

Cash Flow (EBITDA plus non-cash special charges, cash distributions from equity investments and net divestment proceeds, less earnings from equity investments, capital expenditures, cash taxes, cash interest, cash for restructuring plus changes in working capital and accrued expenses)

Ratio of Debt/EBITDA (earnings before interest, taxes, depreciation and amortization)

The Committee selected these performance measures in order to drive improvements in overall company profitability, promote consistency in operational excellence and drive a reduction in overall company debt while improving earnings. Generally, the Committee sets the target levels for the performance measures consistent with the levels established under the projections for our 3-year financial plan. The Committee believes that the budgeted levels reflect challenging but obtainable targets. If the targeted level of achievement for each performance measure were obtained, this would represent a significant improvement over the levels attained for previous years. In setting the applicable target levels, the Committee may consider how achievement of the performance criteria could be impacted by events expected to occur in the coming year(s).

If we were to achieve all of these target performance levels, a participant would earn a target-level award; if we were to attain only the threshold performance levels, only 50% of the target award would be earned; and if we were to attain the maximum (or better) performance levels, the participant would earn 200% of the target award. If our performance fell between the threshold and target or between target and maximum, earnings under the plans would be interpolated for the ROIC and Cash Flow measures. There is no interpolation for the Debt/EBITDA measure. Performance under each measure is evaluated and the awards are determined separately (*i.e.*, a participant can earn performance units for performance in one, two or all three measures).

(2) Stock-Settled SARs

To reinforce our ongoing commitment to enhancing shareholder returns, 40% of the long-term incentive opportunity awarded in January 2006 to executives, including the Named Executive Officers (other than Mr. Newlin who received a grant upon his hire date in February 2006), consists of SARs that, when exercised by the holder, are settled in our common shares. The SARs granted in January to all Named Executive Officers, except Mr. Newlin, have a base price of $6.51 and the SARs granted in February to Mr. Newlin have a base price of $9.185. All SARs granted in 2006 have an exercise term of seven years and vest upon the attainment of target prices (sustained for three consecutive trading days) for our common shares as follows: 1/3 @ $7.50; 1/3 @ $8.50 and 1/3 @ $10.00 (with a minimum vesting period of one year from the date of grant).

We believe the SAR awards include more rigorous vesting conditions than are typically seen in the market for SARs/stock options, reinforcing our commitment to aligning pay and performance for executives. The SARs will vest only if the stock price hurdles mentioned above are attained and in no event will any SARs vest sooner than one year after grant, regardless of how our stock price performs. The SARs expire seven years after grant, which is shorter than typical market practice.

We do not and have not otherwise backdated the exercise or base price of any stock option or SAR. We have reviewed the merits of setting the exercise price of an option or base price of a SAR based on the price on the day preceding the grant and will continue with this process. Additional information regarding this matter can be found in the Timing with Respect to Equity Award Grants section of this report.

We did not make traditional long-term incentive grants for the 2004-2006 performance period. Instead, in order to provide an incentive for senior management to achieve near-term improvement in the price of our common shares, in December of 2003, the Committee approved an incentive for senior leaders and key employees. The award consisted entirely of target-priced SARs having a three-year life and vesting upon the attainment of target prices (sustained for three consecutive trading days) for PolyOne common shares as follows: 1/3 @ $8.00; 1/3 @ $9.00 and 1/3 @ $10.00. The SARs had a base price equal to $6.14 and would be settled in our common shares. These SARs expired at the end of 2006 with 2/3 of the SARs having vested and 1/3 of the SARs being in the money but not vested due to the failure to achieve the target prices established.

For 2007, the long-term incentive awards will maintain the same general design as in 2006. The proportion of performance units to SARs, however, has changed from 60% performance units and 40% SARs to 50% performance units and 50% SARs, to better align our interests with those of shareholders. Minor modifications have also been made to the performance unit measures for the 2007-2009 performance period. Specifically, we have simplified the design of the 2007 long-term incentive plan by having only one performance unit measure which is focused on the profitability of our operating business units, as measured by growth in operating income. Further, in assigning a value to a single performance unit and a single SAR (to determine the actual number of performance units and SARs to be granted), we have switched from the Black-Scholes option pricing model to using several capital market assumptions by applying Towers Perrin s binomial valuation methodology.

Retirement Benefits

We offer a defined contribution retirement benefit to all U.S. employees through an Internal Revenue Code tax-qualified profit sharing/401(k) plan (the Qualified Savings Plan). The Qualified Savings Plan provides employees with individual retirement accounts funded by (1) an automatic Company-paid contribution of 2% of eligible earnings for all employees, (2) a Company-paid match on employee 401(k) contributions equal to dollar-for-dollar on the first 3% of earnings the employee contributes plus $0.50 per dollar on the next 3% of earnings the employee contributes, and (3) for certain heritage employees, an additional automatic company-paid contribution of up to 4% of eligible earnings (of the Named Executive Officers, only Messrs. Smith and Wilson receive this contribution in the amount of 3.25% and 4%, respectively). The Internal Revenue Code limits employee contributions to $15,000 and earnings upon which employee/company contributions are based to $220,000 in 2006.

The PolyOne Supplemental Retirement Benefit Plan (the Nonqualified Savings Plan) is an unfunded, nonqualified plan that provides benefits similar to the Qualified Savings Plan, but without the Internal Revenue Code contribution and earnings limitations. The benefits under the

Nonqualified Savings Plan are offset by the Qualified Savings Plan. Together these plans are intended to provide the Named Executive Officers with retirement income equivalent to that provided to all other employees under the Qualified Savings Plan. As a result, the Named Executive Officers can expect a retirement income that replaces a portion of their income while employed similar to that received by all other employees participating in the Qualified Savings Plan who are not impacted by the Internal Revenue Code limitations of the Qualified Savings Plan.

Mr. Baert is based outside the United States and does not participate in the Qualified Savings Plan or the Nonqualified Savings Plan. Mr. Baert participates in a standard defined contribution retirement benefit plan generally provided to all Belgium employees (except that some employees hired prior to May 2003 (other than Mr. Baert) elected to remain in the Belgium defined benefit plan previously offered as the standard retirement plan). The plan provides employees with individual retirement accounts funded by (1) an automatic Company paid contribution of 5% of base pay up to a salary limit plus 15% of base pay in excess of the salary limit, and (2) employee contributions of 5% of base pay above that salary limit. The salary limit, which is indexed annually, was 38,200 for 2006.

Messrs. Smith and Wilson are also eligible, along with certain other legacy employees, to receive pension payments under a company-funded Internal Revenue Code qualified defined benefit pension plan as well as an unfunded, nonqualified defined benefit pension plan (the Qualified Pension Plan and Nonqualified Pension Plan , respectively). In addition, upon becoming retirement eligible (55 years of age with 10 years of service), Messrs. Smith and Wilson will be eligible to receive certain retiree medical benefits. These plans existed prior to our formation in 2000 through the consolidation of The Geon Company and M.A. Hanna Company and generally benefited all nonunion employees of The Geon Company.

The amount of the Named Executive s pension depends on a number of factors including monthly Final Average Earnings (FAE) and years of benefit service to us (Benefit Service). The Qualified Pension Plan provides a monthly lifetime benefit equal to 1.15% times FAE times Benefit Service plus 0.45% times FAE in excess of Covered Compensation (as defined by the Internal Revenue Code) times Benefit Service limited to 35 years.

The Nonqualified Pension Plan is similar to the Nonqualified Savings Plan in that it restores benefits lost in the Qualified Pension Plan due to Internal Revenue Code limitations on earnings and benefits. The Nonqualified Pension Plan benefit formula is the same as the Qualified Pension Plan except without the Internal Revenue Code qualified plan earnings limitations. The Nonqualified Pension Plan benefit is offset by the Qualified Pension Plan benefit.

The Qualified Pension Plan and Nonqualified Pension Plan were frozen to new entrants effective December 31, 1999. Benefit Service was frozen effective December 31, 2002 in both plans. In response to Internal Revenue Code Section 409A, the Nonqualified Pension Plan accrued benefit was temporarily frozen effective December 31, 2004. Any future decisions regarding the Nonqualified Pension Plan will be delayed until final guidance relating to Section 409A of the Internal Revenue Code is released. Earnings are not frozen in the Qualified Pension Plan so participants, including Messrs. Smith and Wilson, can continue to accrue additional benefits under that plan.

Messrs. Newlin and Baert and Ms. Shiba do not participate in a defined benefit plan.

Perquisites

We provide a limited number of perquisites to the Named Executive Officers, which we believe are competitive with the companies with which we compete for executive talent. These perquisites for those Named Executive Officers based in the United States, include a monthly car allowance, reimbursement of expenses for financial planning and tax preparation, an annual physical examination, and group insurance providing excess liability umbrella insurance coverage in an amount equal to $5 million. For Mr. Baert, perquisites typical and competitive with companies in Europe include a company provided automobile, meal and entertainment allowance, reimbursement of expenses for financial planning and tax preparation, and group insurance providing excess liability umbrella insurance coverage in an amount equal to $5 million. The specific amounts attributable to perquisites for 2006 are disclosed in the 2006 Summary Compensation Table.

We reimbursed Mr. Newlin for reasonable expenses related to lodging, meals and travel between his residence and work location (Avon Lake, Ohio) during his first 90 days of employment. Mr. Newlin is also eligible for reimbursement of his relocation expenses under our standard relocation plan. During 2006, we reimbursed Mr. Newlin for expenses associated with transporting household and personal goods to a temporary home that he purchased near our headquarters.

We also provide other benefits such as medical, dental and life insurance and disability coverage to each U.S.-based Named Executive Officer, which are identical to the benefits provided to all other eligible U.S.-based employees. Medical, dental and life insurance coverage for Mr. Baert is identical to the benefits provided to all other Belgium-based employees. We also provide vacation and paid holidays to all employees, including the Named Executive Officers. The Named Executive Officers are eligible for the following vacation: Messrs. Newlin and Smith five weeks, Mr. Wilson six weeks, Mr. Baert 26 days, and Ms. Shiba four weeks.

We do not provide or reimburse for personal country club memberships for any Named Executive Officer. We do maintain a corporate membership to a country club that is used for customer entertainment and other business purposes. We pay the monthly dues for this membership and incur expenses only for these business purposes. Any personal use of this facility by a Named Executive Officer is at the officer s personal expense, with no incremental cost to us.

Compensation Oversight Processes

Salary Adjustments

During the fourth quarter, the Committee reviews executive compensation marketplace data provided by the Consultant. This report highlights trends in executive compensation and benchmarks our executive compensation compared to our peer group and the market in general. In addition, the Committee reviews tally sheets that contain information regarding the executives total annual compensation, termination benefits and wealth accumulation. A more detailed description of the tally sheets is provided under the heading Review of Tally Sheets.

In the first half of the calendar year, based upon individual performance and results achieved, the Chief Executive Officer recommends for the Committee s review and approval specific salary adjustments for each of the executive officers, including the Named Executive Officers. The Chief Executive Officer makes his recommendations in conjunction with the marketplace data and input provided by the Consultant. The Committee sets the target compensation at or near the median, with adjustments to account for our specific facts and circumstances. Based upon the Chief Executive Officer s recommendation, in May 2006, the Committee increased the salaries of the Named Executive Officers.

Mr. Newlin s 2006 salary was established by the Committee in February 2006 by the terms of his employment agreement. The Committee considered recent compensation for the role, reviewed marketplace data and a pro forma tally sheet provided by their independent advisor to ensure both the fairness and the competitiveness of the total compensation package. In the Committee s judgment, the total compensation package, as described under the heading Employment Agreement

of the Chief Executive Officer, was appropriate in order to attract the caliber of executive the Committee was seeking.

Grants of Plan-Based Awards

In the fourth quarter, the Committee reviews period-to-date performance and estimates of incentive payouts for the in-progress performance periods. In the first quarter of the following year, the Committee evaluates actual performance against pre-set goals and determines earnings under just-completed plan periods.

In addition, in the fourth quarter, the Committee and management review competitive incentive data provided by the Consultant. Management develops preliminary recommendations for eligibility, award opportunities, performance measures and goals for the plan periods to commence the subsequent year for the Committee s review. The Committee approves final terms in the first quarter of the subsequent year.

Review of Tally Sheets

The Committee and management have reviewed and considered tally sheets in connection with pay deliberations. Tally sheets are created collaboratively by the Consultant and our human resources department.

The tally sheets provide information regarding the Named Executive Officers total annual compensation, termination benefits and wealth accumulation. Total annual compensation includes: salary, annual incentive, long-term incentive, perquisites, and retirement benefits. This information is comparable to the amounts reported in the 2006 Summary Compensation Table. Payments under various forms of termination are reviewed and disclosed elsewhere in this proxy statement.

In aligning the overall program with market practices, benchmarking against the market occurs, but is limited in scope to the elements considered as compensation. The process of reviewing tally sheets began in late 2006. We have committed to annually review tally sheets and use the information in connection with compensation related decisions.

Tax Considerations

Cash compensation, such as base salary or annual incentive compensation, is taxable to the recipient as ordinary income when earned, unless deferred under a company-sponsored deferral plan. Deferrals under tax-qualified plans, such as a 401(k) plan, do not affect our current tax deduction. Deferrals under supplemental executive deferral plans delay our tax deduction until the deferred amount (and any accumulation thereon) is paid. Stock-settled SARs are generally taxable as ordinary income when exercised. We realize a tax deduction at that time. The Committee does review potential tax implications before making decisions regarding compensation.

Management and the Committee are aware of Section 162(m) of the Internal Revenue Code, which generally limits the deductibility of executive pay in excess of one million dollars, and which specifies the requirements for the performance-based exemption from this limit. The Committee generally manages our incentive programs to qualify for the performance-based exemption. It also reserves the right to provide compensation that does not meet the exemption criteria if, in its sole discretion, it determines that doing so advances our business objectives.

Accounting Considerations

When reviewing preliminary recommendations and in connection with approving the terms of a given incentive plan period, management and the Committee review and consider the accounting implications of a given award, including the estimated expense and/or dilutive considerations. Depending upon the type of accounting treatment associated with an incentive plan design, management and the Committee may alter or modify the incentive award due to the accounting treatment if the award (and the related accounting consequences) were to adversely affect our financial performance.

Employment Agreement of the Chief Executive Officer

On February 13, 2006, we entered into an agreement with Mr. Newlin, under which he agreed to serve as our Chairman, President and Chief Executive Officer. The agreement provides for Mr. Newlin s initial base salary of $700,000, a signing bonus of $600,000, a grant of 200,000 shares of restricted stock, and for Mr. Newlin s participation in our various long-term incentive and benefit plans in effect from time to time during the term of his employment. Mr. Newlin also received a grant of a two-year cash incentive, consisting of phantom units, with each unit being equal in value to one share of our common stock. The phantom units will be paid in cash, if earned, and are subject to the achievement of specified performance goals over a two-year period (2006-2007).

In addition, the agreement provides for certain payments upon termination of Mr. Newlin s employment, as described more fully in the Potential Payments Upon Termination or Change-in-Control section of this proxy statement.

Termination Payments for Other Named Executive Officers

Effective May 25, 2006, the Committee approved an Executive Severance Plan that is designed to provide severance protection to certain officers who are expected to make substantial contributions to our success and thereby provide for stability and continuity of operations. Under the terms and conditions of the Executive Severance Plan, officers are entitled to receive Severance Payments upon their termination of employment for reasons other than cause, death or disability. The plan details and estimates of these payments are provided in the Potential Payments Upon Termination or Change-in-Control section of this report.

The payments are to be made in compliance with Section 409A of the Internal Revenue Code. These severance benefits are contingent upon our receipt of a signed release of all claims against us and signed non-compete, non-solicitation and non-disparagement agreements.

Change in Control Payments

We have entered into change-in-control (CIC) agreements with all of our elected corporate officers, including each of the Named Executive Officers. These agreements are designed to provide severance protection should a change in control of PolyOne occur and the executive officer s employment is terminated either by us without cause or by the executive for good reason (as defined in the agreements). Generally, a change in control will be deemed to have occurred if (1) any person becomes the beneficial owner of 25% or more of the combined voting power of our outstanding securities (subject to certain exceptions); (2) there is a change in the majority of our Board of Directors; (3) certain corporate reorganizations occur where the existing shareholders do not retain more than 60% of the common shares and combined voting power of the outstanding voting securities of the surviving entity; or (4) there is shareholder approval of a complete liquidation or dissolution of PolyOne.

These agreements are intended to provide for continuity of management in the event of a change in control. The agreements are automatically renewed each year unless we give prior notice of termination of the CIC agreement. The agreements provide that covered executive officers could be entitled to certain severance benefits. The details of the severance payment and benefits are provided in the Potential Payments Upon Termination or Change-in-Control section of this report.

In order to provide additional protection in the event of a change in control, our 2006 equity awards and Annual Incentive Plan provide for accelerated benefits in the event of a change in control. In the event of a change in control and a termination of the executive s employment by us without cause or by the executive for good reason (as defined in the agreements), the SARs remain exercisable for their full term. These change-in-control provisions affect all participants in those programs, including the Named Executive Officers.

Compensation Policies

Timing with Respect to Equity Award Grants

In recent years, including 2006, the base price of SARs has been set according to our normal practice as outlined in the 2005 Equity and Performance Incentive Plan and is based on the average of the high and low price of our common shares on the trading day immediately before the day the award was approved by the Committee. This practice allows the Committee to know the actual base price at the time of approval. Because the base price could be different than the closing price on the day of the grant, the pricing difference is explained in the 2006 Grants of Plan-Based Awards table in this proxy statement. Further, if we are in possession of material information that has not been publicly disclosed, the Committee will not grant equity awards until all such information is available to the public.

Stock Ownership Guidelines

In order to better align their financial interests with those of shareholders, we believe our executives should own a meaningful number of our shares. We have adopted share ownership guidelines specifying a minimum level of share ownership for all executives, including all Named Executive Officers. The specific levels of share ownership for the Named Executive Officers are noted in the following table. Executives are expected to accumulate the specified shares within five years of their becoming subject to the policy. The applicable guidelines are reduced after age 55 by 10% of the original level of ownership each year for five years.

In general, shares counted toward required ownership include shares directly held and shares vested in our benefit or deferral plans (including phantom shares under our nonqualified deferral plan).

Element	**Newlin**	**Wilson**	**Shiba**	**Smith**	**Baert**
Share Ownership Target (in shares)	290,000	85,000	67,500	65,000	48,000
Total Share Ownership as of 3/12/07	219,300	144,546	67,927	75,538	21,000
Attainment Status	75.6%	170.1%	100.6%	116.2%	43.8%

Note: Ownership targets have been reduced by 10% for Ms. Shiba and 20% for Mr. Baert, according to the applicable guidelines pertaining to age reduction as discussed above.

Repayment of Earned Incentives upon Restatement of Financial Results

We have has adopted a policy that is consistent with the requirements of the Sarbanes-Oxley Act of 2002, which requires the Chief Executive Officer and Chief Financial Officer to reimburse us for any awards received during the twelve-month period following the release of financial results that subsequently require an accounting restatement due to material noncompliance with any financial reporting requirement if they are subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002.

Conclusion

Our executive compensation programs are competitive in the marketplace and linked to our performance. These programs allow us to attract and retain high-caliber executives. We believe the design of our compensation plans and the relative mix of compensation elements successfully motivates our executives and aligns both the short-term and long-term interests of employees and shareholders.

The following table sets forth the compensation for the fiscal year ended December 31, 2006 of our principal executive officer, former principal executive officer, principal financial officer and our other three most highly compensated executive officers.

2006 SUMMARY COMPENSATION TABLE

l Principal ition	Year	Salary ($)	Bonus[4] ($)	Stock Awards ($)	Option/ SAR Awards[7] ($)	Non-Equity Incentive Plan Compensation[8] ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings[9] ($)	All Other Compensation ($)	
Newlin, President Executive	2006	$ 589,615	$ 600,000	$ 505,374(5)	$ 558,936	$ 959,700	0	$ 103,725(10)	$ 3
Patient, airman, nd Chief Officer[2]	2006	68,833	50,000	20,833	0	0	0	0	
Wilson, e President Financial	2006	354,058	50,000	75,561(6)	158,724	242,707	0	81,711(11)	
Shiba, e President, l Officer ary	2006	337,769	50,000	59,052(6)	120,905	231,541	0	42,859(12)	
I. Smith, e President, an and Chief n Officer	2006	313,481	50,000	52,914(6)	112,084	214,891	0	59,109(13)	
Baert, e & General Colors and l Materials, l Asia[3]	2006	349,999	0	53,125(6)	105,333	219,576	0	69,043(14)	

(1) Mr. Newlin was elected Chairman, President and Chief Executive Officer, effective February 21, 2006.

(2) Mr. Patient served as our Chief Executive Officer for a portion of 2006. He had been a Director and Chairman of the Board since November 2003 and served as President and Chief Executive Officer from October 6, 2005 to February 21, 2006, when Mr. Newlin became Chairman, President and Chief Executive Officer. Mr. Patient did not participate in our annual or long-term incentive plans or receive the perquisites generally provided to our executive officers. The total compensation received by Mr. Patient in 2006, as reflected in the 2006 Summary Compensation Table, includes: (a) salary earned for the period of time in 2006 during which Mr. Patient served as Chairman, President and Chief Executive Officer ($50,000); (b) director fees paid in cash ($18,833); (c) a one-time recognition award, as described in footnote (4) below ($50,000); and (d) like our other non-employee directors, an award of fully-vested PolyOne common shares with a value of $20,833, which represents the award of common shares with a value of $50,000 granted to the other non-employee Directors, pro-rated for the portion of the year for which he served as a Director.

(3) Mr. Baert s compensation is based in Euros. The conversion rate used for purposes of converting the Euros earned by Mr. Baert into dollars for purposes of this table was 1.00 = $1.25559, which is the conversion rate used in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

(4) Amounts in this column include a signing bonus of $600,000 for Mr. Newlin, a one-time recognition award in the amount of $50,000 to each of Ms. Shiba and Messrs. Wilson and Smith in recognition of the additional duties and responsibilities assumed in connection with executive and operating matters during the CEO-transition period, and a one-time recognition award in the amount of $50,000 to Mr. Patient in recognition of his leadership and contributions during the CEO-transition period.

(5) This reflects a restricted stock award granted in 2006 to Mr. Newlin under our 2005 Equity and Performance Incentive Plan (the Equity Plan) as part of his hiring package with a compensation cost for 2006 of $505,374. The amount reflected in the table includes the dollar amount recognized for financial statement reporting purposes for 2006 with respect to the award computed in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)). Additional information regarding the assumptions used in determining the cost reflected in the table can be found in Note Q of the Notes to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. This grant is described more fully in the narrative following the 2006 Grants of Plan-Based Awards table in this proxy statement.

(6) This reflects the compensation cost under SFAS 123(R) in 2006 of performance shares granted in 2005. Additional information regarding the assumptions used in determining the costs reflected in the table can be found in Note Q of the Notes to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. These performance shares are described in more detail in footnote (5) to the 2006 Outstanding Equity Awards at Fiscal Year-End table.

(7) This column includes the grants of target-priced, stock-settled stock appreciation rights granted in 2006 to the Named Executive Officers under our Equity Plan. The cost of these awards as reflected in the table was based on the dollar amount recognized for financial statement reporting purposes for 2006 with respect to these awards, computed in accordance with SFAS 123(R). These grants are described more fully in the narrative following the 2006 Grants of Plan-Based Awards table and in the Compensation Discussion and Analysis Elements of Compensation Stock-Settled SARs section in this proxy statement. This column also reflects for Messrs. Wilson, Smith and Baert and Ms. Shiba the dollar amount recognized for financial statement reporting purposes in 2006 with respect to awards granted in prior years. Additional information regarding the assumptions used in determining the costs reflected in the table can be found in Note Q of the Notes to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

(8) This column reflects amounts earned by the Named Executive Officers under the Senior Executive Annual Incentive Plan (the SEAIP). The terms of the SEAIP are described more fully in the narrative following the 2006 Grants of Plan-Based Awards table and in the Compensation Discussion and Analysis Elements of Compensation Annual Incentive section of this proxy statement.

(9) Among the Named Executive Officers, only Mr. Wilson and Mr. Smith participate in a company-funded qualified defined benefit pension plan and an unfunded, nonqualified defined benefit pension plan (the Qualified Pension Plan and Nonqualified Pension Plan, respectively) that existed prior to our formation in 2000 through the consolidation of The Geon Company and M.A. Hanna Company. Although shown as $0 in the above table, the aggregate actuarial present value of the accumulated benefits under the Qualified Pension Plan and the Nonqualified Pension Plan actually decreased during 2006 by $11,727 for Mr. Wilson and by $8,412 for

Mr. Smith. Above-market or preferential earnings are not available under any of our non-qualified deferred compensation plans.

(10) Amounts under All Other Compensation for Mr. Newlin include tax gross-ups on personal benefits (including a gross up on a moving allowance described below) in the amount of $23,229, PolyOne s cash contributions to our qualified savings plan in the amount of $14,300, PolyOne s cash contributions under our non-qualified retirement plan providing for benefits in excess of the amounts permitted to be contributed under the qualified savings plan in the amount of $22,675 and excess liability umbrella insurance

coverage in the amount of $987. Mr. Newlin also received perquisites in 2006, reflected in the table, with the following incremental costs: moving allowance ($18,155), car allowance ($12,129, based on $1,200 per month, pro-rated), and financial planning and tax preparation expenses ($12,250).

(11)