

POLYONE CORP
Form DEF 14A
March 30, 2005

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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

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

POLYONE CORPORATION

(Name of Registrant as Specified In Its Certificate)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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(4) Date Filed:

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**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 19, 2005. The purposes of the meeting are:

1. To elect Directors;
2. To approve the PolyOne Corporation Senior Executive Annual Incentive Plan;
3. To approve the PolyOne Corporation 2005 Equity and Performance Incentive Plan; and
4. To consider and transact any other business that may properly come before the meeting.

Shareholders of record at the close of business on March 21, 2005 are entitled to notice of and to vote at the meeting.

For the Board of Directors

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

March 30, 2005

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POLYONE CORPORATION
PolyOne Center
33587 Walker Road
Avon Lake, Ohio 44012
PROXY STATEMENT
Dated March 30, 2005

The Board of Directors of PolyOne Corporation 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 19, 2005, 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 of PolyOne 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 below and to approve the PolyOne Corporation Senior Executive Annual Incentive Plan and the PolyOne Corporation 2005 Equity and Performance Incentive Plan. 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 PolyOne plans will receive a separate voting instruction card: The PolyOne Retirement Savings Plan, DH Compounding 401(k) Plan 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 April 4, 2005. PolyOne's headquarters are located at PolyOne Center, 33587 Walker Road, Avon Lake, Ohio 44012 and our telephone number is (440) 930-1000.

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PolyOne's 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. However, the Board is permitted to waive this requirement, and has done so to permit the nomination of Mr. Patient. The Board met six times during 2004, the calendar year being PolyOne's fiscal year. Each Director is expected to attend the Annual Meeting of Shareholders. In 2004, all of PolyOne's ten Directors attended the Annual Meeting of Shareholders. PolyOne's Board of Directors has reviewed the independence of its members as required by the listing standards of the New York Stock Exchange and has determined that none of the nine non-employee Directors has a material relationship with PolyOne and that each such Director is independent in accordance with the listing standards of the New York Stock Exchange. PolyOne's independent Directors meet regularly in executive sessions chaired by William F. Patient, Chairman of the Board. The Board and each Committee conduct an annual self-evaluation.

A shareholder who wishes to suggest a Director candidate for consideration by the Compensation and Governance Committee must provide written notice to the Secretary of PolyOne in accordance with the procedures specified in Regulation 12 of PolyOne's 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 PolyOne 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.

The nominees for election as Directors for terms expiring in 2006 and a description of the business experience of each nominee appear below. 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 a predecessor to PolyOne. The information is current as of March 21, 2005.

J. Douglas Campbell Director since 1993 Age 63	Chairman and Chief Executive Officer of ArrMaz Custom Chemicals, Inc., a specialty mining and asphalt additives and reagents producer, since December 2003. 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 63	President of Kent State University, a public higher education institution, since 1991. Ms. Cartwright serves on the Boards of Directors of KeyCorp, FirstEnergy and The Davey Tree Expert Company.

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Gale Duff-Bloom Director since 1994 Age 65	Served as President of Company Communications and Corporate Image of J.C. Penney Company, Inc., a major retailer, from June 1999 until her retirement in April 2000. From 1996 to June 1999, Ms. Duff-Bloom served as President of Marketing and Company Communications and from 1995 to 1996 as Senior Executive Vice President and Director of Personnel and Company Communications of J.C. Penney.
Wayne R. Embry Director since 1990 Age 67	Senior Advisor to the General Manager of the Toronto Raptors, a professional basketball team, since June 2004. Mr. Embry served as President and Chief Operating Officer, Team Division, of the Cleveland Cavaliers from 1986 until his retirement in 2000. Mr. Embry serves on the Board of Directors of Kohl's Corporation.
Richard H. Fearon Director since 2004 Age 49	Executive Vice President – Chief Financial and Planning Officer of Eaton Corporation, a global manufacturing company, since April 2002. Mr. Fearon served as Partner of Willow Place Partners LLC from 2001 to 2002. From 1995 to 2000, Mr. Fearon was the Senior Vice President – Corporate Development for Transamerica Corporation.
Robert A. Garda Director since 1998 Age 66	Executive-in-Residence of The Fuqua School of Business, Duke University, since 1997. Mr. Garda served as an independent consultant from 1995 to 1997. Mr. Garda served as President and Chief Executive Officer of Aladdin Industries from 1994 to 1995. Prior to that, Mr. Garda was a Director at McKinsey & Company, Inc. Mr. Garda serves on the Boards of Directors of Insect Biotechnology, Inc. and GED, Inc.
Gordon D. Harnett Director since 1997 Age 62	Chairman, President and Chief Executive Officer of Brush Engineered Materials Inc., an international supplier and producer of high performance engineered materials, since 1991. Mr. Harnett serves on the Boards of Directors of The Lubrizol Corporation and EnPro Industries, Inc.
William F. Patient Director since 2003 Age 70	Chairman of the Board since November 2003. Served as the Chairman of the Board and Chief Executive Officer of The Geon Company from 1993 until his retirement in 1999.
Thomas A. Waltermire Director since 1998 Age 55	Chief Executive Officer and President of PolyOne since August 31, 2000 and Chairman of the Board from August 2000 until November 2003. Prior to the formation of PolyOne at the end of August 2000, Mr. Waltermire served as Chairman of the Board of The Geon Company from August 1999 and Chief Executive Officer and President of Geon from May 1999. From February 1998 to May 1999, Mr. Waltermire served as President and Chief Operating Officer of Geon. Earlier, Mr. Waltermire held various positions with Geon, including Chief Financial Officer. Mr. Waltermire serves on the Board of Directors of Nucor Corporation.
Farah M. Walters Director since 1998 Age 60	Served as President and Chief Executive Officer of University Hospitals Health System and University Hospitals of Cleveland from 1992 until her retirement in June 2002. Ms. Walters serves on the Boards of Directors of Kerr-McGee Corporation and Alpharma Inc.

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Committees of the Board of Directors; Attendance

The Board has an Audit Committee consisting of Messrs. Harnett, the Chairperson, Fearon, Garda and Patient and Ms. Cartwright; a Compensation and Governance Committee consisting of Mss. Walters, the Chairperson, Cartwright and Duff-Bloom and Messrs. Campbell, Embry, Fearon, Garda and Harnett; an Environmental, Health and Safety Committee consisting of Messrs. Embry, the Chairperson, Campbell and Patient and Ms. Duff-Bloom; and a Financial Policy Committee consisting of Messrs. Campbell, the Chairperson, Embry and Patient and Mss. Duff-Bloom and Walters.

The Audit Committee, which met eight times during 2004, meets with appropriate financial and legal personnel and independent auditors to review PolyOne's corporate accounting, internal controls, financial reporting and compliance with legal and regulatory requirements. The Committee exercises oversight of the independent auditors, the internal auditors and the financial management of PolyOne. The Audit Committee appoints the independent auditors to serve as auditors in examining PolyOne's corporate accounts. PolyOne's 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. On September 6, 2000, the Board adopted an Audit Committee charter, which was amended on December 10, 2003 and is available to shareholders on PolyOne's website at www.polyone.com.

The Compensation and Governance Committee, which met eight times during 2004, reviews and approves compensation, benefits and perquisites afforded PolyOne's 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 PolyOne's broad-based compensation and benefit programs and provides policy guidance and oversight on selected human resource policies and practices. The Committee recommends to the Board of Directors candidates for nomination as Directors of PolyOne, 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. On May 15, 2003, the Board adopted a Compensation and Governance Committee Charter, which was amended on May 20, 2004 and is available to shareholders on PolyOne's website at www.polyone.com.

The Compensation and Governance Committee will consider shareholder suggestions for nominees for election to PolyOne's Board of Directors as described on Page 3. The Committee utilizes 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;

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

Substantial accomplishments with demonstrated leadership capabilities;

Freedom from outside interests that conflict with the best interests of PolyOne;

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

The needs of PolyOne 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. These criteria have been established by the Committee as 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.

During 2004, the Committee retained Christian & Timbers as a third-party search firm, at PolyOne's 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 Environmental, Health and Safety Committee, which met two times during 2004, exercises oversight with respect to PolyOne's environmental, health, safety, security and product stewardship policies and practices and its compliance with related laws and regulations.

The Financial Policy Committee, which met four times during 2004, exercises oversight with respect to PolyOne's 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 relating to PolyOne.

During 2004, 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.

Corporate Governance

The Board of Directors has adopted a written charter for each of the committees of the Board of Directors. These charters, as well as PolyOne's Code of Ethics, Code of Conduct and Corporate Governance Guidelines, 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 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.

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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 received by PolyOne 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 PolyOne's internal audit department and handled in accordance with procedures established by the Audit Committee for such matters.

Compensation of Directors

PolyOne pays 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. PolyOne grants the shares quarterly and determines 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. PolyOne pays 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. The Chairman of the Board of Directors receives an additional fixed annual cash retainer of \$200,000, payable quarterly. PolyOne reimburses Directors for their expenses associated with each meeting attended.

PolyOne generally grants each new Director who is not an employee of PolyOne 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 any present or future stock plan of PolyOne having shares available for these awards.

Directors who are not employees of PolyOne may defer payment of all or a portion of their compensation as a Director under PolyOne's Deferred Compensation Plan for Non-Employee Directors (the Directors' Deferred Compensation Plan). A Director may defer the compensation as cash or elect to have it converted into PolyOne 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 earned on the cash amounts and dividends on the common shares accrue for the benefit of the participating Directors.

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The following table shows the number of common shares beneficially owned on March 21, 2005 (including options exercisable within 60 days of that date) by each of the Directors and nominees, each of the executive officers named in the Summary Compensation Table on page 13 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	83,498(2)	60,000	143,498
Carol A. Cartwright	57,732(2)	39,000	96,732
Gale Duff-Bloom	66,846(2)	60,000	126,846
Wayne R. Embry	21,649(2)	39,000	60,649
Richard H. Fearon	1,085	15,000	16,085
Robert A. Garda	49,616(2)	61,500	111,116
Gordon D. Harnett	72,750(2)	61,500	134,250
William F. Patient	62,718	288,000	350,718
Thomas A. Waltermire	245,950	1,193,388	1,439,338
Farah M. Walters	61,923(2)	54,000	115,923
V. Lance Mitchell	90,635	385,136	475,771
W. David Wilson	111,505	428,776	540,281
Wendy C. Shiba	43,030	124,890	167,920
Michael L. Rademacher	32,846	192,644	225,490
16 Directors and executive officers as a group	1,095,486	3,256,552	4,352,038

(1) Except as otherwise stated in the notes below, 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 the approximate number of shares credited to the named executives' accounts in The PolyOne Retirement Savings Plan, a tax-qualified defined contribution plan. The number of shares of common stock allocated to these individuals is provided by the savings plan administrator in a statement for the period ending December 31, 2004, based on the market value of the applicable plan units held by the individual. Additional shares of common stock 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 21, 2005, more than 1% of PolyOne's outstanding common shares, except Mr. Waltermire, who owned 1.55%. As of that date, the Directors and executive officers as a group beneficially owned approximately 4.58% of the outstanding common shares.

(2) With respect to the Directors, except Mr. Waltermire, who is not eligible to participate in the Directors' Deferred Compensation Plan, beneficial ownership includes shares held under the Directors' Deferred Compensation Plan as follows: J.D. Campbell, 81,442 shares; C.A. Cartwright, 48,642 shares; G. Duff-Bloom, 66,348 shares; W.R. Embry, 11,102 shares; R.A. Garda, 28,074 shares; G.D. Harnett, 55,939 shares; and F.M. Walters, 60,867.

(3) Includes shares the individuals have a right to acquire on or before May 20, 2005.

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The following table shows information relating to all persons who, as of March 21, 2005, were known by us to beneficially own more than five percent of PolyOne's 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
FMR Corp. 82 Devonshire Street Boston, Massachusetts 02109	11,698,786(1)	12.7%
New York Life Trust Company, as Trustee for The PolyOne Retirement Savings Plan 51 Madison Avenue New York, New York 10010	7,015,886(2)	7.6%
Barrow, Hanley, Mewhinney & Strauss, Inc. One McKinney Plaza 3232 McKinney Avenue, 15th Floor Dallas, TX 75204-2429	4,844,820(3)	5.3%

- (1) As of February 14, 2005, 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 502,360 of these shares and has sole dispositive power with respect to all of these shares.
- (2) As of February 15, 2005, 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 for various collective investment funds for employee benefit plans and other index accounts, as a bank, has sole voting power and sole dispositive power with respect to all of these shares.
- (3) As of February 8, 2005, based upon information contained in a Schedule 13G filed with the Commission. Barrow, Hanley, Mewhinney & Strauss, Inc. has sole voting power with respect to 2,193,700 of these shares and has sole dispositive power with respect to all of these shares.

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EXECUTIVE COMPENSATION

Report of the Compensation and Governance Committee on Executive Compensation

The Compensation and Governance Committee of the Board of Directors (the Committee) is responsible for establishing PolyOne's compensation and benefit policies and reviewing PolyOne's philosophy regarding executive remuneration to assure consistency with its goals and business strategy. The Committee has retained an independent compensation consultant to assist in fulfilling its duties and responsibilities. Each year the Committee reviews market data to assess PolyOne's competitive position with respect to all aspects of executive compensation and considers and approves changes in base salary and incentive levels for executive officers and key employees (including annual and long-term, equity-based awards). The Committee also reviews and approves annual and long-term performance criteria and goals at the beginning of each performance period and certifies the results at the end of each performance period. In addition, the Committee has oversight responsibilities for all of PolyOne's broad-based compensation and benefit programs.

General Compensation Philosophy

The Committee believes that pay should be administered on a total remuneration basis, with consideration of the value of all components of compensation. Total remuneration opportunities should be competitive and serve to attract, retain, motivate and reward employees based upon their experience, responsibility, performance and marketability. Compensation should be affordable and fair to both employees and shareholders. Incentive programs should create a strong mutuality of interests between executives and shareholders through the use of equity-based compensation and the selection of performance criteria that are consistent with PolyOne's strategic objectives.

Executive Compensation

PolyOne's executive compensation program has the following principal components: base salary, annual incentive compensation and long-term incentive compensation. As an executive's level of responsibility increases, a greater portion of his or her potential total remuneration is based on performance incentives (including stock-based awards) rather than on salary. This approach may result in changes in an executive's total compensation from year to year if there are variations in PolyOne's performance and/or the performance of PolyOne's individual business units versus established goals.

The total remuneration program is designed to be competitive with companies of comparable size and industry as well as companies with which PolyOne competes for executive talent. This involves reviewing the total remuneration programs of companies within both the specialty chemical industry and a broad-base of industrial companies. To assess the competitive total remuneration programs of these other companies and to establish appropriate compensation comparisons, the Committee receives advice from its independent compensation consultant and reviews data that is based on a specialty chemical peer group as well as various published surveys. The Committee generally sets the target level of long-term incentive compensation to approximate the median of the market data, with adjustments to account for specific facts and circumstances at PolyOne.

Base Salaries

The Committee annually reviews the base salaries of executive officers. Prior to the meeting at which the annual review occurs, the Committee is furnished with data on the current total compensation of each executive, current marketplace data for comparable positions, individual performance appraisals and recommended adjustments by the Chief Executive Officer for each

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executive officer except himself. At the meeting, the Committee reviews all available data and considers and approves adjustments. In addition, the Committee reviews marketplace data for, and the performance of, the Chief Executive Officer and determines the appropriate adjustment.

Executive officer salaries were not adjusted during the first half of 2004, in view of the prevailing, difficult market conditions. In July, after the Committee had determined that PolyOne's objectives through June had been attained, it approved salary increases for the executive officers. In 2005, the Committee may grant a salary increase, at its discretion, based on company performance and business conditions.

PolyOne accrues for base salary costs on a daily basis and payments to employees are made bi-weekly (normally 26 payments per year). This can create a timing difference between the accrued company cost and the payment to the employee. Approximately every twelve years, a twenty-seventh payment occurs due to the calendar. This occurred in 2004, resulting in salary increases in the Summary Compensation Table consisting of this extra payment plus the salary increases effected in July 2004.

Deductibility of Compensation Under IRC Section 162(m)

The Committee is aware of Section 162(m) of the tax 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 PolyOne's 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 PolyOne's business objectives.

Incentive Compensation

The Senior Executive PolyOne Annual Incentive Plan (the PolyOne AIP) provides for awards that are wholly contingent upon the attainment of performance goals established by the Committee.

At its meeting on December 10, 2003, the Committee approved 2004 PolyOne AIP performance targets related to corporate debt reduction, free cash flow, operating income, and business unit operating income. A portion of the 2004 PolyOne AIP awards was payable in July based on operating income performance during the first six months of 2004, to reinforce the urgency of 2004 performance improvement imperatives. In February 2005, the Committee approved final AIP awards based on PolyOne's and its business units' performance in relation to the aforementioned goals. These AIP awards are disclosed in the Summary Compensation Table for 2004 performance.

Long Term Incentives

In December 2003, under the PolyOne Corporation 2000 Stock Incentive Plan, the Committee approved grants of Target-Priced Stock Appreciation Rights (SARs) as the 2004 long-term incentive awards. Target-Priced SARs were granted with exercise terms of 36 months, and with vesting contingent upon the attainment of target prices of \$8, \$9 and \$10 of PolyOne's common stock. The purpose of the Target-Priced SAR grants was to reinforce the importance of significant, near-term improvements in PolyOne's returns to shareholders. Two-thirds of the Target-Priced SAR awards vested in 2004, based on the performance of the stock in relation to the \$8 and \$9 goals.

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Rather than make long-term incentive awards in December 2004, the Committee awaited guidance on the impact of granting SARs under the Jobs Creation Act of 2004; hence no long-term incentive awards appear in the Summary Compensation Table for 2004. The Committee did act in January 2005 to approve long-term incentive awards under two vehicles. Most of the award's value was in the form of performance shares, with the remainder in the form of stock-settled SARs. Performance shares vest only to the extent that management goals for cash flow, return on invested capital (ROIC), and level of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) in relation to debt are achieved over the next three years. Stock-settled SARs were granted with exercise terms of seven years, and vesting based on 10%, 20%, and 30% stock price appreciation goals to reinforce PolyOne's ongoing commitment to enhancing shareholder returns. Because of the timing of these long-term incentive awards, they will be reported in the compensation tables in next year's proxy statement.

Chief Executive Officer

At Mr. Waltermire's request, in recognition of business conditions, his base salary was reduced by 10% to \$621,600 effective February 1, 2003. After a review of year-to-date performance, which showed PolyOne attaining its objectives, in July 2004 the Committee restored his salary to the level of \$690,600, where it was prior to February 2003 and has remained essentially unchanged since January 2001.

In 2004, Mr. Waltermire participated in the PolyOne AIP under similar terms and conditions as other executive officers and as described above. Based on PolyOne's performance in 2004 against pre-set goals, the Committee approved for Mr. Waltermire an AIP award of \$176,102 based on operating income performance through June and an additional \$757,374 based on performance for the entire year under the PolyOne AIP.

Mr. Waltermire's long-term incentive awards were made consistent with the other executive officers as described above (consisting of Target Priced SARs awarded in December 2003 and stock-settled SARs and performance shares awarded in January 2005). Because of the timing of these long-term incentive awards, they will be reported in the compensation tables in next year's proxy statement.

**THE COMPENSATION AND
GOVERNANCE COMMITTEE
OF THE BOARD OF DIRECTORS**

Farah M. Walters, Chairperson
J. Douglas Campbell
Carol A. Cartwright
Gale Duff-Bloom
Wayne R. Embry
Robert A. Garda
Gordon D. Harnett

February 21, 2005

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The following table sets forth the compensation received for the three years ended December 31, 2004 by PolyOne's Chief Executive Officer and the persons who were at December 31, 2004 the four other most highly paid executive officers.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long Term Compensation				
		Salary\$(1)	Bonus(\$)	Other Annual Compen- sation\$(2)	Awards	Payouts	Awards	Payouts	All Other Compen- sation(\$)
					Stock Awards(\$)	Options/ SARs (# of Shares)	LTIP Payouts (# of Shares)		
Thomas A. Waltermire President and Chief Executive Officer	2004	678,681	933,476	(2)	0	0	0	70,258(3)	
	2003	630,808	0	(2)	0	509,740	0	90,586(3)	
	2002	690,000	168,900	(2)	0	299,200	0	58,008(3)	
V. Lance Mitchell Group Vice President	2004	339,027	228,508	(2)	0	0	0	26,252(4)	
	2003	320,889	0	(2)	0	174,160	0	34,373(4)	
	2002	335,000	27,700	(2)	0	96,800	0	27,269(4)	
W. David Wilson Vice President and Chief Financial Officer	2004	329,200	266,348	(2)	0	0	0	31,416(5)	
	2003	311,754	0	(2)	0	169,260	0	40,659(5)	
	2002	325,000	46,900	(2)	0	94,000	0	24,102(5)	
Wendy C. Shiba Vice President, Chief Legal Officer and Secretary	2004	320,192	259,060	(2)	0	0	0	15,443(6)	
	2003	286,188	0	(2)	0	128,200	0	32,122(6)	
	2002	300,000	63,200	(2)	0	67,700	0	12,000(6)	
Michael L. Rademacher Vice President and General Manager, Distribution	2004	269,231	233,753	(2)	0	0	0	16,359(7)	
	2003	238,496	64,500	(2)	0	106,780	0	27,619(7)	
	2002	250,000	93,000	36,462(8)	0	56,400	0	9,506(7)	

- (1) A portion of the 2004 annual salary includes the twenty-seventh payment as described in the last paragraph of the Base Salaries section of the Report of the Compensation and Governance Committee on Executive Compensation.
- (2) Indicates perquisites and other personal benefits did not exceed the lesser of \$50,000 or 10% of the total salary and bonus for the year shown.
- (3) Amounts under All Other Compensation for Mr. Waltermire include PolyOne's cash contributions to PolyOne's qualified savings plan in the amounts of \$16,913 for 2004, \$24,000 for 2003 and \$11,000 for 2002 and amounts accrued under PolyOne's non-qualified retirement plan providing for benefits in excess of the amounts permitted to be contributed under the qualified savings plan in the amounts of \$53,345 for 2004, \$66,586 for 2003 and \$47,008 for 2002.

- (4) Amounts under "All Other Compensation" for Mr. Mitchell include PolyOne's cash contributions to PolyOne's qualified savings plan in the amounts of \$13,838 for 2004, \$21,000 for 2003 and \$11,000 for 2002 and amounts accrued under PolyOne's non-qualified retirement plan providing for benefits in excess of the amounts permitted to be contributed under the qualified savings plan in the amounts of \$12,414 for 2004, \$13,373 for 2003 and \$16,269 for 2002.
- (5) Amounts under "All Other Compensation" for Mr. Wilson include PolyOne's cash contributions to PolyOne's qualified savings plan in the amount of \$13,888 for 2004, \$24,000 for 2003 and \$11,000 for 2002 and amounts accrued under PolyOne's non-qualified retirement plan providing for benefits in excess of the amounts permitted to be contributed under the qualified savings plan in the amounts of \$17,528 for 2004, \$16,659 for 2003 and \$13,102 for 2002.
- (6) Amounts under "All Other Compensation" for Ms. Shiba include PolyOne's cash contributions to PolyOne's qualified savings plan in the amount of \$7,110 for 2004, \$11,934 for 2003 and \$4,250 for 2002 and amounts accrued under PolyOne's non-qualified retirement plans providing for benefits in excess of the amounts permitted to be contributed under the qualified savings plan in the amount of \$8,333 for 2004, \$20,188 for 2003 and \$7,750 for 2002.

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- (7) Amounts under "All Other Compensation" for Mr. Rademacher includes PolyOne's cash contributions to PolyOne's qualified savings plan in the amount of \$6,050 for 2004, \$12,427 for 2003 and \$5,131 for 2002 and amounts accrued under PolyOne's non-qualified retirement plans providing for benefits in excess of the amounts permitted to be contributed under the qualified savings plan in the amount of \$10,309 for 2004, \$15,192 for 2003 and \$4,375 for 2002.
- (8) Amount under "Other Annual Compensation" for Mr. Rademacher in 2002 includes tax gross-ups on personal benefits in the amount of \$11,572, car allowance in the amount of \$12,000 and financial planning expenses in the amount of \$10,755.

Aggregated Option/SAR Exercises in Last Fiscal