JOHNSON OUTDOORS INC
Form 10-Q
August 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 2, 2010

OR

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

For the transition period from _________ to _________

Commission file number 0-16255

JOHNSON OUTDOORS INC.
(Exact name of Registrant as specified in its charter)

Wisconsin	39-1536083
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

555 Main Street, Racine, Wisconsin 53403
(Address of principal executive offices)

(262) 631-6600
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer," "accelerated filer” and "smaller reporting

company" in Rule 12b-2 of the Exchange Act (Check one): Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer (do not check if a smaller reporting company) [ ] Smaller reporting company [X].

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

As of July 27, 2010, 8,363,485 shares of Class A and 1,216,464 shares of Class B common stock of the Registrant were outstanding.

JOHNSON OUTDOORS INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

JOHNSON OUTDOORS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended		Nine Months Ended	
	July 2	July 3	July 2	July 3
(thousands, except per share data)	2010	2009	2010	2009
Net sales	$ 123,954	$ 114,850	$ 307,311	$ 291,236
Cost of sales	72,467	68,755	184,082	180,067
Gross profit	51,487	46,095	123,229	111,169
Operating expenses:				
Marketing and selling	23,974	23,295	66,848	65,337
Administrative management, finance and information systems	10,646	9,491	28,762	26,512
Research and development	3,514	2,723	9,767	8,165
Total operating expenses	38,134	35,509	105,377	100,014
Operating profit	13,353	10,586	17,852	11,155
Interest income	(26)	(18)	(46)	(163)
Interest expense	1,393	2,647	4,014	7,366
Other (income) expense, net	565	(421)	94	243
Income before income taxes	11,421	8,378	13,790	3,709
Income tax expense (benefit)	989	(612)	1,411	(805)
Income from continuing operations	10,432	8,990	12,379	4,514
Income from discontinued operations	-	-	-	41
Net income	$ 10,432	$ 8,990	$ 12,379	$ 4,555
Weighted average common shares - Basic:				
Class A	8,031	7,961	8,001	7,944
Class B	1,216	1,216	1,216	1,216
Dilutive stock options	43	8	43	8
Weighted average common shares - Dilutive	9,290	9,185	9,260	9,168
Income from continuing operations per common share - Basic:				
Class A	$ 1.10	$ 0.98	$ 1.31	$ 0.49
Class B	$ 1.00	$ 0.88	$ 1.19	$ 0.44
Income from discontinued operations per common share - Basic:				
Class A	$ -	$ -	$ -	$ -
Class B	$ -	$ -	$ -	$ -
Net income per common share - Basic:				
Class A	$ 1.10	$ 0.98	$ 1.31	$ 0.49

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PolyOne utilized an option pricing model based on the Black-Scholes method to value the SARs granted in 2008. Under this method, the fair value of awards on the date of grant is an estimate and is affected by the Company s stock price, as well as assumptions regarding a number of highly complex and subjective variables as noted in the following table. Expected volatility was set at the 37% based upon the historical weekly volatility of PolyOne common stock during the 4.5 years preceding the date of grant. The expected term of SARs granted was determined based on the Securities and Exchange Commission s simplified method described in Staff Accounting Bulletin (SAB) No. 107. This method results in an expected term of 4.5 years, equal to halfway between the average vesting of two years and the expiration of seven years. SAB No. 110 allows companies lacking sufficient historical exercise experience to continue use of this method. Dividends were omitted in this calculation because PolyOne does not currently pay dividends. The risk-free rate of return was based on available yields on U.S. Treasury bills of the same duration as the expected option term. Forfeitures were estimated at 3% per year and were based on PolyOne s historical experience.
Due to the fact that the SARs granted during 2006 and 2007 vested in one-third increments based on certain stock price achievement, the option pricing model used by PolyOne to value the SARs granted during 2006 and 2007 was a Monte Carlo simulation method.
The following is a summary of the assumptions related to the grants issued during the first quarter of 2008:

	2008
Expected volatility	37.00%
Expected dividends	
Expected term	4.5 years
Risk-free rate	2.48%
Value of SAR options granted	$ 2.26

A summary of SAR option activity as of March 31, 2008 and changes during the three months then ended are presented below:
(Shares in thousands, dollars in millions, except per share data)

Stock Appreciation Rights	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2008	2,991	$ 7.30		
Granted	1,034	6.77		
Exercised				
Forfeited or expired	(1)	6.51		
Outstanding at March 31, 2008	4,024	$ 7.16	5.57 years	$
Vested and exercisable at March 31, 2008	2,347	$ 7.12	5.24 years	$

The weighted-average grant date fair value of SARs granted during the three months ended March 31, 2008 and 2007 was $2.26 and $2.72, respectively. No SARs were exercised in either of the three-month periods ended March 31, 2008 and 2007.
As of March 31, 2008, there was $2.3 million of total unrecognized compensation cost related to SARs, which is expected to be recognized over the next 35 months.
Stock Options

PolyOne s incentive stock plans previously provided for the award or grant of options to purchase PolyOne common stock. Options granted generally became exercisable at the rate of 35% after one year, 70% after two years and 100% after three years. The term of each option does not extend beyond 10 years from the date of grant. All options were granted at 100% or greater of market value (as defined) on the date of the grant.

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A summary of option activity as of March 31, 2008 and changes during the three months then ended follows:
(Shares in thousands, dollars in millions, except per share data)

Options	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2008	6,153	$ 11.17		
Granted				
Exercised	(2)	3.60		
Forfeited or expired	(1,589)	10.71		
Outstanding, vested and exercisable at March 31, 2008	4,562	$ 11.33	1.89 Years	$ 0.2

Cash received during the first three months of 2008 and 2007 from the exercise of stock options was $0.0 million and $0.3 million, respectively.

Performance Shares

In January 2005, the Compensation and Governance Committee authorized the issuance of performance shares to selected executives and other key employees. The performance shares vest only to the extent that management goals for cash flow, return on invested capital, and the level of earnings before interest, taxes, depreciation and amortization in relation to debt are achieved for the period commencing January 1, 2005 and ending December 31, 2007. Of the 388,500 performance share awards outstanding at December 31, 2007, 33% vested and were paid out in shares issued from treasury, net of tax. No net compensation expense was recognized on these awards for the three months ended March 31, 2008. During the three months ended March 31, 2007, a benefit of $1.2 million was recognized on these awards.

Restricted Stock Units

During the first quarter of 2008, 419,600 units of restricted stock were granted to selected executives and other key employees. Restricted stock units (RSUs) represent a contingent right to receive one share of the Company s common stock at a future date provided a continuous three-year service period is attained. Compensation expense is measured on the grant date using the quoted market price of the Company s common stock and is recognized on a straight-line basis over the requisite service period.

As of March 31, 2008, 419,600 RSUs remain unvested with a weighted-average grant date fair value of $6.73 and a weighted-average remaining contractual term of 35 months. Compensation expense recorded during the three months ended March 31, 2008 was $0.1 million. Unrecognized compensation cost for RSUs at March 31, 2008 was $2.7 million.

Restricted Stock Awards

As of March 31, 2008, 239,600 shares of restricted stock remain unvested with a weighted-average grant date fair value of $8.66 and a weighted-average remaining contractual term of 13 months. Compensation expense recorded during the three months ended March 31, 2008 and 2007 was $0.2 million and $0.2 million, respectively. Unrecognized compensation cost for restricted stock awards at March 31, 2008 was $0.7 million.

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Note I Earnings Per Share Computation

(In millions)	Three Months Ended March 31, 2008	2007
Weighted-average shares outstanding basic	92.9	92.6
Weighted-average shares diluted:		
Weighted-average shares outstanding basic	92.9	92.6
Plus dilutive impact of stock options and stock awards	0.4	0.4
Weighted-average shares diluted	93.3	93.0

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

Outstanding SARs and stock options with exercise prices greater than the average price of the common shares are anti-dilutive and are not included in the computation of diluted earnings per share. The number of anti-dilutive options and awards was 5.0 million at March 31, 2008 and 6.9 million at March 31, 2007.

Note J Employee Separation and Plant Phaseout

Since the formation of PolyOne in 2000, management has undertaken several restructuring initiatives to improve profitability and, as a result, PolyOne has incurred employee separation and plant phaseout costs. For further discussion of these initiatives, see Note E to the Consolidated Financial Statements included in PolyOne s Annual Report on Form 10-K for the year ended December 31, 2007.

For the three-month periods ended March 31, 2008 and 2007, no charges were recorded for employee separation or plant phaseout activities. Cash spending during the three-month periods ended March 31, 2008 and 2007 was $0.5 million and $0.2 million, respectively. During the three-month period ended March 31, 2008, the Company paid $0.3 million related to executive severance and $0.2 million related to employee severance associated with plant related reduction programs. PolyOne s liability for unpaid severance costs was $0.7 million at March 31, 2008 and will be paid over the next nine months in 2008.

Note K Employee Benefit Plans

Components of defined benefit pension plan costs are as follows:

(In millions)	Three Months Ended March 31, 2008	2007
Service cost	$ 0.3	$ 0.3
Interest cost	8.1	7.6
Expected return on plan assets	(8.3)	(8.0)
Amortization of unrecognized losses, transition obligation and prior service cost	2.0	2.6
	$ 2.1	$ 2.5

PolyOne estimates that the minimum funding requirements in 2008 for its qualified defined pension plans will approximate $18.2 million.

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

(In millions)	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Service cost	$ 0.1	$ 0.1
Interest cost	1.5	1.4
Expected return on plan assets		
Amortization of unrecognized losses, transition obligation and prior service cost	(1.1)	(1.1)
	$ 0.5	$ 0.4

Note L Financing Arrangements

At March 31, 2008, PolyOne had long-term debt of $331.8 million, with maturities through 2015. Current maturities of long-term debt at March 31, 2008 and December 31, 2007 were $22.7 million and $22.6 million, respectively.

On January 3, 2008, the Company entered into a credit agreement with Citicorp USA, Inc., as administrative agent and as issuing bank, and The Bank of New York, as paying agent. The credit agreement provides for an unsecured revolving and letter of credit facility with total commitments of up to $40.0 million. The credit agreement expires on March 20, 2011. Borrowings under the revolving credit facility are based on the applicable LIBOR rate plus a fixed fee. On January 9, 2008, the Company borrowed $40.0 million under the agreement which is included in short-term bank debt on the Condensed Consolidated Balance Sheet at March 31, 2008.

PolyOne is exposed to market risk from changes in interest rates on debt obligations and from changes in foreign currency exchange rates. Information about these risks and exposure management is included in Item 7A Qualitative and Quantitative Information about Market Risk in PolyOne s Annual Report on Form 10-K for the year ended December 31, 2007. PolyOne periodically enters into interest rate swap agreements that modify its exposure to interest rate risk by converting fixed-rate obligations to floating rates. PolyOne maintained interest rate swap agreements on one of its fixed-rate obligations in the aggregate amount of $10.0 million at March 31, 2008. At March 31, 2008, this agreement had a fair value obligation of $0.1 million. The interest rate for this agreement at March 31, 2008 was 9.14%.

In connection with the $40.0 million borrowed under the revolving credit facility in January 2008, the Company entered into a $40.0 million floating to fixed interest rate swap expiring on January 9, 2009, resulting in an effective interest rate of 8.4%. This derivative is not treated as a hedge and, as a result, is marked to market, with the resulting gain and loss recognized as interest expense in the Condensed Consolidated Statements of Income. At March 31, 2008, this agreement had a fair value obligation of $0.4 million.

There have been no material changes in the market risk faced by PolyOne from December 31, 2007 to March 31, 2008.

Note M Sale of Accounts Receivable

Accounts receivable consist of the following:

(In millions)	March 31, 2008	December 31, 2007
Trade accounts receivable	$ 216.2	$ 169.8
Retained interest in securitized accounts receivable	113.4	175.8
Allowance for doubtful accounts	(5.0)	(4.8)
	$ 324.6	$ 340.8

Under the terms of its receivables sale facility, PolyOne sells its accounts receivable to PolyOne Funding Corporation (PFC), a wholly owned, fully consolidated, bankruptcy-remote subsidiary. PFC in turn may sell an undivided interest in these accounts receivable to certain investors. This facility size is $200.0 million, including the Canadian receivable

facility referenced below. As of March 31, 2008, $60.5 million was available. The receivables sale facility was amended in June 2007 to extend the maturity of the facility to June 2012 and to, among other things, modify certain financial covenants and reduce the cost of utilizing the facility. In July 2007, the Company entered into a Canadian receivables purchase agreement, which increased the facility size by $25.0 million to $200.0 million.

At March 31, 2008 and December 31, 2007, accounts receivable totaling $200.0 million and $175.8 million, respectively, were sold by PolyOne to PFC. The maximum amount of proceeds that PFC may receive under the facility is limited to 85% of the eligible accounts receivable that are sold to PFC. At March 31, 2008, PFC had sold $86.6 million of its undivided interest in accounts receivable. At December 31, 2007, PFC had sold none of its undivided interest in accounts receivable.

PolyOne retained an interest in the difference between the amount of trade receivables sold by PolyOne to PFC and the undivided interest sold by PFC as of March 31, 2008 and December 31, 2007. As a result, the interest retained by PolyOne of $113.4 million and $175.8 million is included in accounts receivable on the Condensed Consolidated Balance Sheets at March 31, 2008 and December 31, 2007, respectively.

The receivables sale facility also makes up to $40.0 million available for the issuance of standby letters of credit as a sub-limit within the $200.0 million facility, of which $11.4 million was used at March 31, 2008. Continued availability of the receivables sale facility depends upon compliance with a fixed charge coverage ratio covenant related primarily to operating performance that is set forth in the related agreements. As of March 31, 2008, PolyOne was in compliance with this covenant.

Note N Segment Information

PolyOne manages its business in eight operating segments, of which five are reportable segments: Geon Performance Polymers, International Color and Engineered Materials, PolyOne Distribution, Specialty Engineered Materials and Resin and Intermediates. The All Other category includes three operating segments, none of which meets the quantitative thresholds for separate disclosure: North American Color and Additives, Producer Services and Specialty Inks and Polymer Systems.

On March 20, 2008, PolyOne announced the Specialty Engineered Materials segment. This segment includes PolyOne s TPE compounds product line in Europe and Asia (historically included in International Color and Engineered Materials), North American Engineered Materials (historically included in All Other) and GLS. As of April 15, 2008, the Vinyl Business segment has been re-branded to be called Geon Performance Polymers. Prior period results of operations have been reclassified to conform to the 2008 presentation.

The accounting policies of each segment are consistent with those described in Summary of Significant Accounting Policies in Note C to the Consolidated Financial Statements included in PolyOne s Annual Report on Form 10-K for the year ended December 31, 2007.

Operating income is the primary measure that is reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. The measure of segment operating income or loss that is reported to and reviewed by the chief operating decision maker excludes significant costs that are not controllable by or the responsibility of segment management. These costs are included in Corporate and eliminations and consist of: 1) inter-segment sales and profit eliminations; 2) charges related to specific strategic initiatives such as the consolidation of operations; 3) significant restructuring activities, including employee separation costs resulting from personnel reduction programs, plant closure and phaseout costs; 4) executive separation agreements; 5) share-based compensation costs; 6) asset impairments; 7) environmental remediation costs for facilities no longer owned or closed in prior years; 8) gains and losses on the divestiture of joint ventures and equity investments; and 9) certain other items.

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Segment information for the three-month periods ended March 31, 2008 and 2007 follows:

	Three Months Ended March 31, 2008			March 31, 2008	Three Months Ended March 31, 2007		
(In millions)	Sales to External Customers	Total Sales	Segment Operating Income (Loss)	Total Assets	Sales to External Customers	Total Sales	Segment Operating Income (Loss)
Geon Performance Polymers	$ 197.8	$ 223.0	$ 7.1	$ 488.4	$ 206.4	$ 233.1	$ 20.4
International Color and Engineered Materials	165.2	165.2	7.8	441.2	144.0	144.0	6.0
PolyOne Distribution	199.8	201.1	5.5	201.6	183.2	184.4	4.6
Specialty Engineered Materials	58.2	64.5	2.9	254.3	25.1	32.4	(0.9)
Resin and Intermediates			5.9	22.7			4.3
All Other	92.7	94.7	4.0	255.1	99.1	99.9	1.5
Corporate and eliminations		(34.8)	(13.1)	68.2		(36.0)	(9.4)
Total	$ 713.7	$ 713.7	$ 20.1	$ 1,731.5	$ 657.8	$ 657.8	$ 26.5

Note O Commitments and Contingencies

PolyOne has been notified by certain federal and state environmental agencies and by private parties that it may be a potentially responsible party (PRP) in connection with the investigation and remediation of several environmental waste disposal sites. While government agencies frequently assert that PRPs are jointly and severally liable at these sites, in PolyOne s experience, the interim and final allocations of liability costs are generally made based on the relative contribution of waste. PolyOne believes that its potential continuing liability with respect to these sites will not have a material adverse effect on its consolidated financial position, results of operations or cash flows. In addition, PolyOne initiates corrective and preventive environmental projects of its own to ensure safe and lawful activities at its operations. PolyOne believes that compliance with current governmental regulations at all levels will not have a material adverse effect on its financial condition.

During the three-month periods ended March 31, 2008 and 2007, PolyOne recorded $1.6 million and $1.0 million, respectively, of expense related to future environmental activities at all of its active and inactive sites. During these same periods, PolyOne did not receive any proceeds from insurance recoveries.

Based on estimates that were prepared by its environmental engineers and consultants, PolyOne had accruals totaling $83.3 million at March 31, 2008 and $83.8 million at December 31, 2007 to cover probable future environmental expenditures related to previously contaminated sites. The accrual represents PolyOne s best estimate of the remaining probable remediation costs, based upon information and technology that is currently available and PolyOne s view of the most likely remedy. Depending upon the results of future testing, the ultimate remediation alternatives undertaken, changes in regulations, new information, newly discovered conditions and other factors, it is reasonably possible that PolyOne could incur additional costs in excess of the amount accrued at March 31, 2008. However, such additional costs, if any, cannot be currently estimated. PolyOne s estimate of the liability may be revised as new regulations or technologies are developed or additional information is obtained. Additional information related to environmental liabilities is in Note N to the Consolidated Financial Statements included in PolyOne s Annual Report on Form 10-K for the year ended December 31, 2007.

PolyOne guarantees $60.9 million of SunBelt s outstanding senior secured notes in connection with the construction of a chlor-alkali facility in McIntosh, Alabama. This debt matures in 2017.

Note P Business Combination

Acquisition

On January 2, 2008, the Company acquired 100% of the outstanding capital stock of GLS, a global provider of specialty TPE compounds for consumer, packaging and medical applications, for a cash purchase price of $148.7 million including acquisition costs and net of cash received. GLS, with sales of $128.8 million for the year ended December 31, 2007, has been fully integrated into the Specialty Engineered Materials segment. This acquisition complements PolyOne s global engineered materials business portfolio and accelerates the Company s shift to specialization. The combination of GLS s specialized TPE offerings, compounding expertise and brand, along with PolyOne s extensive

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global infrastructure and commercial presence offers customers: enhanced technologies; a broader range of products, services and solutions; and expanded access to specialized, high-growth markets around the globe. The combinations of these factors are the drivers behind the excess of the purchase price over the fair value of the assets and liabilities acquired.

Allocation of Purchase Price

The GLS acquisition is accounted for as a purchase business combination. Assets acquired and liabilities assumed are recorded in the accompanying Condensed Consolidated Balance Sheet at their estimated fair values as of January 2, 2008. Operating results of GLS are included in the Condensed Consolidated Statement of Income from the date of acquisition. The preliminary allocation of the purchase price and the estimated goodwill are shown below. This allocation is based upon valuations using management s best estimates and assumptions. The purchase price is preliminary and a final determination of fair value will be made upon completion of independent appraisals of the long-lived tangible and intangible assets and liabilities. The resulting goodwill is anticipated to be fully deductible for income tax purposes.

The identifiable intangible assets subject to amortization, totaling $32.8 million, consist primarily of customer relationships and will be amortized over 20 years. The identifiable intangible assets not subject to amortization, totaling $33.2 million, consist primarily of trademarks and trade names.

(In millions)	**January 2, 2008**
Current assets	$ 32.6
Property, plant and equipment	17.2
Identifiable intangible assets	66.0
Goodwill	43.8
Liabilities assumed	(9.0)
Net assets acquired	$ 150.6
Less:	
Cash acquired	(1.9)
Purchase price, net	$ 148.7

Pro forma Results

Pro forma financial information for the Company is presented below as if the acquisition of GLS occurred on January 1, 2007. The *pro forma* information presented below is not necessarily indicative of results that would have occurred had the acquisition, in fact, occurred on January 1, 2007, nor does the information project results for any future period.

(In millions, except per share data)	***Pro forma*** **Results Quarter Ended March 31, 2007**	***Pro forma*** **Results Year Ended December 31, 2007**
Sales	$ 689.9	$ 2,771.5
Operating income	27.3	43.0
Net income	6.9	13.1
Basic and diluted earnings per share	0.07	0.14

Combined results for PolyOne and GLS were adjusted for the following items in order to create the *pro forma* results in the table above:

Interest expense relating to PolyOne s increase in debt upon acquisition of GLS of $2.4 million for the quarter ended March 31, 2007 and $9.5 million for the year ended December 31, 2007.

Recognition of inventory step up of $1.6 million for the quarter ended March 31, 2007 and the year ended December 31, 2007.

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Amortization expense related to intangible assets of $0.4 million for the quarter ended March 31, 2007 and $1.6 million for the year ended December 31, 2007.

Depreciation expense including the step-up of the carrying value of fixed assets, net of adjustments to estimated useful lives, of $0.4 million for the quarter ended March 31, 2007 and $1.6 million for the year ended December 31, 2007.

General and administrative costs related to retention accruals for GLS management of $0.2 million for the quarter ended March 31, 2007 and $0.7 million for the year ended December 31, 2007.

Note Q Fair Value

The following table summarizes the Company s assets and liabilities that are measured at fair value on a recurring basis subsequent to initial recognition.

(In millions)

Description	Fair Value at March 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Available-for-sale securities	$ 0.7	$ 0.7	
Interest rate swaps	(0.5)		$ (0.5)
Foreign exchange contracts	(1.5)		(1.5)

Note R Subsequent Event

In April 2008, PolyOne sold $80.0 million in aggregate principal amount of 8.875% senior notes due 2012 to certain institutional investors in a private placement exempt from the registration requirements of the Securities Act of 1933. Net proceeds from the offering were used to reduce the amount of receivables sold under the receivables sale facility.

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

Overview

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

We operate within eight operating segments, five of which are reportable segments: Geon Performance Polymers, International Color and Engineered Materials, PolyOne Distribution, Specialty Engineered Materials and Resin and Intermediates. The All Other category contains three operating segments: North American Color and Additives, Producer Services and Specialty Inks and Polymer Systems. On March 20, 2008, we announced the Specialty Engineered Materials segment. This segment includes our thermoplastic elastomer (TPE) compounds product line in Europe and Asia (historically included in International Color and Engineered Materials), North American Engineered Materials (historically included in All Other) and GLS Corporation (GLS). As of April 15, 2008, the Vinyl Business segment has been re-branded to be Geon Performance Polymers. Prior period results of operations have been reclassified to conform to the 2008 presentation. We discuss the sales and operating income of our operating segments in the Segment Information section below. Also, see Note N to the Condensed Consolidated Financial Statements for further information regarding our reportable operating segments.

Purchase of business In January 2008, we acquired 100% of the outstanding capital stock of GLS, a global provider of specialty thermoplastic elastomer compounds for consumer, packaging and medical applications. The acquisition resulted in $66.0 million of intangible assets and $43.8 million in goodwill. For more information on the GLS acquisition, see Note P to the Condensed Consolidated Financial Statements.

OxyVinyls Divestment On July 6, 2007, we sold our 24% interest in Oxy Vinyls LP (OxyVinyls) for $260.5 million in cash. Proceeds from the sale were used for the redemption of the entire balance of our 10.625% senior notes as well as for the reduction of drawings on short-term facilities.

Outlook

We anticipate continued economic uncertainty as well as volatile raw material and energy costs. Based on early results, we anticipate second-quarter 2008 sales growth of approximately 6% to 8%, including organic sales growth in the low single digits, despite weak demand trends in the North American residential construction and automotive markets.

Geon Performance Polymers segment sales are expected to show sequential improvement from the first quarter of 2008, but decline 9% to 12% from the second quarter of 2007. International demand generally remains intact, although select pockets of softening are evident with customers who primarily export to North America.

Aggregate margin improvements for International Color and Engineered Materials, North America Color and Additives, Specialty Inks and Polymer Systems, Specialty Engineered Materials and PolyOne Distribution are expected to drive operating income growth in excess of second-quarter 2007 levels. Aggregate Geon Performance Polymers and Producer Services operating margin is projected to increase sequentially, but remain below the year-ago level due to continued weak end-market demand. Resin and Intermediates earnings are expected to be lower compared with second-quarter 2007 and first-quarter 2008 results, due to low incremental chlorine demand outweighing benefits from higher caustic pricing.

Based on these projections, we expect second-quarter 2008 earnings to increase sequentially versus first-quarter 2008 results.

Based upon current North American demand levels, we have modified our full-year 2008 sales growth estimate to

7% to 10%, from the prior estimate of 10% to 12%. We continue to anticipate positive year-over-year earnings growth in 2008; however, the distribution of quarterly earnings is expected to be more heavily weighted toward the second half of the year.

Results of Operations

Summary of Consolidated Results:

Aggregate sales increased 8.5% in the first quarter of 2008 as compared to the same period in 2007. Sales from the recently acquired GLS business accounted for 5% of this increase. The remainder of the increase was due to sales increases in the International Color and Engineered Materials and PolyOne Distribution segments and the favorable impact from foreign exchange which accounted for 5% of the overall increase, partially offset by a 4% decline in Geon Performance Polymers sales, due mainly to the depressed residential construction market.

Net income declined $0.9 million in the first quarter of 2008, or $0.01 per share, compared to the same period in 2007. Income from continuing operations before income taxes declined $1.5 million in the first quarter of 2008 as compared to the same period in 2007. A table showing material items that comprise this decline is provided after the following table, which sets forth key financial information from our statements of income for the quarters ended March 31, 2008 and 2007, respectively.

	Three months ended March 31,	
(In millions, except per share data)	**2008**	**2007**
Sales	$ 713.7	$ 657.8
Operating income	$ 20.1	$ 26.5
Interest expense	(9.2)	(15.3)
Interest income	0.8	0.9
Other expense, net	(2.0)	(0.9)
Income before income taxes	9.7	11.2
Income tax expense	(3.2)	(3.8)
Net income	$ 6.5	$ 7.4
Basic and diluted earnings per share	$ 0.07	$ 0.08

See the following discussion for an explanation of the results for the periods shown above.

Income before Income Taxes

The following table sets forth the components of the variance for the three months ended March 31, 2008 as compared to the same period in the prior year:

(In millions)		Variances Favorable (Unfavorable) Three Months Ended March 31, 2008 vs. March 31, 2007
Operating segment performance:		
Geon Performance Polymers	$	(13.3)
International Color and Engineered Materials		1.8
PolyOne Distribution		0.9
Specialty Engineered Materials		3.8
Resin and Intermediates		1.6
All Other		2.5
Corporate and eliminations:		
Environmental remediation costs		(0.6)
Recognition of inventory step-up associated with GLS acquisition		(1.6)
Share-based compensation		(0.6)
All other and eliminations		(0.9)
Total Corporate and eliminations		(3.7)
Change in operating income		(6.4)
Interest expense, net		6.0
Other expense		(1.1)
Change in income before income taxes	$	(1.5)

See the following operating segment discussion for a further explanation of our segments operating results for the periods shown in the preceding table.

Selected Operating Costs

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

	Three Months Ended March 31,	
	2008	2007
Cost of sales	86.5%	85.7%
Selling and administrative costs	9.6%	9.1%

Cost of Sales These costs include raw materials, plant conversion, distribution and environmental remediation charges. These costs increased in the first quarter of 2008 as compared to the same period in 2007 as a result of higher raw material costs not yet fully offset by price increases largely associated with the Geon Performance Polymers business and those other businesses impacted by the slowdown in the building and construction market. Included in cost of sales is the $1.6 million recognition of inventory step-up associated with the GLS acquisition.

Selling and Administrative These costs generally include selling, technology and administrative functions and corporate and general expenses. Selling and administrative costs increased $8.4 million, or 14%, for the three months

ended March 31, 2008 compared to the same period in 2007. The change in selling and administrative expense was due mainly to an increase in selling and administrative costs associated with the acquisition of GLS of $3.8 million, the impact of foreign exchange of $2.2 million and increased investment in commercial resources and capabilities.

Other Components of Income and Expense

Discussions of significant components of income and expense that are presented below the line Operating income in the Condensed Consolidated Statements of Income are provided below.

Interest expense The decrease in interest expense of $6.1 million for the three months ended March 31, 2008 as compared to the same period in 2007 was due primarily to the repurchase of $241.4 million of our 10.625% senior notes.

Other expense, net The following table lists the major items included in other expense, net:

	Three Months Ended March 31,	
(In millions)	**2008**	**2007**
Currency exchange loss	$ (0.1)	$ (0.6)
Foreign exchange contracts gain (loss)	(0.2)	0.3
Discount on sale of trade receivables	(1.5)	(0.3)
Other loss	(0.2)	(0.3)
Other expense, net	$ (2.0)	$ (0.9)

Income tax expense The first quarter of 2008 income tax expense of $3.2 million reflects an effective tax rate of 33.0% and the income tax expense of $3.8 million in the first quarter of 2007 reflects an effective tax rate of 33.9%. The difference between the effective rate and the statutory rate in both periods was primarily due to the impact of foreign source income.

Segment Information:

Sales and Operating Income (Loss):

	Three Months Ended March 31,			
(In millions)	**2008**	**2007**	**Change**	**% Change**
Sales:				
Geon Performance Polymers	$ 223.0	$ 233.1	$ (10.1)	(4.3)%
International Color and Engineered Materials	165.2	144.0	21.2	14.7%
PolyOne Distribution	201.1	184.4	16.7	9.1%
Specialty Engineered Materials	64.5	32.4	32.1	99.1%
All Other	94.7	99.9	(5.2)	(5.2)%
Corporate and eliminations	(34.8)	(36.0)	1.2	3.3%
	$ 713.7	$ 657.8	$ 55.9	8.5%
Operating income (loss):				
Geon Performance Polymers	$ 7.1	$ 20.4	$ (13.3)	(65.2)%
International Color and Engineered Materials	7.8	6.0	1.8	30.0%
PolyOne Distribution	5.5	4.6	0.9	19.6%
Specialty Engineered Materials	2.9	(0.9)	3.8	422.2%
Resin and Intermediates	5.9	4.3	1.6	37.2%
All Other	4.0	1.5	2.5	166.7%
Corporate and eliminations	(13.1)	(9.4)	(3.7)	(39.4)%
	$ 20.1	$ 26.5	$ (6.4)	(24.2)%

Operating income (loss) as a percentage of sales:			
Geon Performance Polymers	3.2%	8.8%	(5.6)% points
International Color and Engineered Materials	4.7%	4.2%	0.5 % points
PolyOne Distribution	2.7%	2.5%	0.2 % points
Specialty Engineered Materials	4.5%	(2.8)%	7.3 % points
All Other	4.2%	1.5%	2.7 % points
Total	2.8%	4.0%	(1.2)% points

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A summary of Corporate and eliminations included in Operating income (loss) is as follows:

	Three Months Ended March 31,	
(In millions)	2008	2007
Environmental remediation costs (a)	$ (1.6)	$ (1.0)
Recognition of inventory step-up associated with GLS acquisition (b)	(1.6)	
Share-based compensation (c)	(0.8)	(0.2)
All other and eliminations (d)	(9.1)	(8.2)
Total Corporate and eliminations	$ (13.1)	$ (9.4)

(a) During the three-month periods ended March 31, 2008 and 2007, we recorded $1.6 million and $1.0 million, respectively, of expense related to environmental remediation activities.

(b) Upon acquisition of GLS, GLS s inventory was initially stepped up from cost to fair value. This difference was recognized with the first turn of inventory within Corporate and eliminations.

(c) Share-based compensation expense recognized during the period is based on the value of

the portion of share-based payment awards that is ultimately expected to vest during the period.

(d) Severance, employee outplacement, external outplacement consulting, lease termination, facility closing costs and the write-down of the carrying value of plant and equipment resulting from restructuring initiatives and executive separation agreements.

Geon Performance Polymers

Geon Performance Polymers sales were $10.1 million, or 4%, lower than the first quarter of 2007. The business was primarily impacted by the slowdown in the building and construction end markets, consistent with recent quarters. Our Asian vinyl compounding business, with the acquisition of Ngai Hing Plastchem Company Ltd. in the fourth quarter of 2007, demonstrated a 45% increase in revenue over the comparable period in the previous year.

Operating income decreased 65% from the first quarter of 2007. This decrease was primarily due to significantly lower volumes and, to a lesser degree, margin compression between raw material costs and selling prices.

International Color and Engineered Materials

International Color and Engineered Materials first quarter 2008 sales increased $21.2 million, or 15%, due to continuing double digit growth in our Asian Color and Additives business, favorable foreign exchange and modest growth in the Engineered Materials businesses in Europe and Asia. Favorable foreign exchange rates increased sales by $19.3 million, or 13%. Asian sales across all product platforms grew 19%, including the impact of foreign exchange. This increase was driven by our Color and Additives business, which grew sales 31% due to an improved mix of specialty applications utilizing our liquid color and additives product technologies, and 8% sales growth in our Asian Engineered Materials business despite unfavorable conditions in electrical and electronics markets, primarily due to lower export demand to North America.

Operating income increased $1.8 million, or 30%, in the first quarter of 2008 compared to the first quarter of 2007. This increase was primarily due to improved margins due to greater penetration of specialty applications in the packaging, wire and cable and automotive end markets and to improved product mix based on new specialty additive products. Value selling, cost management actions and exiting lower profitability business also contributed to the margin increase. Foreign exchange had a favorable impact on operating income of $1.0 million.

PolyOne Distribution

PolyOne Distribution sales increased $16.7 million, or 9%, as compared to the first quarter of 2007 driven by a 9% increase in average selling prices that were realized due to rising material and energy costs. An increased investment in commercial resources coupled with a national accounts program, and a strong pipeline of new sales opportunities in various markets all contributed favorably to the sales growth, helping to offset lower demand from our existing customer base due to weakening North American market conditions.

Operating income was $5.5 million, up 20% from the first quarter of 2007. This increase was largely due to a stronger sales mix and to higher gross margins.

Specialty Engineered Materials

Sales increased $32.1 million, or 99%, in the first quarter of 2008 as compared to the first quarter of 2007 primarily due to $33.0 million of sales from GLS, which was acquired in January 2008, slightly offset by lower organic sales for the first quarter of 2008, due to weak demand in the building and construction and automotive markets as well as exiting low margin business. Segment gross margins expanded through mix improvements and accelerated penetration of specialty applications. The impact of foreign exchange was immaterial.

Operating income was up $3.8 million in the first quarter of 2008 as compared to the first quarter of 2007, primarily driven by the GLS acquisition. Additionally, achieving an improved mix of specialty applications and the exiting of lower profitability business also contributed to the year-over-year income improvement.

Resin & Intermediates

First quarter 2008 operating income increased $1.6 million, or 37%, compared to the first quarter of 2007. In July 2007, we divested our 24% interest in OxyVinyls, which in the first quarter of 2007 lost $1.3 million.

SunBelt earnings were $0.2 million higher in the first quarter of 2008 compared to the first quarter of 2007 despite volumes being 4% lower. Year-over-year ECU netbacks were up approximately 17% on the strength of caustic pricing. Demand for caustic remained strong, but chlorine demand declined compared to the same period a year ago due to weak downstream PVC resin and polyurethane market conditions primarily attributable to depressed construction end markets.

All Other

All Other includes the North American Color and Additives, Producer Services and Specialty Inks and Polymer Systems operating segments. Sales in aggregate were down 5% from first quarter 2007 due mainly to a 4% decline in North American Color and Additives sales and a 9% decline in Producer Services sales. Producer Services sales were down reflecting declines in traditionally cyclical markets.

Operating income improved by $2.5 million, or 167%, in the first quarter of 2008 compared to the first quarter of 2007 despite the revenue decline. North American Color and Additives accounted for the majority of this improvement due to benefits realized from improved commercial disciplines, pruning low margin business and tight operating cost control. Specialty Inks and Polymer Systems operating income improved by 40% in the first quarter of 2008 as compared to the first quarter of 2007, resulting from an improved mix of inks and urethane products and improved value-added selling discipline.

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Liquidity and Capital Resources
The following discussion focuses on material components of cash flows from operating, investing and financing activities from the end of the preceding fiscal year (December 31, 2007) to the date of the most recent interim balance sheet (March 31, 2008).

(In millions)	Three Months Ended March 31, 2008	2007	Net Cash (Used) Provided
Cash flow summary			
Cash provided by operating activities	$ 57.1	$ 3.8	$ 53.3
Cash used by investing activities	(158.4)	(3.5)	(154.9)
Cash provided (used) by financing activities	81.2	(0.3)	81.5
	(20.1)		(20.1)
Effect of exchange rates on cash	(0.1)	0.9	(1.0)
Increase (decrease) in cash and equivalents	$ (20.2)	$ 0.9	$ (21.1)

(In millions)	Three Months Ended March 31, 2008	2007	Net Cash (Used) Provided
Cash Flows from Operating Activities			
Net income	$ 6.5	$ 7.4	$ (0.9)
Depreciation and amortization	15.8	14.1	1.7
Charges for environmental remediation, net of net payments	(0.7)	(0.5)	(0.2)
Deferred income tax (benefit) provision	(0.6)	1.1	(1.7)
Stock compensation expense	0.8	0.2	0.6
Companies carried at equity and minority interest:			
Income from equity affiliates	(8.1)	(6.5)	(1.6)
Distributions and distributions received	0.9	0.2	0.7
Change in assets and liabilities:			
Decrease from working capital	(32.5)	(19.0)	(13.5)
Increase in sale of accounts receivable	86.6		86.6
Accrued expenses and other	(11.6)	6.8	(18.4)
Net cash provided by operating activities	$ 57.1	$ 3.8	$ 53.3

Operating Activities Our operations provided $57.1 million of cash in the first three months of 2008, an increase of $53.3 million from the same period in 2007 due primarily to the increase in the sale of accounts receivable used to fund the purchase of GLS. Working capital used $13.5 million more cash in the first three months of 2008, as illustrated below.

(In millions)	Three Months Ended March 31, 2008	2007	Net Cash (Used) Provided
Cash Flows from working capital			
Accounts receivable	$ (49.6)	$ (58.2)	$ 8.6
Inventories	(28.5)	(4.9)	(23.6)

Accounts payable	45.6	44.1	1.5
Net cash used by working capital	$ (32.5)	$ (19.0)	$ (13.5)

Net cash used by working capital for the first three months of 2008 was $32.5 million, a $13.5 million increase from the same period last year. The increase in cash used by working capital is primarily due to increased raw material costs.

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(In millions)	Three Months Ended March 31, 2008	2007	Net Cash (Used) Provided
Cash Flows from Investing Activities			
Capital expenditures	$ (8.4)	$ (7.5)	$ (0.9)
Business acquisitions, net of cash acquired	(150.0)		(150.0)
Proceeds from sale of assets		4.0	(4.0)
Net cash used by investing activities	$ (158.4)	$ (3.5)	$ (154.9)

Investing activities Cash used by investing activities in the first three months of 2008 was $158.4 million, mainly reflecting the cash used to purchase GLS.

(In millions)	Three Months Ended March 31, 2008	2007	Net Cash (Used) Provided
Cash Flows from Financing Activities			
Change in short-term debt	$ 81.9	$ 0.1	$ 81.8
Repayment of long-term debt	(0.7)	(0.7)	
Proceeds from exercise of stock options		0.3	(0.3)
Net cash provided (used) by financing activities	$ 81.2	$ (0.3)	$ 81.5

Financing activities Cash provided by financing activities in the first three months of 2008 totaled $81.2 million, mainly the result of additional short and long-term debt issued to fund the GLS acquisition.
As of March 31, 2008, we had existing facilities to access available capital resources (receivables sale facility, uncommitted short-term credit lines and senior unsecured notes and debentures) totaling $568.5 million. As of March 31, 2008, we had used $508.0 million of these facilities, and $60.5 million was available to be drawn while remaining in compliance with all covenants associated with these facilities. As of March 31, 2008, we also had a $59.2 million cash and cash equivalents balance that exceeded our typical operating cash requirements of $35 million to $40 million, adding to our available liquidity.

The following table summarizes our available and outstanding facilities at March 31, 2008:

(In millions)	Outstanding	Available
Long-term debt, including current maturities	$ 331.8	$
Receivables sale facility	86.6	60.5
Short-term debt	89.6	
	$ 508.0	$ 60.5

Long-Term Debt At March 31, 2008, long-term debt totaled $309.1 million, with maturities ranging from 2008 to 2015. Current maturities of long-term debt at March 31, 2008 were $22.7 million.
In April 2008, we sold $80.0 million in aggregate principal amount of 8.875% senior notes due 2012 to certain institutional investors in a private placement exempt from the registration requirements of the Securities Act of 1933. Net proceeds from the offering were used to reduce the amount of receivables sold under the receivables sale facility.

Guarantee and Agreement We entered into a definitive Guarantee and Agreement with Citicorp USA, Inc., on June 6, 2006. Under this Guarantee and Agreement, we guarantee the treasury management and banking services provided to us and our subsidiaries, such as subsidiary borrowings, interest rate swaps, foreign currency forwards, letters of credit, credit card programs and bank overdrafts. This guarantee is secured by our inventories located in the United States.

Credit Facility On January 3, 2008, we entered into a credit agreement with Citicorp USA, Inc., as administrative agent and as issuing bank, and The Bank of New York, as paying agent. The credit agreement provides for an unsecured

revolving and letter of credit facility with total commitments of up to $40.0 million. The credit agreement expires on March 20, 2011.

Borrowings under the revolving credit facility are based on the applicable LIBOR rate plus a fixed fee. On January 9, 2008, we borrowed $40.0 million under the agreement and entered into a floating to fixed interest rate swap expiring on January 9, 2009, resulting in an effective interest rate of 8.4%. The credit agreement contains covenants that, among other things, restrict our ability to incur liens, and various other customary provisions, including affirmative and negative covenants, and representations and warranties. As of March 31, 2008, we are in compliance with such covenants.

Receivables Sale Facility The receivables sale facility was amended in June 2007 to extend the maturity to June 2012 and to among other things, modify certain financial covenants and reduce the cost of utilizing the facility. In July 2007, the receivable sale facility was amended to include up to $25.0 million of Canadian receivables, which increased the facility size to $200.0 million. The maximum proceeds that we may receive are limited to 85% of the eligible domestic and Canadian accounts receivable sold. This facility also makes up to $40.0 million available for issuing standby letters of credit as a sub-limit within the $200.0 million facility, of which $11.4 million was used at March 31, 2008.

The facility requires us to maintain a minimum fixed charge coverage ratio (defined as Adjusted EBITDA less capital expenditures, divided by interest expense and scheduled debt repayments for the next four quarters) of at least 1 to 1 when availability under the facility is $40.0 million or less. As of March 31, 2008, the fixed charge coverage ratio was 1.4 to 1 and we had sold $86.6 million of accounts receivable, resulting in availability under the facility of $60.5 million.

During the three months ended March 31, 2008, we sold $86.6 million of our undivided interest in accounts receivable. We used the net proceeds from the issuance of $80.0 million of 8.875% senior notes in April 2008 to reduce the amount of accounts receivable sold.

Of the capital resource facilities available to us as of March 31, 2008, the portion of the receivables sale facility that was sold provided security for the transfer of ownership of these receivables. Each indenture governing our senior unsecured notes and debentures and our guarantee of the SunBelt notes allows a specific level of secured debt, above which security must be provided on each indenture and our guarantee of the SunBelt notes. The receivables sale facility and our guarantee of the SunBelt notes are not considered debt under the covenants associated with our senior unsecured notes and debentures. As of March 31, 2008, we had sold $86.6 million of accounts receivable and had guaranteed $60.9 million of our SunBelt equity affiliate s debt.

We expect that profitable operations in 2008 will enable us to maintain existing levels of available capital resources and meet our cash requirements. Expected sources of cash in 2008 include net income, additional borrowings under existing or new loan agreements, cash distributions from equity affiliates and proceeds from the sale of previously closed facilities and redundant assets. Expected uses of cash in 2008 include interest expense and discounts on the sale of accounts receivable, cash taxes, a contribution to a defined benefit pension plan, debt retirements upon maturity, environmental remediation at inactive and formerly owned sites and capital expenditures. Capital expenditures are currently estimated to be between $50 and $60 million in 2008, primarily to support strategic growth initiatives and manufacturing operations and to upgrade our ERP system.

Based on current projections, we believe that we should be able to continue to manage and control working capital, discretionary spending and capital expenditures and that cash provided by operating activities, along with available borrowing capacity under our receivables sale facility, should allow us to maintain adequate levels of available capital resources to fund our operations and meet debt service and minimum pension funding requirements for both the short- and long-term.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions about future events that affect the amounts reported in our financial statements and accompanying notes. We base our estimates on historical experience and assumptions that we believe are reasonable under the related facts and circumstances. The application of these critical accounting policies involves the exercise of judgment and use of assumptions for future uncertainties. Accordingly, actual results could differ significantly from

these estimates. A description of these accounting policies and estimates is included in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2007. For additional information regarding our accounting policies, see Note C to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007.

Goodwill As of March 31, 2008, we had $333.1 million of goodwill that resulted from the acquisition of businesses. SFAS No. 142, Goodwill and Other Intangible Assets, requires us to perform impairment tests of our goodwill at least once a year, and more frequently if an event or circumstance indicates that an impairment or decline in value may have occurred. To make this impairment assessment, we compare the fair value of each of our reporting units with that reporting unit s carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. We have selected July 1 as our annual impairment testing date. We determined that goodwill was not impaired when we performed our last annual assessment as of July 1, 2007. As of March 31, 2008, no potential indicator of impairment exists, such as a significant adverse change in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key personnel or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed. Please refer to Note C of the Condensed Consolidated Financial Statements for further discussion. Based upon this, we concluded that an interim assessment as of March 31, 2008 was not required. We will perform our 2008 annual assessment during the third quarter of 2008.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

- the effect on foreign operations of currency fluctuations, tariffs, nationalization, exchange controls, limitations on foreign investment in local businesses and other political, economic and regulatory risks;
- changes in polymer consumption growth rates within the U.S., Europe or Asia or other countries where PolyOne conducts business;
- changes in global industry capacity or in the rate at which anticipated changes in industry capacity come online in the polyvinyl chloride (PVC), chlor-alkali, vinyl chloride monomer (VCM) or other industries in which PolyOne participates;
- fluctuations in raw material prices, quality and supply and in energy prices and supply, in particular fluctuations outside the normal range of industry cycles;
- production outages or material costs associated with scheduled or unscheduled maintenance programs;
- the cost of compliance with environmental laws and regulations, including any increased cost of complying with new or revised laws and regulations;

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

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

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

an inability to maintain appropriate relations with unions and employees in certain locations in order to avoid business disruptions;

any change in any agreements with product suppliers to PolyOne Distribution that prohibits PolyOne from continuing to distribute a supplier s products to customers;

the ability to successfully integrate GLS;

the ability to successfully integrate Ngai Hing PlastChem, and

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

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

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. You are advised, however, to consult any further disclosures we make on related subjects in our reports on Forms 10-Q, 8-K and 10-K furnished to the SEC. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

PolyOne is exposed to market risk from changes in interest rates on debt obligations and from changes in foreign currency exchange rates. Information about these risks and exposure management is included in Item 7A Qualitative and Quantitative Information about Market Risk in PolyOne s Annual Report on Form 10-K for the year ended December 31, 2007. PolyOne periodically enters into interest rate swap agreements that modify its exposure to interest rate risk by converting fixed-rate obligations to floating rates. PolyOne maintained interest rate swap agreements on one of its fixed-rate obligations in the aggregate amount of $10.0 million at March 31, 2008. At March 31, 2008, this agreement had a net fair value obligation of $0.1 million. The interest rate for this agreement at March 31, 2008 was 9.14%.

In connection with the $40.0 million borrowed under the revolving credit facility in January 2008, PolyOne entered into a $40.0 million floating to fixed interest rate swap expiring on January 9, 2009 resulting in an effective interest rate of 8.4%. This derivative is not treated as a hedge and, as a result, is marked to market, with the resulting gain and loss recognized as interest expense in the Condensed Consolidated Statements of Income. At March 31, 2008, this agreement had a fair value obligation of $0.4 million.

There have been no material changes in the market risk faced by PolyOne from December 31, 2007 to March 31, 2008.

Item 4. Controls and Procedures

Disclosure controls and procedures

PolyOne s management, under the supervision of and with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of the design and operation of PolyOne s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this quarterly report. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, PolyOne s disclosure controls and procedures were effective.

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Changes in internal control over financial reporting

There were no changes in PolyOne s internal control over financial reporting during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Part II Other Information

Item 6. Exhibits

Exhibit No.	Description of Exhibit
4.1	Supplemental Indenture, dated as of April 10, 2008, between PolyOne Corporation and The Bank of New York Trust Company, N.A., as successor trustee (incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed April 11, 2008, SEC File No. 1-16091)
10.1+	Form of Award Agreement for Restricted Stock Units
10.2+	Form of Award Agreement for Stock-Settled Stock Appreciation Rights
10.3+	Form of Award Agreement for Performance Units
10.4+	Amended and Restated Deferred Compensation Plan for Non-Employee Directors
10.5	Registration Rights Agreement, dated as of April 10, 2008, between PolyOne Corporation and the Initial Purchaser (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed April 11, 2008, SEC File No. 1-16091)
31.1	Certification of Stephen D. Newlin, Chairman, President and Chief Executive Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of W. David Wilson, Senior Vice President and Chief Financial Officer, pursuant to SEC Rules 13a-14(a) and 15d-14(a), adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Stephen D. Newlin, Chairman, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of W. David Wilson, Senior Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\+ Indicates management contract or compensatory plan, contract or arrangement in which one or more directors or executive officers of the Registrant may

be participants

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SIGNATURE

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

May 6, 2008	POLYONE CORPORATION
	/s/ W. David Wilson W. David Wilson Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit
4.1	Supplemental Indenture, dated as of April 10, 2008, between PolyOne Corporation and The Bank of New York Trust Company, N.A., as successor trustee (incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed April 11, 2008, SEC File No. 1-16091)
10.1+	Form of Award Agreement for Restricted Stock Units
10.2+	Form of Award Agreement for Stock-Settled Stock Appreciation Rights
10.3+	Form of Award Agreement for Performance Units
10.4+	Amended and Restated Deferred Compensation Plan for Non-Employee Directors
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