POLYONE CORP
Form 424B3
July 24, 2002

Filed Pursuant to Rule 424(b)(3)
Registration Statement No. 333-87472

PROSPECTUS

$200,000,000

[POLYONE LOGO]

OFFER TO EXCHANGE
ALL OUTSTANDING 8.875% SENIOR NOTES DUE 2012
FOR 8.875% SENIOR NOTES DUE 2012

OF

POLYONE CORPORATION

THIS EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M.,
NEW YORK CITY TIME, ON AUGUST 27, 2002

THE EXCHANGE NOTES

- The terms of the notes to be issued are substantially identical to the outstanding notes that PolyOne issued on April 23, 2002, except for transfer restrictions, registration rights and liquidated damages provisions relating to the outstanding notes that will not apply to the exchange notes.

- Interest on the notes accrues at the rate of 8.875% per year, payable in cash every six months on May 1 and November 1, with the first payment on November 1, 2002.

- The notes are senior, unsecured obligations of PolyOne and rank equally with our other senior unsecured indebtedness and are effectively subordinated to the obligations of our subsidiaries.

MATERIAL TERMS OF THE EXCHANGE OFFER

- Expires at 5:00 p.m., New York City time, on August 27, 2002, unless extended.

- This exchange offer is not subject to any condition other than that it must not violate applicable law or any applicable interpretation of the Staff of the Securities and Exchange Commission.

- All outstanding notes that are validly tendered and not validly withdrawn will be exchanged for an equal principal amount of notes which are registered under the Securities Act of 1933.

- Tenders of outstanding notes may be withdrawn at any time before the expiration of the exchange offer.

- PolyOne will not receive any cash proceeds from the exchange offer.

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act of 1933. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding notes where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, starting on the expiration date of the exchange offer and ending on the close of business 180 days after the expiration date, we will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale.

PLEASE CONSIDER CAREFULLY THE "RISK FACTORS" BEGINNING ON PAGE 12 OF THIS PROSPECTUS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE EXCHANGE NOTES TO BE DISTRIBUTED IN THE EXCHANGE OFFER, NOR HAVE ANY OF THESE ORGANIZATIONS DETERMINED THAT THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is July 24, 2002.

REFERENCES TO ADDITIONAL INFORMATION

This prospectus incorporates important business and financial information about PolyOne that is not included in or delivered with this prospectus. You may obtain documents that are filed by PolyOne with the Securities and Exchange Commission and incorporated by reference in this prospectus without charge by requesting the documents, in writing or by telephone, from the Securities and Exchange Commission or:

PolyOne Corporation
Suite 36-500
200 Public Square
Cleveland, Ohio 44114-2304
Attention: Dennis Cocco, Chief Investor & Communications Officer
Telephone: (216) 589-4018

If you would like to request copies of these documents, please do so by August 20, 2002 in order to receive them before the expiration of the exchange offer. See "Where You Can Find More Information."

TABLE OF CONTENTS

INDUSTRY, RANKING AND OTHER DATA

The data included in this prospectus regarding industries and ranking, including the size of specific industries and our position and the position of our competitors within these industries, are based on independent industry publications or other published industry sources and our estimates. Our estimates are based on information obtained from our customers, distributors, suppliers, trade and business organizations and other contacts in the industries in which we operate and our management's knowledge and experience. Although we have not independently verified the accuracy of these estimates, we believe these estimates to be accurate as of the date of this prospectus.

SUMMARY

The following summary contains information about PolyOne and this offering. It does not contain all of the information that may be important to you in making a decision to exchange any outstanding notes, but it does summarize particular material information appearing elsewhere in the prospectus and in our filings that are incorporated by reference. For a more complete understanding of PolyOne and this offering, we urge you to read carefully this entire prospectus and the documents incorporated by reference, including the "Risk Factors" and "Forward-Looking Statements" sections and our consolidated financial statements and the notes to those statements. Unless the context otherwise indicates, the terms "PolyOne," "we," "our" and "us" as used in this prospectus refer to PolyOne Corporation and its consolidated subsidiaries.

POLYONE CORPORATION

We are a leading global polymer services company with operations in thermoplastic compounds, specialty resins, specialty polymer formulations, engineered films, color and additive systems, elastomer compounds and additives and thermoplastic resin distribution. PolyOne was formed on August 31, 2000 as a result of the consolidation of The Geon Company and M.A. Hanna Company. We consider ourself a leader in delivering value to customers through our strengths in polymer technology, manufacturing and supply chain processes, information technology, environmental and safety performance, overall quality and operational excellence. For the fiscal year ended December 31, 2001, we had revenues of $2.7 billion, EBITDA of $59 million, loss before cumulative change in accounting of $46 million and a net loss of $46 million, and for the quarter ended March 31, 2002, we had revenues of $613 million, EBITDA of $21 million, loss before cumulative change in accounting of $4 million and a net loss of $57 million.

We operate in four business segments: Performance Plastics, Elastomers and Performance Additives, Distribution and Resin and Intermediates.

PERFORMANCE PLASTICS

We are a leading merchant producer of compounded plastics to the specifications of manufacturers of plastic products throughout North America and Europe. We engage in the custom compounding of plastic materials to the specifications of manufacturers of molded and extruded plastic products through our compounding business. Our compounds are used in end products such as appliance components, automotive trim, business equipment housing, computer disk drive components, bottles, pipe and pipe fitting, windows, wire and cable. Through our custom formulated colorants and additives business, we manufacture custom formulated colorants in the form of color concentrates, liquid dispersions, dry colorants and additives for customers in the plastic industry throughout North America, Europe, South America and Asia. We are also a leading North American producer of specialty vinyl dispersion resins. In addition, our business processes specialty dispersion resins with different additives, such as plastisizers and fillers, to produce liquid or solid plastisol formulations. We also produce formulations using urethanes and latex polymers. Through our engineered films business, we process flexible compounds into rolls of various-gauge films. These products are incorporated into automotive instrument panels, airbags, furniture fabrics, loose-leaf binder covers, medical bloodbags and pool liners.

ELASTOMERS AND PERFORMANCE ADDITIVES

We engage in the custom compounding of rubber materials to the specifications of manufacturers of rubber products throughout North America through our rubber compounding and additives businesses. This includes products used in the manufacture of automobile hoses and belts, footwear, escalator railings and industrial conveyors. We also produce rubber colorants and additives for the rubber industry worldwide. We believe we are the largest independent custom rubber compounder in North America.

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DISTRIBUTION

We distribute more than 3,500 grades of engineering and commodity resins and plastic compounds from approximately 12 major suppliers including our own polyvinyl chloride, or PVC, compounds through our distribution business. These products are sold to custom molders and extruders who convert them into plastic products. Our customers produce products that are sold to a number of different industries and end markets. We believe we are one of the leading distributors of plastic resins and compounds in North America.

RESIN AND INTERMEDIATES

Our Resin and Intermediates segment manufactures products such as PVC resins, vinyl chloride monomer, or VCM, and caustic soda. These products are sold to customers in the aluminum, paper and pulp and construction industries. This segment also produces intermediates, such as chlorine, for internal consumption by our affiliate in the production of PVC resins. This segment consists primarily of investments in equity affiliates, principally Oxy Vinyls, LP and SunBelt Chlor-Alkali Partnership.

PRINCIPAL EQUITY AFFILIATES

We hold an equity interest in several joint ventures. Our two largest investments, based on our recorded investment in and commitment to guarantee debt of our equity affiliates, are OxyVinyls and SunBelt. We have a 24% interest in OxyVinyls, a partnership with Occidental Chemical Corporation, which is a leading producer of PVC resin and VCM in North America. OxyVinyls also produces chlorine and caustic soda. We also own 50% of SunBelt, a joint venture with Olin Corporation, which produces chlorine and caustic soda.

INFORMATION ABOUT POLYONE

We are an Ohio corporation formed on August 31, 2000 by the consolidation of The Geon Company and M.A. Hanna Company. Our principal executive office is located at Suite 36-5000, 200 Public Square, Cleveland, Ohio 44114-2304, and our telephone number is (216) 589-4000. Our common shares are listed on The New York Stock Exchange under the symbol "POL."

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THE EXCHANGE OFFER

The Exchange Offer............	We are offering to exchange $200.0 million in principal amount of our 8.875% senior notes due May 1, 2012, which have been registered under the federal securities laws, for $200.0 million in principal amount of our outstanding unregistered 8.875% senior notes due May 1, 2012, which we issued on April 23, 2002 in a private offering. You have the right to exchange your outstanding notes for exchange notes with substantially identical terms. In order for your outstanding notes to be exchanged, you must properly tender them before the expiration of the exchange offer. All outstanding notes that are validly tendered and not validly withdrawn will be exchanged. We will issue the exchange notes on or promptly after the expiration of the exchange offer.
Registration Rights Agreement.....................	We sold the outstanding notes on April 23, 2002 to a limited number of initial purchasers. At that time, we signed a registration rights agreement with those initial purchasers, which requires us to conduct this exchange offer. This exchange offer is intended to satisfy those rights set forth in the registration rights agreement. After the exchange offer is complete, you will not have any further rights under the registration rights agreement, including any right to require us to register any outstanding notes that you do not exchange or to pay you liquidated damages.
If You Fail to Exchange Your Outstanding Notes...........	If you do not exchange your outstanding notes for exchange notes in the exchange offer, you will continue to be subject to the restrictions on transfer provided in the outstanding notes and indenture governing

those notes. In general, you may not offer or sell your outstanding notes unless they are registered under the federal securities laws or are sold in a transaction exempt from or not subject to the registration requirements of the federal securities laws and applicable state securities laws.

Expiration Date............... The exchange offer will expire at 5:00 p.m., New York City time, on August 27, 2002, unless we decide to extend the expiration date. See "The Exchange Offer -- Expiration Date; Extensions; Amendments."

Conditions to the Exchange Offer......................... The exchange offer is subject to conditions that we may waive. The exchange offer is not conditioned upon any minimum amount of outstanding notes being tendered for exchange. See "The Exchange Offer -- Conditions."

We reserve the right, subject to applicable law, at any time and from time to time, but before the expiration of the exchange offer:

- to delay the acceptance of the outstanding notes;

- to terminate the exchange offer if specified conditions have not been satisfied;

- to extend the expiration date of the exchange offer and retain all tendered outstanding notes subject to the right of tendering holders to withdraw their tender of outstanding notes; and

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- to waive any condition or otherwise amend the terms of the exchange offer in any respect. See "The Exchange Offer -- Expiration Date; Extensions; Amendments."

Procedures for Tendering Notes......................... If you wish to tender your outstanding notes for exchange, you must:

- complete and sign the enclosed letter of transmittal by following the related instructions; and

- send the letter of transmittal, as directed in the instructions, together with any other required documents, to the exchange agent, either (1) with the outstanding notes to be tendered or (2) in compliance with the specified procedures for guaranteed delivery of the outstanding notes.

Brokers, dealers, commercial banks, trust companies and other nominees may also effect tenders by book-entry transfer.

Please do not send your letter of transmittal or certificates representing your outstanding notes to us. Those documents should be sent only to the exchange agent. Questions regarding how to tender and requests for information should be directed to the exchange agent. See "The Exchange Offer -- Exchange Agent."

Special Procedures for Beneficial Owners............. If your outstanding notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, we urge you to contact that person promptly if you wish to tender your outstanding notes pursuant to the exchange offer. See "The Exchange Offer -- Procedures for Tendering."

Withdrawal Rights............. You may withdraw the tender of your outstanding notes at any time before the expiration date of the exchange offer by delivering a written notice of your withdrawal to the exchange agent. You must also follow the withdrawal procedures as described under the heading "The Exchange Offer -- Withdrawal of Tenders."

Federal Income Tax Considerations................ The exchange of outstanding notes for the exchange notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes.

Resale of Exchange Notes...... We believe that you will be able to offer for resale, resell or otherwise transfer exchange notes issued in the exchange offer without compliance with the registration and prospectus delivery provisions of the federal securities laws, provided that:

- you are acquiring the exchange notes in the ordinary course of business;

- you are not engaged in, and do not intend to engage in, a distribution of the exchange notes;

- you do not have any arrangement or understanding with any person to participate in the distribution of the exchange notes;

- you are not a broker-dealer tendering outstanding notes acquired directly from us for your own account;

- you are not one of our affiliates, as defined in Rule 405 of the Securities Act; and

- you are not prohibited by law or any policy of the SEC from participating in the exchange offer.

Our belief is based on interpretations by the Staff of the SEC, as set forth in no-action letters issued to third parties unrelated to us. The Staff has not considered this exchange offer in the context of a no-action letter, and we cannot assure you that the Staff would make a similar determination with respect to this exchange offer.

If our belief is not accurate and you transfer an exchange note without delivering a prospectus meeting the requirements of the federal securities laws or without an exemption from these laws, you may incur liability under the federal securities laws. We do not and will not assume or indemnify you against this liability.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes that were acquired by such broker-dealer as a result of market-making or other trading activities must agree to deliver a prospectus meeting the requirements of the federal securities laws in connection with any resale of the exchange notes. See "The Exchange Offer -- Resale of the Exchange Notes."

Exchange Agent................ The exchange agent for the exchange offer is The Bank of New York. The address, telephone number and facsimile number of the exchange agent are set forth in "The Exchange Offer -- Exchange Agent" and in the letter of transmittal.

See "The Exchange Offer" for more detailed information concerning the exchange offer.

THE EXCHANGE NOTES

Exchange Notes................ $200.0 million aggregate principal amount of 8.875% senior notes due 2012.

Maturity Date................. May 1, 2012.

Interest Payment Dates........ The exchange notes will bear interest at the rate of 8.875% per year, payable semi-annually in cash, in arrears on May 1 and November 1 of each year, commencing on November 1, 2002.

Ranking...................... The exchange notes will be our general unsecured obligations and will rank equally with all of our existing and future unsecured senior indebtedness. The exchange notes will not be guaranteed by any of our subsidiaries. The exchange notes will be effectively subordinated to all existing and future debt of our subsidiaries.

As of March 31, 2002, after giving effect to the offering of the outstanding notes and the application of the net proceeds therefrom, our total outstanding consolidated debt would have been $597.7 million, of which $19.9 million would have been debt of our subsidiaries. Of this debt, $14.9 million would be senior to the exchange notes and $582.8 million would be equal in ranking to the exchange notes. In addition, as of April 23, 2002, after giving effect to the sale of $200 million of the

outstanding notes and related use of proceeds in April 2002, approximately $117 million of our existing senior capital resource facilities were available to be drawn while remaining in compliance with these facilities.

We and some of our domestic subsidiaries have agreed to secure our obligations under our revolving credit facility and some letters of credit, bank guarantees and hedging instruments with some of our real property, all of our equipment located on this real property, all of our inventory, all of our accounts receivable (subject to a priority security interest granted to the purchasers under our receivables sale facility), all of our deposit accounts and substantially all of our intellectual property, as well as the capital stock of these subsidiaries. These domestic subsidiaries have also guaranteed our obligations under our revolving credit facility and the letters of credit, bank guarantees and hedging instruments. As of March 31, 2002, after giving effect to the offering of the outstanding notes and the application of the net proceeds therefrom, we would have had approximately $41.5 million of obligations under the letters of credit, bank guarantees and hedging instruments. In addition, if we exceed the specified limits of secured debt permitted by the indentures governing our other existing notes or our guarantee of the notes of one of our equity affiliates as we borrow under our revolving credit facility, we will be required to equally and ratably secure the exchange notes, the other existing notes and the guarantee with this collateral for so long as these specified limits are exceeded. Accordingly, depending on the amount drawn under our revolving credit facility, the exchange notes could become secured.

Our obligations under the revolving credit facility will be secured and guaranteed until our debt-to-EBITDA ratio is less than 3.50 to 1.0 for any two consecutive fiscal quarters. If the revolving credit facility becomes unsecured, the exchange notes will not be secured by the collateral described above. See "Description of Specific Other Indebtedness."

Sinking Fund................. We are not required to make any mandatory redemption of the exchange notes and there is no amortization or sinking fund to cover the payment of principal and interest on the exchange notes.

Optional Redemption.......... We will have the option to redeem the exchange notes at any time at a price equal to the greater of 100% of the principal amount of the exchange notes and a "make-whole" amount, plus, in each case, any accrued interest to the date of redemption. The "make-whole" amount will be based on a discount rate equal to the yield on a comparable U.S. Treasury security plus 50 basis points. See "Description of Notes -- Optional Redemption."

Use of Proceeds.............. We will not receive any cash proceeds from the issuance of the exchange notes.

RISK FACTORS

You should consider carefully all of the information set forth in this prospectus and, in particular, should evaluate the specific factors set forth in the section entitled "Risk Factors."

SUMMARY HISTORICAL FINANCIAL DATA

The summary historical financial data of PolyOne set forth below as of December 31, 2001, 2000, 1999, 1998 and 1997 and for each of the five years in the period ended December 31, 2001 are derived from the audited consolidated financial statements. The summary historical financial data set forth below as of March 31, 2002 and 2001 and for the three months ended March 31, 2002 and 2001 are derived from the unaudited interim consolidated financial statements. PolyOne was formed on August 31, 2000 from the consolidation of The Geon Company and M. A. Hanna Company. This consolidation was accounted for as a purchase business combination, with Geon as the acquiring entity. Accordingly, our audited results under generally accepted accounting principles (GAAP) for the year ended December 31, 2000 reflect the operating results of Geon for eight months prior to the consolidation and of PolyOne for four months (which include the operating results of Hanna from the date of consolidation). Accordingly, the summary historical financial data as of December 31, 2001, and for the year then ended is generally not comparable to the summary historical financial data for the other periods presented in the table below. Note (1) to the summary historical financial data includes pro forma income statement data and other data for 2000 and 1999 that gives effect to the consolidation of Geon and Hanna and certain other transactions as if such transactions had occurred prior to the periods presented. The audited results for the years ended December 31, 1999, 1998 and 1997 are those of Geon only. The historical results include the following business acquisitions from the acquisition date indicated: Synergistics Industries Limited from October 31, 1997; Plast-O-Meric, Inc., and the Wilflex Division of Flexible Products Company, from June 1, 1998; Adchem, Inc. from September 1, 1998; Acrol Holdings Limited from July 1, 1999; O'Sullivan Corporation from July 8, 1999; and Dennis Chemical Company, Inc. from September 8, 1999. In addition, the 1999 results of operations reflect the formation of Oxy Vinyls, LP on April 30, 1999, and the contribution of substantially all of the Company's former PVC resin operations to Oxy Vinyls, LP. In connection with this, PolyOne also acquired businesses from Occidental Chemical Corporation and formed a powder compounding joint venture, all of which are reflected in the PolyOne's consolidated results of operations from May 1, 1999. The results of operations for interim periods are not necessarily indicative of results for a full year's operations.

The summary historical financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus and the audited consolidated financial statements and related notes and the unaudited interim consolidated financial statements and related notes of PolyOne incorporated by reference into this prospectus. For additional information, see "Where You Can Find More Information."

	YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
	(DOLLARS IN MILLIONS)				
INCOME STATEMENT DATA(1):					
Sales	$2,654.6	$1,887.8	$1,261.2	$1,284.4	$1,250.0
Depreciation and amortization	91.3	57.4	44.4	57.9	54.6
Employee separation and plant phase-out	36.1	2.8	0.5	14.6	15.0
Merger and integration costs	5.9	9.5	--	--	--
Operating income (loss)	(17.1)	64.8	99.7	41.0	51.7
Income (loss) before cumulative effect of a change in accounting	(46.1)	15.9	106.2	13.8	22.5
Net income (loss)(2)	(46.1)	15.9	104.7	13.8	22.5
BALANCE SHEET DATA (AT PERIOD END):					
Current assets	$ 485.6	$ 796.5	$ 357.7	$ 234.7	$ 313.5
Goodwill and other intangible assets, net(3)	537.3	540.3	183.1	81.5	63.6
Total assets	2,061.2	2,430.6	1,162.6	802.0	872.9
Current liabilities	500.1	746.8	440.7	256.8	313.6
Long-term debt	426.8	430.5	130.9	135.4	136.4
Shareholders' equity	713.4	827.6	334.7	214.1	223.8
OTHER DATA(1):					
EBITDA(4)	$ 59.2	$ 118.6	$ 140.5	$ 96.3	$ 100.4
Net cash provided (used) by:					
Operating activities	308.7	63.9	114.6	106.6	98.3
Investing activities	(74.9)	20.4	(243.6)	(94.9)	(115.6)
Financing activities	(252.6)	(97.2)	164.8	(45.2)	52.6

Capital expenditures	80.2	62.7	60.1	40.7	50.9
Expenditure for acquisitions(5)	--	520.0	233.5	57.1	82.2
Interest expense	41.9	36.7	17.7	16.0	11.9
Ratio of earnings to fixed charges(6)(7)	--	1.5x	5.7x	1.7x	2.1x

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(1) The income statement data and the other data are based on financial information from the income statement, which includes the operating results for acquisitions and other transactions from the date thereof. Below is a summary of pro forma operating results, which assumes the consolidation of Geon and Hanna occurred prior to the periods presented. Further, the pro forma operating results assume that Hanna's sale of its Cadillac Plastic business, Geon's 1999 transactions with Occidental Chemical Corporation and the acquisition of O'Sullivan occurred prior to the periods presented. The unaudited pro forma financial information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus.

	2000	1999
	(DOLLARS IN MILLIONS)	
INCOME STATEMENT DATA, PRO FORMA (UNAUDITED):		
Sales	$3,139.7	$3,039.9
Operating income	115.5	181.8
Income before cumulative effect of a change in accounting	52.4	81.4
Net income	52.4	79.9
OTHER DATA, PRO FORMA (UNAUDITED):		
Depreciation and amortization	$ 101.6	$ 104.3
EBITDA(4)	215.7	290.9

The above pro forma data includes the effects of the following restructuring and other one-time items. The pro forma financial information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus.

	2000	1999
	(DOLLARS IN MILLIONS)	
Employee separation and plant phase-out	$ 2.8	$ (0.1)
Equity investment restructuring costs	--	0.8
Executive separation cost	8.5	--
Directors' pension termination	0.8	--
Other restructuring costs	0.6	1.2
Write-off of debt placement	0.8	--
Reversal of Hanna dock operations reserves	--	(1.2)
Gain on sale of assets	--	(13.2)
Loss on sale of business	--	10.9
Subtotal -- pre-tax expense (income)	13.5	(1.6)

Subtotal -- after-tax expense	8.1	3.6
German tax rate reduction	(1.5)	--
Hanna reversal of income tax reserve	(10.5)	--
Total after-tax impact of special items (income)	(3.9)	3.6
Income, pro forma, before cumulative effect of a change in accounting	52.4	81.4
Income, pro forma before cumulative effect of a change in accounting and special items	$ 48.5	$ 85.0
EBITDA, pro forma before special items	$229.2	$289.3
Operating income, pro forma before special items	$128.4	$184.3

Net income, EBITDA and operating income, before special items are non-GAAP measures, and may not be comparable to financial performance measures presented by other companies.

(2) Reflects the effects of certain restructuring and other one-time special items included in historical operating income and net income (loss) as follows. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus.

(3) Goodwill comprised $446.8 million of the $481.5 million of goodwill and other intangibles, net reported at March 31, 2002.

	YEARS ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	2001	2000	1999	1998	1997	2002	2001
	(DOLLARS IN MILLIONS)						
Employee separation and plant phase-out	$ 36.1	$ 2.8	$ 0.5	$ 14.6	$ 15.0	$ 0.9	$ 8.9
Plant phase-out accelerated depreciation	--	--	--	--	--	0.5	--
Merger and integration costs	5.9	9.5	--	--	--	--	5.3
Equity investment restructuring and plant idling costs*	9.4	--	0.8	--	--	0.7	1.0
Charge for acquired profit in inventory relating to business acquisitions	--	2.8	3.2	--	--	--	--
Directors' pension termination	--	0.8	--	--	--	--	
Other restructuring costs	0.2	0.6	1.2	--	--	.1	--
Investment writedown and							

loss on the divestiture.............	10.1	--	--	--	--	1.5	0.6
Litigation settlement (gain)..................	(4.1)	--	--	--	--	--	--
Write-off of debt placement...............	--	0.8	--	--	--	--	--
(Gain) on formation of joint ventures..........	--	--	(93.5)	--	--	--	--
Subtotal -- pre-tax (income) expense........	57.6	17.3	(87.8)	14.6	15.0	3.7	15.8
Subtotal -- after-tax (income) expense..........	35.9	10.6	(53.7)	8.9	9.2	2.3	9.6
German tax rate reduction...............	--	(1.5)	--	--	--	--	--
Total after-tax impact of special items...........	35.9	9.1	(53.7)	8.9	9.2	2.3	9.6
Income (loss) before cumulative effect of a change in accounting....	(46.1)	15.9	106.2	13.8	22.5	(3.6)	(21.4)
Income (loss) before cumulative effect of a change in accounting and special items...........	$(10.2)	$ 25.0	$ 52.5	$ 22.7	$ 31.7	$ (1.3)	$(11.8)
EBITDA, before special items...................	$116.8	$135.1	$146.2	$110.9	$115.4	$ 24.8	$ 16.6
Operating income, before special items...........	$ 34.5	$ 81.5	$105.4	$ 55.6	$ 66.7	$ 8.7	$ (8.1)

* Represents employee severance, plant phase-out costs and liabilities associated with the temporary idling of a plant.

Net income, EBITDA and operating income, before special items are non-GAAP measures, and may not be comparable to financial performance measures presented by other companies.

(4) EBITDA represents operating income plus other income (expense) and, depreciation and amortization. EBITDA is presented as it is frequently used by security analysts and certain investors in evaluating companies and their ability to service debt. However, EBITDA should not be considered an alternative to

net cash from operating, investing and financing activities as a measure of liquidity or as an alternative to net income as an indicator of operating performance or any other measure of performance in accordance with generally accepted accounting principles. EBITDA is not a measurement under generally accepted accounting principles and is not necessarily comparable with similarly titled measures of other companies.

(5) This amount includes business acquisitions for cash, net of cash acquired and the M.A. Hanna Company consolidation for stock, net of cash received and transaction costs paid in 2000.

(6) For purposes of computing the ratio of earnings to fixed charges, earnings consist of earnings before income taxes, extraordinary items and the cumulative effect of change in method of accounting and excluded undistributed earnings (loss) of affiliates, except for the pre-tax loss of 50% or less owned affiliates for which PolyOne has guaranteed debt, and capitalized interest, but include fixed charges and amortization of previously capitalized interest. Fixed charges consist of interest expensed and capitalized, amortized premiums, discounts and capitalized expenses related to indebtedness, and a portion of rental expense representing an interest factor.

(7) Earnings for the year ended December 31, 2001 and for the three months ended March 31, 2002 and March 31, 2001 were inadequate to cover fixed charges. The coverage deficiency for these periods amounted to $64.0 million, $5.3 million and $35.6 million, respectively.

RISK FACTORS

An investment in the exchange notes involves risk. We have summarized particular material information appearing in this prospectus and in our public filings that are incorporated by reference. In addition to the other particular material information summarized in or incorporated by reference into this prospectus, you should carefully consider the following risk factors and information under "Forward-Looking Statements," which appear elsewhere in this prospectus before deciding whether to exchange any outstanding notes.

RISKS RELATING TO OUR DEBT, INCLUDING THE EXCHANGE NOTES

OUR HIGH LEVEL OF DEBT COULD IMPAIR OUR FINANCIAL HEALTH AND PREVENT US FROM FULFILLING OUR OBLIGATIONS UNDER THE EXCHANGE NOTES.

As of March 31, 2002, we had total outstanding consolidated debt of approximately $492.7 million and shareholders' equity of approximately $653.4 million. Approximately $60 million of our total outstanding consolidated debt as of March 31, 2002 was debt of our subsidiaries. In addition, as of March 31, 2002, we had sold $193.6 million of our accounts receivables under our receivables sale facility. As of March 31, 2002, we had also guaranteed $42.3 million of OxyVinyls' borrowings from Occidental Chemical Corporation and $97.5 million of SunBelt's outstanding senior secured notes. As of and including March 31, 2002, our annual debt service payment obligations for 2002 consisted of approximately $4 million in principal payments and approximately $35 million in interest expense, of which approximately $0.5 million and $9 million, respectively, had been paid. After giving effect to the offering of the outstanding notes and the application of the net proceeds therefrom, we estimate that our 2002 interest expense will increase by approximately $7.6 million and, going forward, will increase by approximately $10 million on an annual basis.

After giving effect to the offering of the outstanding notes and the application of the net proceeds therefrom, we would have had approximately $202 million of variable rate debt outstanding. Accordingly, each 1% increase in variable rates would result in approximately a $2.0 million increase in annual debt service costs. Effective May 28, 2002, we entered into three new fixed-to-variable interest rate swaps with notional amounts totaling $80 million. Entering into these swaps increased our variable rate debt by $80 million, and each 1% increase in interest rates will increase our annual debt service costs by an additional $800,000.

Our high level of debt and our debt service obligations could:

- make it more difficult for us to satisfy our obligations with respect to the exchange notes;

- reduce the amount of money available to finance our operations, capital expenditures and other activities;

- increase our vulnerability to economic downturns and industry conditions;

- limit our flexibility in responding to changing business and economic conditions, including increased competition and demand for new products and services;

- place us at a disadvantage when compared to our competitors that have less debt; and

- limit our ability to borrow additional funds.

We may incur substantial additional debt in the future, and we may do so in order to finance future acquisitions and investments. The terms of the indenture governing the exchange notes restrict us and our subsidiaries from incurring secured debt only. The addition of further debt to our current high level of debt could intensify the leverage related risks that we now face.

HOLDERS OF SECURED DEBT WOULD BE PAID FIRST AND WOULD RECEIVE PAYMENTS FROM ASSETS USED AS SECURITY BEFORE YOU RECEIVE PAYMENTS IF WE WERE TO BECOME INSOLVENT.

In general, the exchange notes will not be secured by any of our assets or the assets of our subsidiaries. The indenture governing the outstanding notes and the exchange notes, and the indentures governing our other existing notes and our guarantee of the SunBelt notes permit us to incur future secured debt up to

specified limits. If we were to become insolvent, holders of any current and future secured debt would be paid first and would receive payments from the assets used as security before you receive any payments. You may therefore not be fully repaid if we become insolvent.

In connection with amending and restating the credit agreement governing our revolving credit facility, we have agreed to secure any amounts outstanding under our revolving credit facility and amounts under some letters of credit, bank guarantees and various hedging instruments. If we exceed the specified limits of secured debt permitted by the indenture governing the outstanding notes and the exchange notes, the indentures governing any of our other existing notes or our SunBelt guarantee, we will have to secure the debt under the outstanding notes and the exchange notes, as the case may be, the other existing notes and our SunBelt guarantee as well. But if we do not exceed these specified limits, the holders of the outstanding notes and the exchange notes, as the case may be, our other existing notes and our SunBelt guarantee would remain unsecured whereas amounts outstanding under our revolving credit facility and the letters of credit, bank guarantees and hedging instruments would be secured. Assuming that the offering of the outstanding notes had taken place on March 31, 2002 and giving effect to the application of the net proceeds therefrom, we would not have had any amounts outstanding under our revolving credit facility, but we would have had approximately $41.5 million of obligations under the letters of credit, bank guarantees and hedging instruments, which would have been secured. In the future, we may incur additional secured debt.

ASSETS OF OUR SUBSIDIARIES MAY NOT BE AVAILABLE TO MAKE PAYMENTS ON THE EXCHANGE NOTES.

Our subsidiaries have no obligations to make payments in respect of the outstanding notes and the exchange notes, as the case may be. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, the creditors of such subsidiary, including trade creditors, will generally be entitled to payment of their claims from the assets of the subsidiary before any assets are made available for distribution to us as a shareholder. After paying their own creditors, our subsidiaries may not have any remaining assets available for payment to holders of the exchange notes. As a result, the outstanding notes and the exchange notes, as the case may be, are effectively junior in right of payment to the obligations of our subsidiaries. Assuming that the offering of the outstanding notes had taken place on March 31, 2002 and giving effect to the application of the net proceeds therefrom, the total indebtedness of our subsidiaries owed to third parties would have been approximately $19.9 million.

THE TERMS OF OUR REVOLVING CREDIT FACILITY IMPOSE FINANCIAL AND OPERATING RESTRICTIONS.

Our revolving credit facility contains restrictive covenants that limit our ability to engage in a variety of transactions. Our revolving credit facility requires us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we may not meet those tests. If we are unable to meet those tests, we would be unable to borrow under our revolving credit facility and, if that happens, we may not be able to fund our operations.

A breach of any of the covenants or other provisions in our revolving credit facility could result in a default under our revolving credit facility. Upon the occurrence of an event of default under our revolving credit facility, the lenders could elect to declare all amounts outstanding thereunder to be immediately due and payable and foreclose on the collateral, if any, securing the revolving credit facility, as well as terminate all commitments to extend further credit, which would adversely affect our ability to fund our operations. If the lenders under our revolving credit facility accelerate the repayment of our borrowings, we may not have sufficient assets to repay the obligations under our revolving credit facility. In addition, in some instances, this would create an event of default under the indenture governing the outstanding notes and the exchange notes.

AN ACTIVE LIQUID TRADING MARKET FOR THE EXCHANGE NOTES MAY NOT DEVELOP.

There is currently no public market for the exchange notes. The exchange notes are a new class of securities which have never been traded. An active trading market for the exchange notes may not develop, or if one does develop, it may not be sustained. Also, it is possible that the market for the exchange notes will

be volatile. This volatility in price may affect your ability to resell your exchange notes or the timing of their sale.

IF YOU DO NOT EXCHANGE YOUR OUTSTANDING NOTES, YOU MAY HAVE DIFFICULTY IN TRANSFERRING THEM AT A LATER TIME.

We will issue exchange notes in exchange for the outstanding notes after the exchange agent receives your outstanding notes, the letter of transmittal and all related documents. You should allow adequate time for delivery if you choose to tender your outstanding notes for exchange. Outstanding notes that are not exchanged will remain subject to restrictions on transfer and will not have rights to registration.

If you do participate in the exchange offer for the purpose of participating in the distribution of the exchange notes, you must comply with the registration and prospectus delivery requirements of the Securities Act for any resale transaction. Each broker-dealer who holds outstanding notes for its own account due to market-making or other trading activities and who receives exchange notes for its own account must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. If any outstanding notes are not tendered in the exchange or are tendered but not accepted, the trading market for such outstanding notes could be negatively affected due to the limited amount expected to remain outstanding following the completion of the exchange offer.

RISKS RELATING TO OUR BUSINESS

DEMAND FOR AND SUPPLY OF OUR PRODUCTS AND SERVICES MAY BE ADVERSELY AFFECTED BY NUMEROUS FACTORS, SOME OF WHICH WE CANNOT PREDICT OR CONTROL, WHICH COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

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

- changes in the market acceptance of our products and services;
- declines in the general level of industrial production;
- declines in general economic conditions;
- changes in world or regional plastic, rubber and PVC consumption growth rates;
- changes in capacity in the PVC, VCM or chlor-alkali industries;
- declines in the availability or increases in the prices of raw materials;
- declines in the availability or increases in the prices of energy; and
- changes in environmental regulations that would limit our ability to sell our products and services in specific markets.

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

As further described below, the 2001 decline in general economic conditions and related decreases in industrial production and commodity PVC resin and chlor-alkali industry capacity utilization versus the year 2000 significantly reduced our 2001 earnings. Sales in 2001 decreased 15.5% from 2000 pro forma sales, the lower sales volumes were estimated to have reduced operating income by $135 million. In 2001, we reported a net loss, before special items, of $10.2 million or $58.7 million below the year 2000 pro forma, on the same basis. Contributing to the 2001 net loss was a lower 2001 operating income of $40.5 million, before special items, from the Resin and Intermediates business segment which includes our commodity PVC resin and chlor-alkali joint ventures. For additional information, please see " -- The results of our equity affiliates may adversely affect our results of operations," which discusses factors that resulted in lower 2001 operating income from our commodity PVC resin and chlor-alkali joint ventures.

In the first quarter of 2002, sales declined 13.6% as compared to the same period in 2001. We, for the quarter, reported a net loss of $1.3 million before cumulative effect of a change in accounting and special items.

The financial losses in the year 2001 and the first quarter of 2002 resulted in our having to amend our revolving bank credit facility three times. The amendments included revisions to our debt leverage (debt / EBITDA) and interest coverage (EBITDA / net interest expense) covenant tests. The amendments enabled us to have the necessary operational flexibility and maintain compliance with our revolving credit agreement. The March 2002 amendment provided security to the bank syndicate and defined limitations on future spending for capital expenditures, acquisitions and increases in dividend payments. Additionally, through these amendments, we reduced our total short-term line of credit available through the revolving credit facility from $400 million to $150 million. In order to ensure that we maintained adequate liquidity, we increased our existing receivables sales facility from $100 million to $250 million. Moreover, despite the operating losses in the year 2001, we generated $116.3 million cash from operations and investing activities, excluding the $117.5 million increased utilization of the receivables sales facility, that was used primarily to reduce outstanding short-term debt. Lastly, in April 2002, we issued $200 million of outstanding notes.

OUR SALES AND OPERATING RESULTS ARE SENSITIVE TO GLOBAL ECONOMIC CONDITIONS AND CYCLICALITY AND COULD BE ADVERSELY AFFECTED DURING ECONOMIC DOWNTURNS.

Demand for our products is affected by general economic conditions and the business conditions of the industries in which we sell our products and services. The business of most of our customers, particularly our industrial, automotive, construction and electronics customers, are, to varying degrees, cyclical and have historically experienced periodic downturns. A substantial weakening of the North American economy across all of our business segments was reflected in a decrease in the customer sales demand for our products in 2001. According to Automotive News, automotive production was down 10% in 2001 as compared to 2000, and according to Blue Chip Economic Indicators, industrial production fell 4.3% in 2001 compared to 2000 and average industrial capacity utilization fell five percentage points from 82% in 2000 to 77% in 2001. We estimate that our operating income in 2001 decreased approximately $135 million as a direct result of the sales volume decline from 2000. Any downturns in general economic conditions could adversely affect the demand for our products and services and our sales and operating results. In addition, downturns in our customers' industries, even during periods of strong general economic conditions, could adversely affect our sales and our operating results.

WE MAY BE UNABLE TO ACHIEVE, OR MAY BE DELAYED IN ACHIEVING, STRATEGIC VALUE CAPTURE INITIATIVES, WHICH MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS AND CASH FLOW.

We anticipate that, as we better understand the capabilities and synergies of the combined operations of Geon and Hanna, we will achieve savings associated with various strategic value capture initiatives. These strategic value capture initiatives include various cost-reduction initiatives, as well as initiatives to increase our sales growth by leveraging our products across business platforms and projectOne. ProjectOne is our IT systems initiative to link most of our business operations worldwide and thereby support many of these strategic value capture initiatives. If we are unable to achieve, or if we meet any unexpected delays in achieving, these goals, our results of operations and cash flow may be adversely affected. Additionally, even if we achieve these initiatives, we may not receive the expected financial benefits of these initiatives. Also, the costs of implementing these initiatives could exceed the benefits of these initiatives.

BECAUSE OUR OPERATIONS ARE CONDUCTED WORLDWIDE, THEY ARE AFFECTED BY RISKS OF DOING BUSINESS ABROAD.

We generate revenue from export sales, or sales outside the United States by our domestic operations, as well as from our operations conducted outside the United States. Revenue from non-United States operations (principally Canada, Mexico, Europe and Asia) amounted to approximately 24% in the first quarter of 2002, 23% in 2001, 20% in 2000 and 16% in 1999. Long-lived assets of our non-United States operations represented 20% of total long-lived assets at March 31, 2002 and 19% and 21% of total long-lived assets at December 31, 2001 and 2000.

Our international operations are subject to the risks of doing business abroad, including the following:

- fluctuations in currency exchange rates;
- transportation delays and interruptions;
- political and economic instability and disruptions;
- restrictions on the transfer of funds;
- the imposition of duties and tariffs;
- import and export controls;
- changes in governmental policies and regulatory environments;
- labor unrest and current and changing regulatory environments;
- the uncertainty of product acceptance by different cultures;
- the risks of divergent business expectations or cultural incompatibility inherent in establishing joint ventures with foreign partners;
- difficulties in staffing and managing multi-national operations;
- limitations on our ability to enforce legal rights and remedies;
- reduced protection for intellectual property rights in some countries; and
- potentially adverse tax consequences.

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

OUR MANUFACTURING OPERATIONS ARE SUBJECT TO HAZARDS ASSOCIATED WITH POLYMER PRODUCTION AND RELATED STORAGE AND TRANSPORTATION OF RAW MATERIALS, PRODUCTS AND WASTES.

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

- pipeline leaks and ruptures;

- explosions, fires, inclement weather and natural disasters;

- mechanical failure;

- unscheduled downtime;

- labor difficulties;

- our inability to obtain or maintain any required licenses or permits;

- transportation interruptions and environmental hazards such as chemical spills, discharges or releases of toxic or hazardous substances or gases; and

- storage tank leaks and matters resulting from remedial activities.

The occurrence of any of these operating problems at our facilities may have a material adverse effect on the productivity and profitability of a particular manufacturing facility, or on our operations as a whole, during and after the period of such operational difficulties. These operating problems may also cause personal injury and loss of life, severe damage to or destruction of property and equipment, and environmental damage. In addition, individuals could seek damages for alleged personal injury or property damage due to exposure to chemicals at our facilities or to chemicals otherwise owned or controlled by us. Furthermore, we are also subject to present and future claims with respect to workplace exposure, workers' compensation and other matters. Although we maintain property, business interruption and casualty insurance of the types and

in the amounts that we believe are customary for the industry, we are not fully insured against all potential hazards incident to our business.

OUR PARTICIPATION IN JOINT VENTURES LIMITS OUR ABILITY TO CONTROL THE OPERATIONS AND BUSINESS OF THESE ENTITIES.

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

THE RESULTS OF OUR EQUITY AFFILIATES MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

Our two largest equity investments are the OxyVinyls and SunBelt partnerships. OxyVinyls is a manufacturer of PVC resins with a capacity of approximately 4.6 billion pounds and has chlor-alkali capacity of approximately 900,000 electro-chemical units, or ECUs. SunBelt is a chlor-alkali manufacturer with annual capacity of approximately 250,000 ECUs. Each ECU represents 1 ton of chlorine and 1.1 tons of co-product caustic soda.

Each of these partnerships' earnings stream may be significantly affected by changes in the commodity cycle for hydrocarbon feedstocks and for chlor-alkali products. The principal factors impacting OxyVinyls' profitability include PVC resin spreads (the PVC resin selling price less the material cost of chlorine and ethylene), caustic soda selling prices, natural gas prices and customer product demand. The principal factors impacting SunBelt's profitability are caustic soda and chlorine prices.

Our pre-tax loss in 2001 from these two partnerships was $8.6 million, which was a decline of $47.8 million (OxyVinyls -- $38.4 million, SunBelt -- $9.4 million) from the $39.2 million pre-tax earnings realized in 2000. This decline in earnings adversely affected our financial position and contributed to the increase of our debt leverage ratio test (debt to EBITDA), which includes earnings from equity affiliate joint ventures. The decline in 2001 OxyVinyls earnings was primarily the result of lower OxyVinyls PVC resin and VCM spreads and average higher energy prices. Our earnings in 2001 from OxyVinyls also included a $4.3 million charge for employee severance and liabilities, primarily associated with the temporary idling of a chlor-alkali production facility in Deer Park, Texas. The decline in our portion of SunBelt's earnings in 2001 was primarily the result of lower average ECU selling prices.

During the first quarter of 2002, our pre-tax loss from OxyVinyls and SunBelt was $3.6 million, including an additional $0.7 million charge at OxyVinyls associated with employee severance and liabilities associated with idling the Deer Park facility. Before this charge, OxyVinyls equity earnings were $0.5 million, an improvement of $11.3 million as compared to the first quarter of 2001 primarily due to lower natural gas costs. Average industry PVC resin selling prices were lower versus the same quarter in 2001 but this decline was largely offset by lower ethylene costs. Our first quarter 2002 pre-tax loss from SunBelt of $3.4 million was largely caused by a decline in caustic soda selling prices. We anticipate pre-tax losses from SunBelt of a similar magnitude in the second quarter of 2002 as projected further decreases in caustic soda selling prices will negate the benefit from chlorine selling price increases. If the operating results of our equity affiliates continue to suffer, our results of operations could be adversely affected.

EXTENSIVE ENVIRONMENTAL, HEALTH AND SAFETY LAWS AND REGULATIONS IMPACT OUR OPERATIONS AND ASSETS, AND COMPLIANCE WITH THESE REGULATIONS COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

Our operations on and ownership of real property are subject to extensive environmental, health and safety regulation at both the national and local level. The nature of our business exposes us to risks of liability under these laws and regulations due to the production, storage, transportation and sale of materials

that can cause contamination or personal injury if released into the environment. Environmental laws may have a significant effect on the costs of transportation and storage of raw materials and finished products, as well as the costs of the storage and disposal of wastes. We may incur substantial costs, including fines, damages, criminal or civil sanctions, remediation costs, or experience interruptions in our operations for violations arising under these laws.

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

We are also conducting investigations and remediation at some of our active and inactive facilities, and have assumed responsibility for environmental liabilities based on pre-1993 operations at sites formerly owned or operated by us or our predecessors.

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

WE HAVE A SIGNIFICANT AMOUNT OF GOODWILL, AND ANY FUTURE GOODWILL IMPAIRMENT CHARGES COULD ADVERSELY IMPACT OUR RESULTS OF OPERATIONS.

As of March 31, 2002, we had goodwill of $446.8 million recorded on our balance sheet. We completed the SFAS No. 142 transitional impairment review during the first quarter of 2002 for each of our operating segments. As a result, we recognized an after-tax loss of $53.7 million as a cumulative effect of an accounting change relating to our Engineered Films operation.

Although we recently completed an assessment of goodwill impairment, any additional future impairment of goodwill could result in one or more of the following financial impacts:

- violation of the required financial ratios;

- limitation of dividend payments and/or company stock repurchases; and/or

- extension of security to our existing public debt outstanding.

Any violation of the currently required financial ratios could limit our ability to access existing or future capital resources. Any extension of security to our existing public debt outstanding could impact the cost of future financing and/or our ability to issue new debt. Limitations on our ability to access existing or future capital resources could jeopardize our ability to pay the principal and interest of our outstanding debt, including the exchange notes.

FORWARD-LOOKING STATEMENTS

You should carefully review the information contained in or incorporated by reference into this prospectus. In this prospectus, statements that are not reported financial results or other historical information are "forward-looking statements" including, for example, statements about business outlook, assessment of market conditions, strategies, future plans, future sales, prices for major products, inventory levels, capital

spending and tax rates. These forward-looking statements 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.

Factors that could cause actual results to differ materially include, but are not limited to:

- an inability to achieve or delays in achieving savings related to consolidation and restructuring programs;

- changes in world, regional or U.S. plastic, rubber and PVC consumption growth rates affecting our markets;

- changes in global industry capacity or in the rate at which anticipated changes in industry capacity come online in the PVC, VCM, chlor-alkali or other industries in which we participate;

- delays in achieving or inability to achieve cost reduction and employee productivity goals and other strategic value capture initiatives;

- the effect on foreign operations of currency fluctuations, tariffs, nationalization, exchange controls, limitations on foreign investment in local business and other political, economic and regulatory risks;

- fluctuations in raw material prices and supply and 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;

- costs or difficulties and delays related to the operation of joint venture entities;

- lack of day-to-day operating control, including procurement of raw material feedstocks, of other equity or joint venture affiliates;

- lack of direct control over the reliability of delivery and quality of the primary raw materials utilized in our products;

- lack of control over investment decisions and dividend distribution policy of OxyVinyls and our other equity affiliates;

- an inability to obtain or maintain any required licenses or permits;

- an inability to comply with any environmental laws and regulations;

- our ability to launch new products and/or services that fit strategically with and add value to our business; and

- the possibility of goodwill impairments.

USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the exchange notes. Because we are exchanging the exchange notes for the outstanding notes, which have substantially identical terms, the issuance of the exchange notes will not result in any increase in our indebtedness.

CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents, amount of receivables sold under the receivables sale facility and capitalization as of March 31, 2002 on a historical basis in accordance with generally accepted accounting principles and on an as adjusted basis for the offering of the outstanding notes. The as adjusted presentation gives effect to the sale of the outstanding notes. The table should be read in conjunction with the consolidated financial statements of PolyOne and the related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial data of PolyOne included in or incorporated by reference into this prospectus.

	AS OF MARCH 31, 2002	
	HISTORICAL	AS ADJUSTED
	(DOLLARS IN MILLIONS)	
Cash and cash equivalents	$ 22.5	$ 22.5
Amount of receivables sold under the receivables sale facility(1)	$ 193.6	$ 155.9
SHORT-TERM DEBT:		
Revolving credit facility(1)	$ 40.0	$ --
Short-term lines of credit(1)	24.2	9.2
	64.2	9.2
LONG-TERM DEBT:		
8.875% notes due 2012	--	200.0
9.375% senior notes due 2003	90.4	90.4
Deutsche Bank AG loan due 2003(1)	40.0	--
6.875% debentures due 2005	74.5	74.5
Medium-term notes due 2004 - 2011	151.4	151.4
7.500% debentures due 2015	50.0	50.0
Other foreign denominated debt	21.8	21.8
Other borrowings	.4	.4
	428.5	588.5
SHAREHOLDERS' EQUITY:		
Common stock, par value $0.01 per share	1.2	1.2
Additional paid-in capital	1,073.9	1,073.9
Retained earnings	37.2	37.0
Common stock held in treasury	(347.5)	(347.5)
Share ownership trust	(6.0)	(6.0)
Accumulated other non-owner equity changes	(105.4)	(105.4)

	653.4	653.2
Total capitalization	$1,146.1	$1,250.9

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(1) At March 31, 2002, $40 million was outstanding under our revolving credit facility. We used the net proceeds of approximately $194.9 million from the April 23, 2002 offering of the outstanding notes to repay the amounts outstanding under our revolving credit facility, which were $110.0 million, the Deutsche Bank AG loan, which, including a prepayment penalty of approximately $0.3 million, was $41.1 million, and the amounts outstanding under our short-term lines of credit, which were approximately $6.1 million. In addition, the remaining net proceeds of approximately $37.7 million were used to repay a portion of the receivables sale facility, as indicated above.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table presents our selected historical consolidated financial data. The selected historical statement of income data for each of the five years in the period ended December 31, 2001 and the selected balance sheet data as of December 31, 2001 have been derived from our audited consolidated financial statements and related notes, which are incorporated by reference into this prospectus. The selected historical statement of income data for the three months ended March 31, 2002 and 2001 and the selected balance sheet data as of March 31, 2002 and 2001 have been derived from our unaudited interim consolidated financial statements. PolyOne was formed on August 31, 2000 from the consolidation of The Geon Company and M. A. Hanna Company. This consolidation was accounted for as a purchase business combination, with Geon as the acquiring entity. Accordingly, our audited results under generally accepted accounting principles for the year ended December 31, 2000, reflect the operating results of Geon for the eight months prior to the consolidation and of PolyOne for four months (which include the operating results of Hanna from the date of consolidation). The audited results for the years ended December 31, 1999, 1998 and 1997 are those of Geon only. The results of operations for interim periods are not necessarily indicative of our results for a full year's operations.

You should read the following information together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus and our historical audited consolidated financial statements and related notes and our historical unaudited interim consolidated financial statements and related notes, which are incorporated by reference into this prospectus. The information below is not necessarily indicative of our results for future periods.

	YEAR ENDED DECEMBER 31,					TH END
	2001	2000	1999	1998	1997	200
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)					
INCOME STATEMENT DATA:						

Sales	$2,654.6	$1,887.8	$1,261.2	$1,284.4	$1,250.0	$ 61
Employee separation and plant phase-out	36.1	2.8	0.5	14.6	15.0	
Operating income (loss)	(17.1)	64.8	99.7	41.0	51.7	
Income (loss) before cumulative effect of a change in accounting	(46.1)	15.9	106.2	13.8	22.5	(
Cumulative effect of change in method of accounting	--	--	(1.5)	--	--	(5
Net income (loss) (1)	$ (46.1)	$ 15.9	$ 104.7	$ 13.8	$ 22.5	$ (5
Diluted earnings (loss) per share: (1)						
Before change in method of accounting	$ (0.51)	$ 0.26	$ 2.18	$ 0.29	$ 0.48	$ (0
Change in method of accounting	--	--	(0.03)	--	--	(0
Net income (loss)	$ (0.51)	$ 0.26	$ 2.15	$ 0.29	$ 0.48	$ (0
Dividends per common share	$ 0.25	$ 0.25	$ 0.25	$ 0.25	$ 0.25	$ 0.0
BALANCE SHEET DATA:						
Total assets	$2,061.2	$2,430.6	$1,162.6	$ 802.0	$ 872.9	$2,05
Long-term debt	426.8	430.5	130.9	135.4	136.4	42

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(1) Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized, but must be reviewed annually for impairment. Prior to the adoption of SFAS No. 142, amortization expense was recorded for goodwill and other intangible assets. The following sets forth a

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reconciliation of net income and earnings per share information for the years ended December 31, 2001, 2000 and 1999, respectively, adjusted for the non-amortization provisions of SFAS No. 142

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)		
Reported net (loss) income	$(46.1)	$15.9	$104.7
Cumulative effect of change in accounting, net of tax	--	--	1.5
Goodwill amortization, net of tax	12.5	4.9	2.3
Workforce amortization, net of tax	2.3	0.9	--
Adjusted net (loss) income	$(31.3)	$21.7	$108.5
Basic (loss) income per share:			
As reported	$(0.51)	$0.26	$ 2.25
Cumulative effect of change in accounting, net of tax	--	--	0.03

Goodwill amortization, net of tax	0.14	0.08	0.05
Workforce amortization, net of tax	0.02	0.01	--
Adjusted basic (loss) income per share	$(0.35)	$0.35	$ 2.33
Diluted (loss) income per share:			
As reported	$(0.51)	$0.26	$ 2.15
Cumulative effect of change in accounting, net of tax	--	--	0.03
Goodwill amortization, net of tax	0.14	0.08	0.05
Workforce amortization, net of tax	0.02	0.01	--
Adjusted diluted (loss) income per share	$(0.35)	$0.35	$ 2.23

The historical results include the following business acquisitions from the acquisition date indicated: Synergistics Industries Limited from October 31, 1997; Plast-O-Meric, Inc. and the Wilflex division of Flexible Products Company from June 1, 1998; Adchem, Inc. from September 1, 1998; Acrol Holdings Limited from July 1, 1999; O'Sullivan Corporation from July 8, 1999; and Dennis Chemical Company, Inc. from September 8, 1999. In addition, 1999 results of operations reflect the formation of Oxy Vinyls, LP on April 30, 1999, and the contribution of substantially all of Geon's formerly consolidated Resin and Intermediates business segment operations to the partnership. In connection with this, PolyOne acquired businesses from Occidental Chemical Corporation and formed a powder compounding joint venture, all of which are included in our consolidated results of operations from May 1, 1999.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the notes to those statements and other financial information included elsewhere in or incorporated by reference into this prospectus. This prospectus contains forwarding-looking statements that involve risks and uncertainties. Our actual results may differ materially from those indicated in forward-looking statements. See "Risk Factors" and "Forward-Looking Statements."

OVERVIEW

We are a leading global polymer services company, with worldwide annual sales of approximately $2.7 billion. We were formed on August 31, 2000 from the consolidation of The Geon Company and M.A. Hanna Company.

Our consolidation was accounted for as a purchase business combination, with Geon as the acquiring entity. Accordingly, our audited results under generally accepted accounting principles (GAAP) for the year ended December 31, 2000, reflect the operating results of Geon for eight months prior to the consolidation, and of PolyOne for four months (which include the operating results of Hanna from the date of consolidation).

In the commentary that follows, "pro forma results" will also be provided because of the significant and pervasive impact of the merger on comparative data. The pro forma operating results assume that the consolidation of Geon and Hanna occurred prior to the periods presented. Further, the pro forma operating results assume that Hanna's sale of its Cadillac Plastic business recognized in the second and third quarters of 2000, as well as Geon's 1999 transactions with Occidental Chemical Corporation (OxyChem) and the acquisition of O'Sullivan

Corporation (O'Sullivan), occurred prior to the periods presented. The pro forma operating results do not include any future profit improvements and cost savings or associated costs, including restructuring costs expected to result from the continuing integration of Geon and Hanna. The pro forma operating results are provided for illustrative purposes only, and may not necessarily indicate the operating results that would have occurred or our future operating results.

The most significant forces impacting our operating results in 2001 were the recession of the U.S. economy and the restructuring and integration of our operations to improve customer service and product quality and to lower operating costs. The slowdown of the U.S. economy commenced in the second half of 2000 and advanced to a recession in 2001, which was the first U.S. recession since 1990-1991. The economic recession significantly reduced customer sales demand and resulted in lower sales and earnings in our equity investments in the polyvinyl chloride resin and chlor-alkali industries. Partially offsetting the negative economic forces were our initiatives to integrate and restructure our operations following our consolidation and formation in 2000. The implementation of a substantial portion of the restructuring initiatives announced in 2001 will continue through 2002. Sales for the first quarter of 2002 were below levels for the same period in 2001 and above levels for the fourth quarter of 2001.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

	YEAR ENDED DECEMBER 31,					THREE EN MARC
	REPORTED RESULTS			PRO FORMA RESULTS		
	2001	2000	1999	2000	1999	2002
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)					
Sales	$2,654.6	$1,887.8	$1,261.2	$3,139.7	$3,039.9	$613.2
Operating income before special items, depreciation and amortization	125.8	138.9	148.6	230.0	288.6	26.5
Operating income (loss)	(17.1)	64.8	99.7	115.5	181.8	6.5
Operating income (loss) before special items	34.5	81.5	105.4	128.4	184.3	8.7
Net income (loss)	(46.1)	15.9	104.7	52.4	79.9	$(57.3)
Cumulative effect of a change in accounting	--	--	(1.5)	--	(1.5)	(53.7)
Special items (income) -- after-tax	35.9	9.1	(53.7)	(3.9)	3.6	2.3
Income (loss) before cumulative effect of a change in accounting and special items	$ (10.2)	$ 25.0	$ 52.5	$ 48.5	$ 85.0	$ (1.3)
Earnings (loss) per diluted share before cumulative effect of a change in accounting	(.51)	.26	2.18	.57	.86	(.04)
Earnings (loss) per share, diluted	$ (0.51)	$ 0.26	$ 2.15	$ 0.57	$ 0.86	$(0.64)
Effect on earnings per share of excluding special items, increase (decrease)	$ 0.40	$ 0.15	$ (1.10)	$ (0.04)	$ 0.04	0.03

Senior management uses (1) operating income before special items and/or (2) operating income before special items and depreciation and amortization (similar to EBITDA, which is used by stock market analysts) to assess performance and allocate resources to business segments. Special items include gains and losses associated with specific strategic initiatives, such as restructuring or consolidation of operations, gains and losses attributable to acquisitions or formation of joint ventures, and certain other one-time items. For a description of special items, refer to the table titled "Summary of Special Items" presented later in this section. In addition, management uses net income before special items as a measure of our overall earnings performance. Operating income before special items and net income before special items are non-GAAP measures, and may not be comparable to financial performance measures presented by other companies.

BUSINESS SEGMENT INFORMATION

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31	
	REPORTED RESULTS	PRO FORMA RESULTS			
	2001	2000	1999	2002	200
	(DOLLARS IN MILLIONS)				
Sales:					
Performance Plastics..................	$1,836.7	$2,180.7	$2,090.0	$423.2	$488
Elastomers and Performance Additives...	402.6	482.2	487.6	91.7	109
Distribution..........................	462.6	506.7	483.4	120.4	121
Resin and Intermediates...............	--	--	--	--	
Other.................................	(47.3)	(29.9)	(21.1)	(22.1)	(9
	$2,654.6	$3,139.7	$3,039.9	$613.2	$709
Operating income (loss) before special items, depreciation and amortization:					
Performance Plastics..................	$ 124.2	$ 153.4	$ 234.0	$ 27.8	27
Elastomers and Performance Additives...	26.8	45.3	50.3	5.5	7
Distribution..........................	2.5	14.6	15.6	2.1	1
Resin and Intermediates...............	(12.6)	27.9	3.6	(5.3)	(14
Other.................................	(15.1)	(11.2)	(14.9)	(3.6)	(3
	$ 125.8	$ 230.0	$ 288.6	$ 26.5	$ 18
Operating income (loss) before special items:					
Performance Plastics..................	$ 53.9	$ 73.9	$ 151.2	$ 13.9	$ 7
Elastomers and Performance Additives...	10.2	26.5	32.4	2.3	2
Distribution..........................	(0.4)	11.3	12.0	1.6	1
Resin and Intermediates...............	(12.6)	27.9	3.6	(5.3)	(14
Other.................................	(16.6)	(11.2)	(14.9)	(3.8)	(4
	$ 34.5	$ 128.4	$ 184.3	$ 8.7	$ (8

For additional information, see Note R to Annual Consolidated Financial Statements and Note M to Quarterly Condensed Consolidated Financial Statements (Unaudited), which are incorporated by reference into this prospectus, for additional reported business segment disclosures.

FIRST QUARTER 2002 RESULTS OF OPERATIONS

Total first quarter 2002 sales of $613.2 million were the first sequential quarter-to-quarter sales increase following three consecutive quarters of declines. First quarter 2002 sales were $96.5 million lower than first quarter 2001 sales. First quarter 2002 sales were significantly below first quarter 2001 across most business segments. The decline reflects weak year-over-year demand in the underlying markets and the U.S. economy, in particular automotive, industrial, electronics and telecommunications. North American automotive production in the first quarter 2002 was roughly equivalent with the first quarter of 2001, although industry automotive sales were lower by 3%. Industrial production was below first quarter of 2001 levels by 2.5% on an annualized rate. Industrial capacity utilization in the U.S. remained at 75% for the first quarter of 2002, averaging four percentage points lower than the first quarter of 2001.

Operating income of $6.5 million was reported in the first quarter 2002 as compared to an operating loss of $23.3 million in the first quarter 2001. Operating income before special items, depreciation and amortization (OIBSIDA) was $26.5 million in the first quarter of 2002, which was $8.2 million above the first quarter 2001. The OIBSIDA improvement was driven by restructuring initiative saving ($9 million), economic driven cost savings programs ($4 million), combination of lower raw material costs, pricing and favorable

product mix ($10 million) and improvement in the results in the Resin and Intermediates equity earnings ($9 million). The earnings improvement factors were partially offset by lower sales volumes ($27 million).

Interest expense decreased by approximately $4.1 million due to the combination of a reduction in the average amounts outstanding under the line of credit and favorable results from outstanding interest rate swap agreements executed in 2001. Interest expense remains flat and other expense, net, which is comprised primarily of finance costs associated with the sale of receivable facility, increased due to the increased use of the facility during the first quarter of 2002 as compared to the first quarter of 2001.

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets". In accordance with this statement, we ceased amortization of all goodwill and indefinite lived intangible assets. During the first quarter 2002, we also completed the transitional review for goodwill impairments required under SFAS 142. The review indicated that goodwill related to the 1999 acquisition of our Engineered Films operation was impaired as of January 1, 2002. Accordingly, we measured and recognized a pre-tax charge of $54.7 million ($53.7 million after-tax) as a cumulative effect of a change in accounting principle. The first quarter of 2001 included pre-tax goodwill amortization of $4.4 million ($3.6 million after-tax).

The first quarter 2002 loss before cumulative effect of a change in accounting was $3.6 million, which was $17.8 million better than the same quarter in 2001. Before special items, the loss was $1.3 million, compared to a loss of $11.8 million in the first quarter 2001. The 2002 special items relate primarily to restructuring initiatives and the sale of the Australian PVC resin operations. The effective income tax rate in the first quarter 2002 was 37.9% compared to 44.1% in the first quarter of 2001. The lower effective income tax rate principally reflects the effect of permanent differences, such as non-deductible goodwill amortization in 2001.

Performance Plastics had first quarter 2002 sales of $423.2 million, which were 13% below the first quarter 2001. A breakdown of the 2002 first quarter segment sales, by primary product group, is as follows:

	% OF SALES	2002% CHANGE VS. 2001 SALES $	2002% CHANGE VS. 2001 SALES LBS
North American Plastic Compounds and Colors	54	(19)	(12)
International Plastic Compounds and Colors	22	(10)	(8)
Specialty Resins and Formulators	15	(2)	1
Engineered Films	9	(6)	(15)
Performance Plastics	100	(13)	(10)

The year-over-year lower sales in the quarter were primarily driven by lower sales volumes in almost all markets and product lines. In addition, International Plastic Compounds and Colors sales were unfavorably impacted by an Euro exchange impact of approximately 5% as compared to the first quarter 2001.

OIBSIDA was $27.8 million in the first quarter of 2002, compared with $27.4 million in the first quarter of 2001. The ability to maintain earnings in the first quarter 2002 versus first quarter 2001, while sales have decreased approximately 13%, is a direct reflection of the impact being realized from the restructuring initiatives and lower raw material costs. During the first quarter of 2002, one manufacturing plant was closed.

Elastomers and Performance Additives sales were $91.7 million in the first quarter of 2002, 16% below the first quarter of 2001. The first quarter 2002 sales shortfall from the same quarter a year ago was primarily driven by a volume decline related to lower industrial production, customers taking in-house compound production due to low utilization of their internal compound operations (4% of the 16% change) and reduced tire and tolling (4% of the 16% change). In addition, we have lost some of the market share we had in Canada as a result of our closure of our Canadian operations in the fourth quarter of 2001 (1% of the 16% change).

OIBSIDA in the first quarter of 2002 was $5.5 million compared to $7.3 million in the first quarter of 2001. Compared to the first quarter of 2001, continuing "lean" manufacturing costs initiatives and plant

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shutdowns have resulted in lower manufacturing costs versus last year, but have not been enough to offset the adverse earnings impact from the sales volume declines.

Distribution sales in the first quarter of 2002 were $120.4 million, compared to $121.1 in the first quarter of 2001. The first quarter 2002 sales decline versus first quarter 2001 was driven by lower selling prices as sales volumes were up approximately 6% between the periods. During the first quarter of 2002, this business began selling some vinyl products of North American Plastic Compounds and Colors, which accounted for 4% of the volume growth. Without this sales volume, the quarter-to-quarter sales comparison would have been down 5%. The selling price declines followed the trend of lower material costs.

OIBSIDA in the first quarter of 2002 was $2.1 million, $0.2 million above the first quarter of 2001, largely driven by cost improvement initiatives.

Resin and Intermediates operating loss before special items, consisting of equity income from joint ventures, allocated overhead support cost and cost associated with past operations, was $5.3 million for the first quarter of 2002. Equity income before special items from our 24% interest in Oxy Vinyls, LP improved by $11.3 million between the first quarter 2001 and the first quarter of 2002, primarily due to substantially lower natural gas prices. Lower natural gas costs improved our first quarter 2002 equity earnings by approximately $10 million versus the first quarter of 2001. Average industry PVC resin selling prices were lower year-to-year by approximately $0.07 per pound, but this decline was largely offset by lower ethylene costs. Year-to-year quarterly results were also negatively impacted by the Sunbelt Chlor-Alkali Partnership by $2.3 million largely driven by lower industry caustic selling prices.

Other consists primarily of corporate governance costs that are not allocated to the business segments. These unallocated costs before special items were $3.8 million in the first quarter of 2002, compared with $4.5 million in the first quarter of 2001.

2001 RESULTS OF OPERATIONS

Reported Results. Our total sales for 2001 were $2.7 billion, an increase of $766.8 million from 2000. This increase is due to only four months of former Hanna operations being included in the 2000 reported sales. Year 2001 sales were below 2000 on a comparable basis; see the pro forma commentary that follows.

Operating earnings for 2001 were a loss of $17.1 million compared with income of $64.8 million in 2000. OIBSIDA was $125.8 million compared with $138.9 million in 2000. The decrease in 2001 OIBSIDA is due primarily to an earnings decrease of $40.5 million from the Resin and Intermediates segment equity affiliates, which was partially offset by a full year's inclusion of the former Hanna operations.

Interest expense increased over the prior year due primarily to only four months of the debt assumed in the Hanna acquisition being included in the 2000 reported results, net of a decline in interest expense associated with a reduction in the average amounts outstanding under our revolving credit facility during 2001. Interest income remained relatively flat with the prior year. Other expense increased significantly due to the combination of a loss on the divesture of an investment amounting to $10.1 million and the increased use of our receivables sale facility, which accounted for an increase in expense of $2.3 million.

The net loss in 2001 was $46.1 million. Before special items, the loss was $10.2 million compared with income of $25.0 million in 2000 before special items. The 2001 special items relate primarily to restructuring initiatives (see the table titled "Summary of Special Items" below). The effective income tax rate in 2001 was 35.7% compared with 39.1% in 2000. The lower effective income tax rate reflects principally the effect of permanent differences such as non-deductible goodwill on pre-tax losses.

Pro Forma Results. Total sales for 2001 were $2.7 billion, a decrease of $485.1 million, or 15%, from pro forma results for 2000. Decrease in customer sales demand in 2001 reflected the substantial weakening of the North American economy across all business segments. We were particularly impacted by the industrial, automotive, electronic and some construction markets. Automotive production was down 10% (domestic producers were even weaker) in 2001 compared with 2000. Industrial production fell 4.3% in 2001 compared with the prior year. Average U.S. industrial capacity utilization in 2001 fell to 77%, five percentage points

below 2000, and reached the lowest level since 1983 in the fourth quarter of 2001. Management estimates that operating income in 2001 was down approximately $135 million as a direct result of the sales volume decline from 2000.

The operating loss in 2001 was $17.1 million. The 2001 OIBSIDA of $125.8 million was $104.2 million below the prior year. The decrease in 2001 OIBSIDA was driven by lower sales volumes (approximately $135 million) across all business segments and weaker results in the equity earnings of the Resin and Intermediates segment, partially offset by cost reduction initiatives associated with the merger integration and announced restructuring programs (estimated at approximately $69 million). The 2001 net loss before special items was $10.2 million, $58.7 million below 2000 net income before special items.

The commentary on business segments is a comparison of the 2001 reported results with the 2000 and 1999 pro forma results for the years presented.

Performance Plastics had 2001 sales of $1.837 billion, a decrease of $344.0 million, or 16%, from pro forma 2000. A breakdown of 2001 segment sales, by primary product group, is as follows:

	% OF SALES	2001 % CHANGE VS. 2000 SALES $	2001 % CHANGE V 2000 SALES
North American Plastic Compounds and Colors..............	57	(20)	(19)
International Plastic Compounds and Colors...............	20	(7)	(3)
Specialty Resins and Formulators.........................	14	(11)	(12)
Engineered Films...	9	(15)	(16)
Performance Plastics.....................................	100	(16)	(16)

Total Performance Plastics 2001 sales declines were driven by general economic weakness. Sales were also affected in International Plastic Compounds and Colors by unfavorable euro currency exchange of approximately 3%. Engineered Films was severely impacted by the decline in automotive production, as was Specialty Resins and Formulators, but to a lesser extent. Certain residential construction markets impacted sales, such as specialty resins in flooring and North American Plastic Compounds and Colors in windows and other residential lineal applications. In addition, the electronics market impacted us globally in wire and cable and business machines. In North American Plastic Compounds and Colors and Europe, the wire and cable business has been severely impacted by changes in the telecommunications industry; in North America, some customers' business was down more than 50%. As a result, sales in the North American wire and cable market were down approximately 25% year over year. Due to economy-related price pressure from competitors, we decided to give up business and market share in some market segments rather than match price, but the impact of this decision was relatively small.

OIBSIDA in 2001 was $124.2 million, $29.2 million below pro forma 2000 results. The decrease in earnings was driven primarily by the substantial decline in sales volume, partially offset by cost-saving initiatives. In 2001, five plants within the business segment were closed in connection with our restructuring initiatives.

Elastomers and Performance Additives sales in 2001 were $402.6 million, a decrease of $79.6 million, or 17%, from pro forma 2000. The decrease in 2001 sales was driven primarily by reduced domestic demand from producers of automotive parts, which impacted both the elastomers and additives markets. Of the 17% year-over-year change, 2% was due to reduced tolling of rubber compounds for tires, and the remaining 15% was due primarily to lower volumes related to the automotive and industrial markets. Moreover, the impact of lower automotive production was exacerbated by our relatively strong market share with Ford, General Motors and DaimlerChrysler, which collectively lost market share in the North American market in 2001.

OIBSIDA in 2001 was $26.8 million, a decline of $18.5 million compared with pro forma 2000. Cost-saving initiatives, including the "lean" manufacturing initiative, reduced costs, but were not sufficient to offset the adverse earnings impact from the sales volume declines previously noted. During 2001, two manufacturing plants were closed in this segment.

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Distribution had sales in 2001 of $462.6 million, a decrease of $44.1 million, or 8.7%, from pro forma 2000. The decrease resulted primarily from lower sales volumes (6.7%) in North America and from passing lower material costs to customers. The Mexican operations' sales, which approximate 9% of this segment, increased in 2001 by 2% compared with 2000. OIBSIDA in 2001 was $2.5 million, a decrease of $12.1 million from pro forma 2000. The decrease in earnings was driven by lower sales volumes and margin erosion, including losses attributed to the sale of non-prime inventories ($1.3 million).

Resin and Intermediates operating earnings before special items, consisting of equity income from joint ventures and allocated overhead support cost and cost associated with past operations, were a loss of $12.6 million in 2001, or a decrease in earnings of $40.5 million from 2000. The 2001 equity earnings before a charge for employee severance and liabilities associated with the temporary idling of a plant of $4.3 million and were $34.1 million below 2000 levels for Oxy Vinyls, LP and $9.4 million below 2000 levels for SunBelt Chlor-Alkali Partnership. The decreases in equity earnings were driven by lower average industry polyvinyl chloride resin and chlor-alkali selling prices and higher energy costs for OxyVinyls in 2001.

The domestic polyvinyl chloride resin industry capacity utilization in 2001 was 86% compared with 91% in 2000. The domestic polyvinyl chloride resin industry average selling price decreased by $0.07 per pound year over year; however, due largely to lower ethylene and chlorine costs, the 2001 polyvinyl chloride resin industry spread (selling prices less the cost of ethylene and chlorine) was generally flat compared with 2000. Our equity earnings were negatively impacted by lower polyvinyl chloride resin spreads due to OxyVinyls' customer/product mix in 2001. OxyVinyls' 2001 combined pricing of the co-products caustic soda and chlorine decreased approximately 8% from 2000. In 2001 versus 2000, energy costs adversely impacted OxyVinyls' equity earnings by approximately $6 million.

Other consists primarily of corporate governance costs not allocated to the business segments. These unallocated costs before special items were $16.6 million in 2001 compared with $11.2 million in 2000. Our 2001 corporate costs incurred were more than 20% below 2000 pro forma costs.

2000 RESULTS OF OPERATIONS

Reported Results. Our total sales for 2000 were $1.888 billion, an increase of $626.6 million from 1999. This change in sales included four months of former Hanna operations totaling approximately $560 million. The mid-year 1999 acquisitions of O'Sullivan and formulators contributed additional sales of approximately $152 million in 2000, and the formation of OxyVinyls at the end of April 1999 resulted in polyvinyl chloride resin operation sales, which totaled approximately $144 million in 1999, no longer being consolidated.

Operating income for 2000 was $64.8 million compared with $99.7 million in 1999. OIBSIDA was $138.9 million compared with $148.6 million in 1999. The decrease in 2000 operating income was due primarily to declines in construction and automotive-related sales, particularly in the vinyl compound and engineered films operations. These sales declines were partially offset by four months of earnings contributed by former Hanna operations.

Interest expense increased over the prior year due primarily to four months of the debt assumed in the Hanna acquisition being included in the 2000 results, while interest income remained relatively flat with the prior year. Other expense, net in 2000 includes primarily the fee related to the use of our receivables sale facility ($5.8) and currency exchange gain of $2.8 million.

Net income in 2000 was $15.9 million. Before special items, net income was $25.0 million compared with $52.5 million in 1999 before special items. The effective income tax rate in 2000 was 39.1%, which approximated the rate in 1999.

Pro Forma Results. Total sales for 2000 were $3.140 billion, an increase of $99.8 million, or 3%, over 1999. Sales growth was primarily in the Performance Plastics segment. Sales growth significantly slowed in the second half of 20