

EASTMAN CHEMICAL CO  
Form S-4/A  
May 16, 2012  
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As filed with the Securities and Exchange Commission on May 16, 2012

Registration No. 333-179975

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 2**  
**TO**  
**FORM S-4**  
**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

**EASTMAN CHEMICAL COMPANY**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**2821**  
(Primary Standard Industrial  
Classification Code Number)

**62-1539359**  
(I.R.S. Employer  
Identification Number)

**200 South Wilcox Drive**  
**Kingsport, Tennessee 37662**  
**(423) 229-2000**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**Theresa K. Lee, Esq.**

**Senior Vice President, Chief Legal and Administrative Officer**

**Eastman Chemical Company**  
**P.O. Box 431**  
**Kingsport, Tennessee 37662**  
**(423) 229-2000**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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(404) 521-3939

(314) 674-1000

**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable on or after the effective date of this registration statement after all other conditions to the completion of the exchange offer described herein have been satisfied or waived.

If the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.**

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**The information in this proxy statement/prospectus is not complete and may be changed. Eastman Chemical Company may not issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus is not an offer to sell these securities and Eastman Chemical Company is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED MAY 16, 2012**

**PROXY STATEMENT/PROSPECTUS**

**PROPOSED MERGER YOUR VOTE IS IMPORTANT**

Dear fellow stockholders of Solutia Inc.:

The boards of directors of Solutia Inc., or Solutia, and Eastman Chemical Company, or Eastman, have each approved an agreement and plan of merger, entered into on January 26, 2012 and referred to as the merger agreement, providing for Solutia to be acquired by Eastman, which transaction is referred to as the merger. You are cordially invited to attend a special meeting of Solutia stockholders to be held at 10:00 a.m., local time, on \_\_\_\_\_, 2012, at \_\_\_\_\_.

At the Solutia special meeting, you will be asked to consider and vote upon a proposal to adopt the merger agreement, pursuant to which Solutia would be acquired through a merger with a wholly owned subsidiary of Eastman. If the merger contemplated by the merger agreement is completed, each outstanding share of common stock of Solutia outstanding immediately prior to the effective time of the merger, other than shares held by any stockholder who is entitled to exercise and properly exercises appraisal rights with respect to such shares pursuant to the General Corporation Law of the State of Delaware, will be converted into the right to receive (1) \$22.00 in cash, without interest, and (2) 0.12 shares of common stock of Eastman. This is referred to as the merger consideration. Eastman expects that it may issue up to 15,770,889 shares of Eastman common stock in the merger. The implied value of the stock portion of the merger consideration will fluctuate as the market price of Eastman common stock fluctuates. You should obtain current stock price quotations for Eastman common stock and Solutia common stock before deciding how to vote with respect to the adoption of the merger agreement. Eastman common stock and Solutia common stock are listed for trading on the New York Stock Exchange under the symbols EMN and SOA, respectively.

At the Solutia special meeting, you also will be asked to consider and vote upon a proposal to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger and a proposal to adjourn the Solutia special meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the Solutia special meeting.

After careful consideration, the Solutia board of directors unanimously approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and declared that the merger agreement, the merger and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of Solutia and its stockholders. **The Solutia board of directors unanimously recommends that you vote FOR the adoption of the merger agreement; FOR the approval, on a non-binding, advisory basis, of the compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger; and FOR the approval of the adjournment of the Solutia special meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the Solutia special meeting.**

The accompanying document is a proxy statement of Solutia and a prospectus of Eastman, and provides you with information about Solutia, Eastman, the proposed merger and the special meeting of Solutia stockholders. Solutia encourages you to read the entire proxy statement/prospectus carefully.

You may also obtain more information about Solutia and Eastman from documents Solutia and Eastman have filed with the Securities and Exchange Commission.

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For a discussion of risk factors you should consider in evaluating the merger agreement you are being asked to adopt, see **Risk Factors** beginning on page 25 of the accompanying proxy statement/prospectus.

**Your vote is important. Adoption of the merger agreement requires the approval of the holders of a majority of the outstanding shares of Solutia common stock. The failure of any stockholder to vote will have the same effect as a vote against adopting the merger agreement. Accordingly, whether or not you plan to attend the Solutia special meeting, you are requested to promptly vote your shares by proxy electronically via the Internet, by telephone or by sending in the appropriate paper proxy card as instructed in these materials. If you sign, date and mail your proxy card without indicating how you wish to vote, your vote will be counted as a vote **FOR** each of the proposals described in the accompanying proxy statement/prospectus.**

Granting a proxy will not prevent you from voting your shares in person if you choose to attend the Solutia special meeting.

We thank you for your continued support of Solutia.

Sincerely,

JEFFRY N. QUINN

*Chairman of the Board, President and Chief Executive Officer*

*Solutia Inc.*

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger described in the accompanying proxy statement/prospectus nor have they approved or disapproved of the issuance of the Eastman common stock in connection with the merger, or determined if the accompanying proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.**

The accompanying proxy statement/prospectus is dated May , 2012 and is first being mailed to Solutia stockholders on or about May , 2012.

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**SOLUTIA INC.**

**575 Maryville Centre Drive**

**St. Louis, Missouri 63141**

**(314) 674-1000**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON \_\_\_\_\_, 2012**

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of Solutia Inc., or Solutia, will be held at 10:00 a.m., local time, on \_\_\_\_\_, 2012, at \_\_\_\_\_. Holders of Solutia common stock at the close of business on May 4, 2012 (such date and time, the record date) will be asked to:

- Proposal1. consider and vote upon the adoption of the Agreement and Plan of Merger, dated January 26, 2012, as it may be amended from time to time, by and among Solutia, Eastman Chemical Company, or Eastman, and Eagle Merger Sub Corporation (the merger agreement);
- Proposal2. consider and vote, on a non-binding, advisory basis, to approve compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger contemplated by the merger agreement; and
- Proposal3. consider and vote upon the approval of the adjournment of the Solutia special meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the Solutia special meeting.

Please refer to the attached proxy statement/prospectus and the merger agreement for further information with respect to the business to be transacted at the Solutia special meeting. Solutia expects to transact no other business at the meeting, except for business properly brought before the meeting and any adjournment or postponement thereof. Holders of record of Solutia common stock as of the record date will be entitled to notice of and to vote at the Solutia special meeting with regard to Proposals 1-3 described above.

**The Solutia board of directors unanimously recommends that you vote FOR the adoption of the merger agreement; FOR the approval, on a non-binding, advisory basis, of the compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger; and FOR the approval of the adjournment of the Solutia special meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the Solutia special meeting.**

**Your vote is important regardless of the number of shares that you own.** Whether or not you plan on attending the Solutia special meeting, we urge you to read the proxy statement/prospectus carefully and to please vote your shares as promptly as possible. You may vote your shares by proxy electronically via the Internet, by telephone, by completing and sending in the appropriate paper proxy card or in person at the Solutia special meeting.

All Solutia stockholders as of the record date are cordially invited to attend the Solutia special meeting.

By Order of the Board of Directors

Miriam Rogers Singer  
*Vice President and Corporate Secretary*

St. Louis, Missouri

, 2012

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**REFERENCES TO ADDITIONAL INFORMATION**

This proxy statement/prospectus incorporates by reference important business and financial information about each of Eastman and Solutia from documents that each company has filed or will file with the Securities and Exchange Commission, or the SEC, but that are not being included in or delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You may read and copy the documents incorporated by reference in this proxy statement/prospectus, other than certain exhibits to those documents, and other information about each of Eastman and Solutia that is filed with the SEC under the Securities and Exchange Act of 1934, or the Exchange Act, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You can also obtain such documents free of charge through the SEC's website, www.sec.gov, or by requesting them in writing or by telephone from the appropriate company at the following addresses and telephone numbers:

**For information about Eastman Chemical Company:**

By Mail: Eastman Chemical Company  
P.O. Box 431  
Kingsport, Tennessee 37662  
Attention: Investor Relations

By Telephone: (423) 229-4647

**If you would like to request any documents, please do so by**

**For information about Solutia Inc.:**

By Mail: Solutia Inc.  
575 Maryville Centre Drive  
St. Louis, Missouri 63141  
Attention: Investor  
Relations

By Telephone: (314) 674-1000

**, 2012 in order to receive them before the Solutia special meeting.**

For additional information on documents incorporated by reference in this proxy statement/prospectus, please see *Where You Can Find More Information* beginning on page 177. Please note that information contained on the websites of Eastman or Solutia is not incorporated by reference in, nor considered to be part of, this proxy statement/prospectus.



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**ABOUT THIS PROXY STATEMENT/PROSPECTUS**

Eastman has supplied all information contained in or incorporated by reference into this proxy statement/prospectus relating to Eastman. Solutia has supplied all information contained in or incorporated by reference into this proxy statement/prospectus relating to Solutia. Eastman and Solutia have both contributed to information relating to the merger.

You should rely only on the information contained in or incorporated by reference into this proxy statement/prospectus. No one has been authorized to provide you with information that is different from that contained in or incorporated by reference into this proxy statement/prospectus. This proxy statement/prospectus is dated \_\_\_\_\_, 2012. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than the date hereof. You should not assume that the information contained in any document incorporated or deemed to be incorporated by reference herein is accurate as of any date other than the date of such document. Any statement contained in a document incorporated or deemed to be incorporated by reference into this proxy statement/prospectus will be deemed to be modified or superseded to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference into this proxy statement/prospectus modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this proxy statement/prospectus. Neither the mailing of this proxy statement/prospectus to the stockholders of Solutia nor the taking of any actions contemplated hereby by Eastman or Solutia at any time will create any implication to the contrary.

**This proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction in which or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction.**

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**DEFINED TERMS**

This proxy statement/prospectus generally avoids the use of technical defined terms, but a few frequently used terms may be helpful for you to have in mind at the outset. Unless otherwise specified or if the context so requires, this proxy statement/prospectus refers to:

the transaction pursuant to which Eastman's wholly owned subsidiary, Merger Sub, will merge with and into Solutia, and Solutia will become an indirect wholly owned subsidiary of Eastman, and the conversion of shares of, and adjustment of warrants to acquire, Solutia common stock into rights to receive cash and shares of Eastman common stock, as the merger ;

the Agreement and Plan of Merger, dated January 26, 2012 (as it may be amended from time to time), by and among Solutia, Eastman and Merger Sub, pursuant to which the merger will be completed, as the merger agreement ;

the (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock to be paid by Eastman in exchange for each share of Solutia common stock pursuant to the terms of the merger agreement, as the merger consideration ;

Eastman Chemical Company, a Delaware corporation, as Eastman ;

the board of directors of Eastman as the Eastman board of directors ;

the amended and restated bylaws of Eastman as the Eastman Bylaws ;

the amended and restated certificate of incorporation of Eastman as the Eastman Charter ;

the common stock, par value \$0.01 per share, of Eastman as Eastman common stock ;

Eagle Merger Sub Corporation, a Delaware corporation and a wholly owned subsidiary of Eastman, as Merger Sub ;

Solutia Inc., a Delaware corporation, as Solutia ;

the board of directors of Solutia as the Solutia board of directors ;

the second amended and restated bylaws of Solutia as the Solutia Bylaws ;

the second amended and restated certificate of incorporation of Solutia as the Solutia Charter ;

the common stock, par value \$0.01 per share, of Solutia as Solutia common stock ;

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the Solutia Inc. Management Long-Term Incentive Plan, as amended, and the Solutia Non-Employee Director Stock Compensation Plan, together, as the Solutia Equity Plans ; and

the General Corporation Law of the State of Delaware, as the DGCL.

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**QUESTIONS AND ANSWERS**

The questions and answers below highlight only selected information from this proxy statement/prospectus. They do not contain all of the information that may be important to you. The Solutia board of directors is soliciting proxies from its stockholders to vote at a special meeting of Solutia stockholders, to be held at 10:00 a.m., local time, on \_\_\_\_\_, 2012, at \_\_\_\_\_, and any adjournment or postponement of that meeting. You should read carefully this entire proxy statement/prospectus and the additional documents incorporated by reference into this proxy statement/prospectus to fully understand the matters to be acted upon and the voting procedures for the Solutia special meeting.

**Q: Why have I received this proxy statement/prospectus?**

A: The boards of directors of Solutia and Eastman have each approved a merger agreement, entered into on January 26, 2012, providing for Solutia to be acquired by Eastman. A copy of the merger agreement is attached to this proxy statement/prospectus as *Annex A*, which we encourage you to review.

In order to complete the merger Solutia stockholders must vote to adopt the merger agreement.

This document is being delivered to you as both a proxy statement of Solutia and a prospectus of Eastman. It is a proxy statement because the Solutia board of directors is soliciting proxies from its stockholders to vote on the adoption of the merger agreement at a special meeting of Solutia stockholders as well as the other matters set forth in the notice of the meeting and described in this proxy statement/prospectus, and your proxy will be used at the meeting or at any adjournment or postponement of the meeting. It is a prospectus because Eastman will issue Eastman common stock to Solutia stockholders in the merger. On or about \_\_\_\_\_, 2012, Solutia intends to begin to deliver to its stockholders of record as of the close of business on May 4, 2012 printed versions of these materials.

Your vote is important. The Solutia board of directors encourages you to vote as soon as possible.

**Q: What is the merger transaction upon which I am being asked to vote?**

A: Holders of Solutia common stock as of the record date are being asked to vote to adopt the merger agreement, pursuant to which Merger Sub will merge with and into Solutia, with Solutia surviving as a wholly owned subsidiary of Eastman.

**IF SOLUTIA STOCKHOLDERS FAIL TO ADOPT THE MERGER AGREEMENT, THE MERGER CANNOT BE COMPLETED.**

**Q: What will I receive for my shares of Solutia common stock in the merger?**

A: Subject to certain limitations set forth in the merger agreement, Solutia stockholders will receive the following in exchange for each share of Solutia common stock in the merger:

\$22.00 in cash, without interest, and

0.12 shares of Eastman common stock.

The implied value of the stock portion of the merger consideration will fluctuate as the market price of Eastman common stock fluctuates. You should obtain current stock price quotations for Eastman common stock and Solutia common stock before deciding how to vote with respect to the adoption of the merger agreement. Eastman common stock and Solutia common stock are listed for trading on the New York Stock Exchange under the symbols EMN and SOA, respectively.

**Q: Why is Solutia proposing the merger?**

A: After careful consideration, the Solutia board of directors unanimously approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and declared that the merger



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agreement, the merger and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of Solutia and its stockholders. In the course of reaching its decision to approve the merger agreement, the Solutia board of directors considered a number of factors in its deliberations, including the following factors, the order of which does not necessarily reflect their relative significance:

the implied value of the merger consideration of \$27.65 per share of Solutia common stock as of the close of trading on January 26, 2012 represented an attractive valuation for Solutia. This implied value represented a premium of approximately 42% to the closing price per share of Solutia common stock of \$19.51 on January 26, 2012, the last trading day prior to the approval of the merger by the Solutia board of directors, and premiums of approximately 52.8% and 70.7%, respectively, to the one-month and six-month trailing average closing prices of Solutia common stock as of the close of trading on January 26, 2012;

that most of the merger consideration will be paid in cash, giving holders of Solutia common stock an opportunity to realize certain value for a significant portion of their investment immediately upon completion of the merger;

that a portion of the merger consideration will be paid in shares of Eastman common stock and, as a result, holders of Solutia common stock will have the opportunity to participate in any future earnings or growth of the combined company and future appreciation in the value of Eastman common stock following the merger should they decide to retain the Eastman common stock payable in the merger; and

as a result of the market and execution risks associated with Solutia's long-range plan, the merger consideration will enable Solutia stockholders to realize a substantial portion of Solutia's potential future value without the market or execution risks associated with continued operation as a stand-alone company.

For additional detail on these and other factors, please see "The Merger Recommendation of the Solutia Board of Directors and Solutia's Reasons for the Merger" beginning on page 89.

### **Q: Why is Eastman entering into the merger?**

A: After careful consideration, the Eastman board of directors determined that the merger agreement is advisable and in the best interests of Eastman and its stockholders and approved the merger agreement. In making this determination, the Eastman board of directors consulted with Eastman's management and with its financial and legal advisors and considered a number of factors. The decision of the Eastman board of directors was based upon a number of potential benefits of the merger and other factors that the Eastman board of directors believed would contribute to the success of Eastman after the merger, including the following factors, the order of which does not necessarily reflect their relative significance:

the potential to grow Eastman's core businesses by acquiring access to complementary and adjacent key end markets, including, among others, the automotive and architectural industries, as well as Solutia's technological and business capabilities;

the potential for Eastman to further increase its growth and investment in the Asia Pacific region, leveraging the trend of the growing middle class in that region with a preference for buying premium products;

the potential to increase the focus of Eastman's business on sustainability by acquiring Solutia's portfolio of sustainable products that promote energy efficiency and safety; and

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the potential to increase Eastman's stockholder value through enhanced revenue opportunities and cost saving opportunities. The foregoing discussion summarizes material information and factors considered by the Eastman board of directors in its consideration of the merger but is not intended to be exhaustive and may not include all of

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the factors considered by the Eastman board of directors. The Eastman board of directors reached the decision to approve the merger agreement in light of these and other factors that the Eastman board of directors felt were appropriate. In view of the variety of factors and the quality and amount of information considered, the Eastman board of directors as a whole did not find it practicable to and did not quantify or otherwise assign relative weights to the specific factors considered in reaching its determination but conducted an overall analysis of the transaction. Individual members of the Eastman board of directors may have given different relative considerations to different factors.

After considering all of the relevant factors, as well as the form and amount of consideration to be paid, the Eastman board of directors concluded that, on balance, the potential benefits of the merger to Eastman and its stockholders outweighed the associated risks.

This discussion of the reasons why the Eastman board of directors approved the merger agreement and certain information presented in this section is forward-looking in nature and, therefore, the information should be read in light of the factors discussed in the section entitled [Cautionary Statement Regarding Forward-Looking Statements](#) beginning on page 31.

### **Q: When is the merger expected to be completed?**

A: Eastman and Solutia expect the merger to be completed by mid-2012. However, Eastman and Solutia cannot be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

As more fully described in this proxy statement/prospectus and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others, the adoption of the merger agreement by Solutia stockholders, the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act, and clearance of the merger under the antitrust or competition laws of the European Union, China, South Korea, and the Ukraine, the absence of any law or regulation that prohibits the completion of the merger and the approval of the shares of Eastman common stock to be issued in the merger for listing on the New York Stock Exchange. Each party's obligation to complete the merger is also subject to the material accuracy of the representations and warranties of the other party in the merger agreement and the compliance in all material respects with covenants of the other party in the merger agreement and the absence of a material adverse effect (as defined in the merger agreement) on the other party. The merger agreement does not include a financing condition.

### **Q: Are there risks associated with the merger that I should consider in deciding how to vote?**

A: Yes. There are a number of risks related to the merger and the other transactions contemplated by the merger agreement that are discussed in this proxy statement/prospectus and in the documents incorporated by reference or referred to in this proxy statement/prospectus. Please read with particular care the detailed description of the risks described in [Risk Factors](#) beginning on page 25 and in Solutia's and Eastman's respective SEC filings referred to in [Where You Can Find More Information](#) beginning on page 177.

### **Q: What will happen to my future dividends?**

A: Solutia has agreed that, until the completion of the merger, it will not pay any dividends other than in respect of the dividend that was declared by the Solutia board of directors and is to be paid on March 15, 2012.

After the merger, Eastman currently expects to pay quarterly cash dividends consistent with its practice before the merger, although any dividends are subject to declaration by the Eastman board of directors.

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**Q: What are the tax consequences to Solutia stockholders of the merger?**

A: The exchange of the merger consideration for Solutia common stock in the merger will be a taxable transaction under the U.S. Internal Revenue Code of 1986, or the Code, and may also be taxable under state, local and non-U.S. income and other tax laws. Please carefully review the information under The Merger Material U.S. Federal Income Tax Consequences beginning on page 137 for a description of the material U.S. federal income tax consequences of the merger and of owning Eastman common stock received in the merger to U.S. holders and non-U.S. holders (in each case, as defined in The Merger Material U.S. Federal Income Tax Consequences ). The tax consequences to you will depend on your own situation. We urge you to consult your tax advisors as to the specific tax consequences to you of the merger and your receipt of the merger consideration, including the applicability and effect of U.S. federal, state, local and non-U.S. income and other tax laws in light of your particular circumstances.

**Q: When and where is the Solutia special meeting?**

A: The Solutia special meeting will be held at 10:00 a.m., local time, on \_\_\_\_\_, 2012, at \_\_\_\_\_.

**Q: What matters are to be voted on at the Solutia special meeting?**

A: At the Solutia special meeting, holders of Solutia common stock as of the close of business on May 4, 2012 (the record date ) will be asked to:

Proposal 1. \_\_\_\_\_ consider and vote upon the adoption of the merger agreement;

Proposal 2. \_\_\_\_\_ consider and vote, on a non-binding, advisory basis, to approve compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger contemplated by the merger agreement; and

Proposal 3. \_\_\_\_\_ consider and vote upon the approval of the adjournment of the Solutia special meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the Solutia special meeting.

**Q: What is a quorum?**

A: In order for business to be conducted at the Solutia special meeting, a quorum must be present (other than with respect to Proposal 3, the proposal related to adjournments, for which a quorum is not required). The quorum requirement for holding the Solutia special meeting and transacting business at the Solutia special meeting is a majority of the outstanding shares of Solutia common stock as of the record date that are present or represented at the Solutia special meeting. The shares may be present in person or represented by proxy at the Solutia special meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum.

Broker non-votes may occur because certain beneficial holders of shares of Solutia common stock hold their shares in street name through a broker, bank or other nominee. Under the rules of the New York Stock Exchange, brokers, banks and other nominees are not permitted to exercise voting discretion on any of the proposals to be voted upon at the Solutia special meeting. Therefore, if a beneficial holder of shares of Solutia common stock does not give the broker, bank or other nominee specific voting instructions on Proposals 1, 2 or 3, the holder's shares of Solutia common stock will not be voted on those proposals and a broker non-vote will occur. Broker non-votes will have the same effect as a vote against Proposal 1 and will have no effect on the voting results of Proposals 2 or 3.

**Q: Who can vote at the Solutia special meeting?**

A: Holders of record at the close of business as of the record date of Solutia common stock will be entitled to notice of and to vote at the Solutia special meeting. Each of the shares of Solutia common stock issued and outstanding on the record date is entitled to one vote at the Solutia special meeting with regard to each of the proposals described above.

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**Q: Why am I being asked to consider and vote upon a proposal to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger?**

A: Under SEC rules, Solutia is required to seek a non-binding, advisory vote with respect to the compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger, or golden parachute compensation.

**Q: What will happen if Solutia stockholders do not approve the golden parachute compensation?**

A: Approval of the compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger is not a condition to completion of the merger. The vote is an advisory vote and will not be binding on Solutia. Therefore, if the merger agreement is adopted by Solutia stockholders and the merger is completed, this compensation, including amounts that Solutia is contractually obligated to pay, could still be payable regardless of the outcome of the advisory vote, subject only to the conditions applicable thereto.

**Q: What stockholder approvals are needed?**

A: Proposal 1 requires the affirmative vote of a majority of the outstanding shares of Solutia common stock entitled to vote at the Solutia special meeting to be approved. Proposals 2 and 3 require the affirmative vote of a majority of the votes cast at the Solutia special meeting by holders of Solutia common stock to be approved.

As of May 4, 2012, the record date for determining stockholders of Solutia entitled to vote at the Solutia special meeting, there were 122,837,608 shares of Solutia common stock outstanding and entitled to vote at the Solutia special meeting, held by approximately 3,334 holders of record.

**Q: Are Eastman stockholders voting on the merger?**

A: No. No vote of Eastman stockholders is required on the merger.

**Q: If I beneficially own restricted shares of Solutia common stock as of the record date issued pursuant to any Solutia Equity Plan, will I be able to vote on the matters to be voted upon at the Solutia special meeting?**

A: Yes. Holders who beneficially own restricted shares of Solutia common stock as of the record date issued pursuant to any Solutia Equity Plan may vote on the adoption of the merger agreement and on the other matters to be voted on at the Solutia special meeting.

**Q: Will any other matters be presented for a vote at the Solutia special meeting?**

A: Solutia is not aware of any other matters that will be presented for a vote at the Solutia special meeting. However, if any other matters properly come before the Solutia special meeting, the proxies will have the discretion to vote upon such matters in accordance with their best judgment.

**Q: Who can attend the Solutia special meeting?**

A: You are entitled to attend the Solutia special meeting only if you are a Solutia stockholder of record or a beneficial owner as of the record date, or you hold a valid proxy for the Solutia special meeting.

If you are a Solutia stockholder of record and wish to attend the Solutia special meeting, please so indicate on the appropriate proxy card or as prompted by the telephone or Internet voting system. Your name will be verified against the list of Solutia stockholders of record prior to your being admitted to the Solutia special meeting.

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If a broker, bank or other nominee is the record owner of your shares of Solutia common stock, you will need to have proof that you are the beneficial owner to be admitted to the Solutia special meeting. A recent statement or letter from your bank or broker confirming your ownership as of the record date, or presentation of a valid proxy from a broker, bank or other nominee that is the record owner of your shares of Solutia common stock, would be acceptable proof of your beneficial ownership.

You should be prepared to present photo identification for admittance. If you do not provide photo identification or comply with the other procedures outlined above upon request, you may not be admitted to the Solutia special meeting.

Regardless of whether you intend to attend the Solutia special meeting, you are encouraged to vote your shares of Solutia common stock as promptly as possible. Voting your shares will not impact your ability to attend the Solutia special meeting.

### **Q: How do I vote my shares?**

A: You may vote your shares of Solutia common stock by proxy electronically via the Internet, by telephone, by sending in the appropriate paper proxy card or in person at the Solutia special meeting. You can specify how you want your shares of Solutia common stock voted on each proposal by indicating your vote on each proposal via the Internet or telephone, marking the appropriate boxes on the appropriate proxy card or voting in person at the Solutia special meeting. Please review the voting instructions on the proxy card and read the entire text concerning the proposals in this proxy statement/prospectus prior to voting.

Whether you vote your proxy electronically via the Internet, by telephone or by mail, Solutia will treat your proxy the same way. The individuals appointed as proxy holders will be Jeffrey N. Quinn, Solutia's Chairman of the Board, President and Chief Executive Officer, and Paul J. Berra, III, Solutia's Senior Vice President, Legal and Governmental Affairs and General Counsel. The shares of Solutia common stock represented by valid proxies that Solutia receives in time for the Solutia special meeting will be voted as specified in such proxies. Valid proxies include all proxies submitted electronically via the Internet and by telephone and all properly executed, written paper proxy cards received pursuant to this solicitation that are not later revoked. Executed but unvoted proxy cards will be voted in accordance with the recommendations of the Solutia board of directors.

### **Q: How do I vote if my shares of Solutia common stock are held in street name by a broker, bank or other nominee?**

A: If you hold your shares of Solutia common stock in street name, you have the right to direct your broker, bank or other nominee how to vote the shares. You should complete a voting instruction card provided to you by your broker, bank or other nominee or provide your voting instructions electronically via the Internet or by telephone, if made available by your broker, bank or other nominee. If you wish to vote in person at the meeting, you must first obtain from the holder of record a proxy issued in your name.

### **Q: If my shares of Solutia common stock are held in street name, will my broker, bank or other nominee vote my shares for me?**

A: If you hold your shares of Solutia common stock in street name and do not provide voting instructions to your broker, bank or other nominee, your shares will not be voted on the proposals described above because your broker, bank or other nominee does not have discretionary authority to vote on these proposals. You should follow the directions your broker, bank or other nominee provides. Shares of Solutia common stock that are not voted because you do not properly instruct your broker, bank or other nominee will have the effect of a vote against Proposal 1. Shares of Solutia common stock that are not voted because you do not properly instruct your broker, bank or other nominee will have no effect on the outcome of Proposal 2 or 3.



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**Q: Can I change my vote after I have delivered my proxy?**

A: Yes. You can change your vote at any time before your proxy is voted at the Solutia special meeting. If you are a holder of record you can do so by:

filing a written notice of revocation with Solutia's Corporate Secretary, 575 Maryville Centre Drive, St. Louis, Missouri 63141;

submitting a new proxy electronically via the Internet or by telephone at a later date (in which case only the last proxy is counted);

submitting a new written proxy card before the Solutia special meeting (in which case only the last proxy card received is counted);  
or

attending the Solutia special meeting and voting in person. Attendance at the Solutia special meeting will not in and of itself constitute a revocation of a proxy.

If you hold shares of Solutia common stock registered in the name of a broker, bank or other nominee, you may change your vote only by submitting new voting instructions to your broker, bank or other nominee. If the Solutia special meeting is postponed or adjourned, it will not affect the ability of stockholders of record as of the record date to exercise their voting rights or to revoke any previously granted proxy using the methods described above.

**Q: What if I do not vote?**

A: If you fail to respond with a vote on Proposal 1, or if you respond and indicate that you are abstaining from voting on such proposal, it will have the same effect as a vote against Proposal 1. If you fail to respond with a vote on Proposal 2 or 3, or if you respond and indicate that you are abstaining from voting on Proposal 2 or 3, it will have no effect on the outcome of Proposal 2 or 3.

**Q: What if I receive more than one proxy card?**

A: If you receive more than one proxy card, your shares of Solutia common stock are registered in more than one name or are registered in different accounts. Please complete, date, sign and return each appropriate proxy card to ensure that all your shares are voted.

**Q: What do I need to do now?**

A: After carefully reading and considering the information contained in this proxy statement/prospectus, please respond by completing, signing and dating the appropriate proxy card or voting instruction card and returning in the enclosed postage-paid envelope, or, if available, by submitting your voting instruction electronically via the Internet or by telephone, as soon as possible so that your shares of Solutia common stock may be represented and voted at the Solutia special meeting. In addition, you may also vote your shares in person at the Solutia special meeting. If you hold shares registered in the name of a broker, bank or other nominee, that broker, bank or other nominee has enclosed, or will provide, instructions for directing your broker, bank or other nominee how to vote those shares.

**Q: Should I send in my stock certificates (or evidence of shares in book-entry form) with my proxy card?**

A: No. Please do NOT send your Solutia stock certificates (or evidence of shares in book-entry form) with your proxy card.

**Q: Who can help answer my questions?**

A: If you have any questions about the Solutia special meeting, the matters to be voted upon, including the merger, or questions about how to submit your proxy, or if you need additional copies of this proxy statement/prospectus or the enclosed proxy card or voting instruction card, you should contact MacKenzie Partners at [proxy@mackenziepartners.com](mailto:proxy@mackenziepartners.com) (e-mail), call toll-free: (800) 322-2885 or call collect: (212) 929-5500.

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**SUMMARY**

*This summary highlights selected information described in more detail elsewhere in this proxy statement/prospectus and the documents incorporated herein by reference and may not contain all of the information that is important to you. To understand the merger and the other matters to be voted on by Solutia stockholders at the Solutia special meeting more fully, and to obtain a more complete description of the terms of the merger agreement, you should carefully read this entire proxy statement/prospectus, including the Annexes, and the documents to which Eastman and Solutia refer you. You may obtain the information incorporated by reference into this proxy statement/prospectus without charge by following the instructions in the section entitled *Where You Can Find More Information* beginning on page 177. We have included page references parenthetically to direct you to a more complete description of the topics presented in this summary.*

**The Companies**

***Eastman Chemical Company (See page 32)***

Eastman Chemical Company

200 South Wilcox Drive

Kingsport, Tennessee 37662

(423) 229-2000

Eastman Chemical Company is a global chemical company which manufactures and sells a broad portfolio of chemicals, plastics, and fibers. Eastman began business in 1920 for the purpose of producing chemicals for Eastman Kodak Company's photographic business and became a public company, incorporated in Delaware, on December 31, 1993. Eastman has 19 manufacturing sites in 10 countries and equity interests in joint ventures that supply chemicals, plastics, and fibers products to customers throughout the world. Eastman's headquarters and largest manufacturing site are located in Kingsport, Tennessee.

Additional information about Eastman is included in documents incorporated by reference into this proxy statement/prospectus. See *Where You Can Find More Information* beginning on page 177.

***Merger Sub***

Eagle Merger Sub Corporation

c/o Eastman Chemical Company

200 South Wilcox Drive

Kingsport, Tennessee 37662

(423) 229-2000

Eagle Merger Sub Corporation, a Delaware corporation, is a wholly owned subsidiary of Eastman. Merger Sub was formed by Eastman solely to complete the merger. Merger Sub has not commenced any operations, has only nominal assets and has no liabilities or contingent liabilities, nor any outstanding commitments other than as set forth in the merger agreement. In the merger, Merger Sub will merge with and into Solutia, and Merger Sub will cease to exist.

***Solutia Inc. (See page 33)***

Solutia Inc.

575 Maryville Centre Drive

St. Louis, Missouri 63141

(314) 674-1000

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Solutia Inc. is a global manufacturer of performance materials and specialty chemicals used in a broad range of consumer and industrial applications including interlayers and aftermarket film for automotive and architectural glass; chemicals that promote safety and durability in tires; and encapsulants, coatings and specialty chemicals used in a variety of electronic, industrial and energy solutions. To serve its customers, Solutia utilizes a global infrastructure consisting of 26 manufacturing facilities, six technical centers and approximately 30 sales offices globally, collectively staffed by approximately 3,400 employees located in the United States, Europe, Latin America and Asia Pacific.

Additional information about Solutia and its subsidiaries is included in documents incorporated by reference into this proxy statement/prospectus. See [Where You Can Find More Information](#) beginning on page 177.

### **The Merger**

The boards of directors of Solutia and Eastman have each approved a merger agreement, entered into on January 26, 2012, providing for Solutia to be acquired by Eastman. At the Solutia special meeting, you will be asked to consider and vote upon a proposal to adopt the merger agreement, pursuant to which Solutia would be acquired through a merger with a wholly owned subsidiary of Eastman.

The effect of the merger will be that Solutia will be acquired by Eastman and shares of Solutia common stock will no longer be publicly traded.

Solutia stockholders are receiving this proxy statement/prospectus in connection with Solutia's solicitation of proxies for its special meeting of stockholders.

### **The Merger Agreement (See page 143)**

A copy of the merger agreement is attached as *Annex A* to this proxy statement/prospectus. Eastman and Solutia encourage you to read the entire merger agreement carefully because it is the principal document governing the merger.

### **Merger Consideration (See page 144)**

At the effective time of the merger, each share of Solutia common stock issued and outstanding immediately prior to the effective time of the merger (other than shares owned by Solutia as treasury stock and shares held by holders properly exercising appraisal rights under the DGCL) will be cancelled and converted automatically into the right to receive, in accordance with the terms of the merger agreement, (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock. Eastman expects that it may issue up to 15,770,889 shares of Eastman common stock in the merger.

### **Merger Consideration Value (See page 61)**

Based on the closing price of Eastman common stock on the New York Stock Exchange on January 26, 2012, the last trading day prior to the public announcement of the merger, the merger consideration represented approximately \$27.65 in value for each share of Solutia common stock. Based on the closing price of Eastman common stock on the New York Stock Exchange on \_\_\_\_\_, 2012, the latest practicable date before the date of this proxy statement/prospectus, the merger consideration represented approximately \$ \_\_\_\_\_ in value for each share of Solutia common stock. Eastman will not issue any fractional shares of Eastman common stock in the merger. Holders of Solutia common stock who would otherwise be entitled to a fractional share of Eastman common stock will receive a cash payment in lieu of fractional shares.

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### **The Solutia Board of Directors' Reasons for the Merger (See page 89)**

In the course of reaching its decision to approve the merger agreement, the Solutia board of directors considered a number of factors in its deliberations. Those factors are described in "The Merger Recommendation of the Solutia Board of Directors and Solutia's Reasons for the Merger" beginning on page 89.

### **Opinions of Solutia's Financial Advisors (See page 95)**

At the January 26, 2012 meeting of the Solutia board of directors, Deutsche Bank Securities Inc., or "Deutsche Bank," in its capacity as financial advisor to Solutia, delivered its oral opinion to the Solutia board of directors, subsequently confirmed in writing as of the same date, to the effect that, as of the date of such opinion, and based upon and subject to the assumptions, limitations, qualifications and conditions described in Deutsche Bank's opinion, the merger consideration of (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock per share to be received in the merger by holders of Solutia common stock (other than in respect of shares owned by Solutia as treasury stock and shares held by Solutia stockholders properly exercising appraisal rights under the DGCL) was fair, from a financial point of view, to such holders.

**The full text of Deutsche Bank's written opinion, dated January 26, 2012, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Deutsche Bank in connection with the opinion, is included in this proxy statement/prospectus as Annex B and is incorporated herein by reference. Deutsche Bank's opinion was addressed to, and for the use and benefit of, the Solutia board of directors in connection with and for purposes of its evaluation of the merger. Deutsche Bank's opinion does not constitute a recommendation as to how any holder of Solutia common stock should vote with respect to the merger. Deutsche Bank's opinion was limited to the fairness, from a financial point of view, of the consideration to be paid in respect of each share of Solutia common stock and does not address any other aspect of the merger or the merger agreement. Deutsche Bank expressed no opinion as to the underlying business decision of Solutia to engage in the merger or the relative merits of the merger as compared to any alternative transactions or business strategies.**

At the January 26, 2012 meeting of the Solutia board of directors, Moelis & Company LLC, or "Moelis," in its capacity as financial advisor to Solutia, delivered its oral opinion to the Solutia board of directors, subsequently confirmed in writing as of the same date, to the effect that, as of the date of such opinion, and based upon and subject to the conditions and limitations set forth in Moelis' written opinion, the merger consideration of (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock per share to be received in the merger by holders of Solutia common stock was fair, from a financial point of view, to such holders.

**The full text of Moelis' written opinion, dated January 26, 2012, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is included in this proxy statement/prospectus as Annex C and is incorporated into this proxy statement/prospectus by reference. Moelis' opinion was addressed to, and for the use and benefit of, the Solutia board of directors in connection with and for purposes of its evaluation of the merger. Moelis' opinion is limited solely to the fairness, from a financial point of view, of the merger consideration pursuant to the merger agreement to the holders of Solutia common stock as of the date of the opinion and does not address Solutia's underlying business decision to effect the merger or the relative merits of the merger as compared to any alternative business strategies or transactions that might be available to Solutia. Moelis' opinion does not constitute a recommendation to any stockholder of Solutia as to how such stockholder should vote with respect to the merger or any other matter.**

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### **Opinion of the Solutia Board of Directors Financial Advisor (See page 108)**

On January 26, 2012, Perella Weinberg Partners LP, or Perella Weinberg, in its capacity as financial advisor to the Solutia board of directors, rendered its opinion to the Solutia board of directors to the effect that, as of such date, and based upon and subject to the various assumptions, qualifications and limitations set forth in the opinion, the merger consideration of (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock per share to be received in the merger by holders of Solutia common stock (other than in respect of shares owned by Solutia as treasury stock and shares held by Solutia stockholders properly exercising appraisal rights under the DGCL) was fair, from a financial point of view, to such holders.

**The full text of Perella Weinberg's written opinion, dated January 26, 2012, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken by Perella Weinberg, is included in this proxy statement/prospectus as Annex D. The opinion does not address the underlying business decision of Solutia to enter into the merger agreement or the relative merits of the merger as compared with any other strategic alternative which may be available to Solutia. The opinion was not intended to be and does not constitute a recommendation to any holder of Solutia common stock as to how such holder should act with respect to the proposed merger or any other matter. Perella Weinberg provided its opinion only for the information and assistance of the Solutia board of directors in its capacity as such and in connection with, and for the purposes of its evaluation of, the merger.**

### **Treatment of Solutia Stock Options and Other Equity-Based Awards (See page 145)**

#### ***Treatment of Solutia Stock Options***

At the effective time of the merger, each outstanding option to acquire shares of Solutia common stock issued under any Solutia Equity Plan, whether or not then vested or exercisable, will be cancelled and terminated in exchange for the right to receive, in cash, the amount by which the cash value of the merger consideration (using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two days prior to the merger) exceeds the exercise price for such option.

#### ***Treatment of Solutia Restricted Stock***

At the effective time of the merger, restrictions on any restricted shares of Solutia common stock issued under any Solutia Equity Plan will lapse and such shares will be fully vested, and the holder thereof will be entitled to receive, for each such restricted share of Solutia common stock, the merger consideration.

#### ***Treatment of Solutia Restricted Stock Unit Awards***

At the effective time of the merger, each restricted stock unit issued under any Solutia Equity Plan will be converted into a vested right to receive, in cash, the value of the merger consideration (using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two days prior to the merger).

#### ***Treatment of Solutia Performance Share Awards and Performance Share Unit Awards***

At the effective time of the merger, restrictions on any performance share award or performance share unit award granted under any Solutia Equity Plan will lapse and such performance share award or performance share unit award will become vested based on no greater than the performance results for the applicable performance period according to the relevant award provisions, and the holder thereof will be entitled to receive, in the case of each performance share award in the form of restricted stock, the merger consideration and, in the case of each performance share unit award in the form of restricted stock units, the cash value of the merger consideration.

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(using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two trading days prior to the merger).

### **Treatment of Solutia Warrants (See page 145)**

At the effective time of the merger, each warrant issued under the Warrant Agreement, dated February 28, 2008, between Solutia and the warrant agent named therein, whether or not then vested or exercisable, will be converted into a warrant to acquire, upon exercise, on substantially the same terms and conditions as were applicable to such warrant immediately prior to the effective time of the merger, the merger consideration.

### **Treatment of Rights under Solutia Rights Agreement (page 71)**

Solutia's Rights Agreement, dated as of July 27, 2009, between Solutia and the rights agent named therein, as amended (the Solutia Rights Agreement), provides that it, and the rights issued thereunder, will terminate immediately prior to the effective time of the merger. As a result, no consideration will be paid, or is payable, to holders of any such rights.

### **Interests of Solutia Directors and Executive Officers in the Merger (See page 123)**

You should be aware that Solutia's executive officers and directors have economic interests in the merger that are different from, or in addition to, those of Solutia stockholders generally. These interests include, but are not limited to: the treatment of equity awards held by Solutia's executive officers and directors (including the acceleration and payment with respect to unvested stock options, restricted stock, restricted stock units and performance share awards), the potential acceleration of the prorated annual incentives to Solutia's executive officers at the target level for the year in which the merger is completed, the potential acceleration of supplemental retirement benefits, the potential acceleration with respect to the prorated vesting for Solutia's named executive officers and full vesting for all of Solutia's other executive officers of the phantom stock units granted for the year in which the merger is completed, the potential payment of severance and other benefits to Solutia's executive officers, the potential payment of tax gross-ups to certain of Solutia's executive officers and the continuation of certain rights to indemnification and of coverage under directors' and officers' liability insurance policies following the completion of the merger. The Solutia board of directors was aware of and considered those interests, among other matters, in reaching its decision to approve and adopt the merger agreement and recommend that Solutia stockholders adopt the merger agreement.

### **Conditions to the Completion of the Merger (See page 146)**

Eastman and Solutia currently expect to complete the merger in mid-2012, subject to receipt of required stockholder and regulatory approvals and the satisfaction or waiver of the other conditions to the merger. As more fully described in this proxy statement/prospectus and in the merger agreement, each party's obligation to complete the merger depends on a number of conditions being satisfied or, where legally permissible, waived, including the following:

the adoption by the Solutia stockholders of the merger agreement;

the authorization of the shares of Eastman common stock to be issued in the merger for listing on the New York Stock Exchange;

the expiration or termination of the applicable waiting period under the HSR Act and the clearance of the merger under certain applicable foreign antitrust or competition laws;

the effectiveness of the registration statement (of which this proxy statement/prospectus is a part) relating to the issuance of the shares of Eastman common stock to be issued in the merger; and

the absence of any legal injunction, restraint, or prohibition on the completion of the merger.





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The obligation of Eastman and Merger Sub to complete the merger is subject to the following additional conditions:

the accuracy of the representations and warranties of Solutia, subject to certain materiality standards as described under The Merger Agreement Conditions to the Completion of the Merger beginning on page 146, and the receipt of a certificate signed on behalf of Solutia by its Chief Executive Officer or Chief Financial Officer to that effect;

the performance by Solutia in all material respects of its obligations under the merger agreement and receipt of a certificate signed on behalf of Solutia by its Chief Executive Officer or Chief Financial Officer to that effect; and

the absence of a material adverse effect on Solutia.

The obligation of Solutia to complete the merger is subject to the following additional conditions:

the accuracy of the representations and warranties of Eastman and Merger Sub, subject to certain materiality standards as described under The Merger Agreement Conditions to the Completion of the Merger beginning on page 146, and the receipt of a certificate signed on behalf of Eastman and Merger Sub by the Chief Executive Officer or Chief Financial Officer of Eastman to that effect;

the performance by Eastman and Merger Sub in all material respects of their obligations under the merger agreement and receipt of a certificate signed on behalf of Eastman and Merger Sub by the Chief Executive Officer or Chief Financial Officer of Eastman to that effect; and

the absence of a material adverse effect on Eastman.

### **Regulatory Approvals Required to Complete the Merger (See page 152)**

Eastman and Solutia have agreed to cooperate and use reasonable best efforts to obtain all regulatory approvals required to complete the transactions contemplated by the merger agreement. For an acquisition transaction meeting certain size thresholds, such as the merger, the HSR Act requires the parties to file notification and report forms with the Antitrust Division of the United States Department of Justice, or the DOJ, and the Federal Trade Commission, or the FTC, and to observe specified waiting period requirements before completing the merger. Eastman and Solutia have filed the required notifications with the Antitrust Division of the DOJ and the FTC. The waiting period under the HSR Act expired on March 28, 2012.

In addition, under the antitrust or competition laws of the European Union, China, South Korea, and the Ukraine, Eastman and Solutia cannot complete the merger until they file certain required notifications and report forms with the relevant antitrust or competition governmental entities and, where applicable, receive clearance (including the passage of applicable waiting periods) from such governmental entities to complete the merger. South Korea, China and the Ukraine cleared the merger on March 23, 2012, April 16, 2012 and April 25, 2012, respectively. On April 16, 2012, the European Commission accepted the parties' filing as complete, triggering a 25-business day Phase One waiting period.

### **Financing (See page 71)**

Eastman's obligation to complete the merger is not conditioned upon its obtaining financing to pay the cash portion of the merger consideration. In connection with the merger, Eastman has entered into financing arrangements, consisting of a Term Loan Agreement and a Bridge Loan Agreement (each as defined herein), which together provide for commitments in an aggregate amount of \$3.5 billion, the proceeds of one or both of



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which Eastman expects to use to fund, in part, the cash portion of the merger consideration and to pay a portion of the fees and expenses related to the merger, which may include the repayment of outstanding borrowings of Solutia.

### **Termination of the Merger Agreement (See page 152)**

Eastman and Solutia may terminate the merger agreement at any time before the effective time of the merger, whether before or after Solutia stockholders have voted in favor of adoption of the merger agreement, by mutual written consent of Eastman and Solutia duly authorized by each of their respective boards of directors.

In addition, either Eastman or Solutia may terminate the merger agreement at any time before the effective time of the merger by written notice to the other party:

whether before or after Solutia stockholders have voted in favor of adoption of the merger agreement, if the merger has not been completed on or before October 1, 2012; provided, however, that if all of the conditions to closing have been satisfied or are then capable of being satisfied (other than those that are satisfied by having obtained the required antitrust clearances or there being no effective injunctions preventing the completion of the transactions contemplated in the merger agreement), such termination date may be extended by Eastman or Solutia from time to time by written notice to the other party up to a date not beyond October 31, 2012 (however, such right to terminate the merger agreement will not be available to any party whose breach of any covenant or agreement in the merger agreement has been the primary cause that resulted in the failure to complete the merger by such date);

if the merger agreement has been submitted to Solutia stockholders for adoption at a duly convened stockholders meeting and such stockholders have not adopted the merger agreement upon a vote taken thereof;

if any governmental entity of competent jurisdiction enacts or issues any final and non-appealable law or order or takes any final and non-appealable action enjoining or otherwise prohibiting completion of the merger; provided that the right to terminate the merger agreement in accordance with the foregoing will not be available to any party who failed to comply with its obligations to use its reasonable best efforts to cause the transactions contemplated by the merger agreement to be completed; or

if there is a material breach by the non-terminating party of any of its representations, warranties, covenants, or agreements contained in the merger agreement that has not been cured by such party within the earlier of the termination date as described above and twenty business days after such party's receipt of written notice of such breach from the other party but only so long as the other party is not in material breach of its representations, warranties, covenants or agreements contained in the merger agreement.

In addition, at any time before the effective time of the merger (1) Eastman may terminate the merger agreement by written notice to Solutia if, prior to adoption by the Solutia stockholders of the merger agreement at a duly convened stockholders meeting, the Solutia board of directors or any committee thereof makes a change of recommendation that Solutia stockholders vote in favor of the adoption of the merger agreement, and (2) Solutia may terminate the merger agreement by written notice to Eastman at any time prior to adoption by Solutia stockholders of the merger agreement at a duly convened stockholders meeting, in order to approve, adopt, recommend, accept, or enter into an acquisition agreement relating to a superior proposal, subject to payment by Solutia to Eastman of a termination fee of \$102 million.

### **Restrictions on Alternative Transactions (See page 148)**

The merger agreement contains detailed provisions prohibiting Solutia from seeking an alternative transaction to the merger. Under these no solicitation provisions, Solutia has agreed that, from the time of the

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execution of the merger agreement until the completion of the merger or the termination of the merger agreement, it will not, will not authorize or permit any of its subsidiaries and their respective officers, directors, or employees, and will use its reasonable best efforts to cause its investment banks, attorneys or other advisors or representatives not to:

initiate, solicit or knowingly encourage the submission of, or (other than informing persons of the non-solicitation provision), participate or engage in any negotiations or discussions with respect to, any acquisition proposal (as defined in the merger agreement);

disclose or furnish any nonpublic information or data to any person concerning Solutia in connection with any acquisition proposal or afford any person access to the properties, books or records of Solutia or its subsidiaries in connection with any acquisition proposal except as required by law, pursuant to a request by any governmental entity or if the Solutia board of directors determines in good faith, after consultation with its financial advisors and outside counsel that such acquisition proposal is or would reasonably be expected to lead to a superior proposal; or

enter into or execute, or propose to enter into or execute, any acquisition agreement.

Notwithstanding these restrictions, Solutia and its subsidiaries, officers, directors, employees, investment banks, attorneys and other advisors or representatives will be permitted under certain circumstances, prior to the receipt of the Solutia stockholder approval of the proposal to adopt the merger agreement, to furnish non-public information with respect to Solutia and its subsidiaries to a person making an acquisition proposal that did not otherwise result from a breach of the foregoing no solicitation provisions and participate in discussions and negotiations including making counter proposals with respect to such acquisition proposal received by Solutia if the Solutia board of directors (or a duly authorized committee thereof) determines in good faith (after consultation with financial advisors and outside legal counsel) that such proposal is or could reasonably be expected to lead to a superior proposal.

Further, the Solutia board of directors may, at any time after the date of the merger agreement and prior to the adoption of the merger agreement by Solutia stockholders, solely in response to a superior proposal that did not result from a breach of the non-solicitation covenants of the merger agreement, effect a change of recommendation and terminate the merger agreement and concurrently approve, adopt, recommend, accept or enter into an acquisition agreement related to a superior proposal if and to the extent that the Solutia board of directors (or a duly authorized committee thereof) determines in good faith, after consultation with its financial advisor and outside counsel, that failing to take any such action would be reasonably likely to be inconsistent with the directors obligations under applicable law, and if certain other conditions which are described elsewhere in this proxy statement/prospectus are satisfied. In such an event, Solutia may be required to pay Eastman a termination fee of \$102 million.

Further, at any time after the date of the merger agreement and prior to the adoption of the merger agreement by Solutia stockholders, in contexts not involving an acquisition proposal, the Solutia board of directors may effect a change of its recommendation in favor of adoption of the merger agreement if the Solutia board of directors (or a duly authorized committee thereof) determines in good faith, after consultation with its financial advisor and outside counsel, that failure to take such action would be reasonably likely to be inconsistent with the directors obligations under applicable law. In such an event, Solutia may be required to pay Eastman a termination fee of \$102 million.

**Expenses and Termination Fee Relating to the Merger (See page 153)**

Generally, all fees and expenses incurred in connection with the merger agreement will be paid by the party incurring those expenses. Eastman will pay the filing fees in connection with all filings pursuant to the HSR Act.

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Following termination of the merger agreement under specified circumstances, Solutia may be required to pay Eastman a termination fee of \$102 million.

### **Accounting Treatment of the Merger (See page 137)**

The merger will be accounted for by Eastman as a business combination under the acquisition method of accounting.

### **Material U.S. Federal Income Tax Consequences (See page 137)**

The exchange of the merger consideration for Solutia common stock in the merger will be a taxable transaction under the Code and may also be taxable under state, local and non-U.S. income and other tax laws. Please carefully review the information under **The Merger Material U.S. Federal Income Tax Consequences** beginning on page 137 for a description of the material U.S. federal income tax consequences of the merger and of owning Eastman common stock received in the merger to U.S. holders and non-U.S. holders. The tax consequences to you will depend on your situation. We urge you to consult your tax advisors as to the specific tax consequences to you of the merger and your receipt of the merger consideration, including the applicability and effect of U.S. federal, state, local and non-U.S. income and other tax laws in light of your particular circumstances.

### **Legal Proceedings Related to the Merger (See page 136)**

Since the announcement on January 27, 2012 of the execution of the merger agreement, Solutia, Eastman, Merger Sub and the members of the Solutia board of directors have been named as defendants in several putative class action complaints challenging the proposed merger. The lawsuits generally allege, among other things, that the merger fails to properly value Solutia, that the individual defendants breached their fiduciary duties in approving the merger agreement and that those breaches were aided and abetted by Eastman. The lawsuits seek, among other things, injunctive relief to enjoin the defendants from completing the merger on the agreed upon terms, monetary relief and attorneys' fees and costs. On May 3, 2012, Solutia, Eastman, Merger Sub and the members of the Solutia board of directors entered into a memorandum of understanding with certain of the plaintiffs to provide for the settlement of all claims brought in the putative class action lawsuits.

### **Comparison of the Rights of Holders of Eastman Common Stock and Solutia Common Stock (See page 164)**

As a result of the completion of the merger, holders of Solutia common stock, restricted shares of Solutia common stock, and certain performance share awards will become holders of Eastman common stock, and holders of warrants to acquire Solutia common stock will become holders of warrants to acquire the merger consideration, which includes Eastman common stock. Each of Eastman and Solutia is a Delaware corporation governed by the DGCL, but the rights of Eastman stockholders currently are, and from and after the merger will be, governed by the Eastman Charter and the Eastman Bylaws, while the rights of Solutia stockholders are currently governed by the Solutia Charter and the Solutia Bylaws. This proxy statement/prospectus includes summaries of the material differences between the rights of Solutia stockholders and Eastman stockholders arising because of difference in the charters and bylaws of the two companies.

### **Appraisal Rights in Connection with the Merger (See page 132)**

Pursuant to Section 262 of the DGCL, holders of Solutia common stock who do not vote in favor of adoption of the merger agreement and who comply with the applicable requirements of Section 262 of the DGCL have the right to seek appraisal of the fair value of their shares of Solutia common stock, as determined by the Delaware Court of Chancery, if the merger is completed. The fair value of your shares of Solutia common stock as determined by the Delaware Court of Chancery may be more or less than, or the same as, the value of the merger consideration per share that you are otherwise entitled to receive under the terms of the merger.

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agreement. Holders of Solutia common stock who wish to preserve any appraisal rights they may have must so advise Solutia by submitting a demand for appraisal in the form described in this proxy statement/prospectus prior to the vote to adopt the merger agreement, and must otherwise follow the procedures prescribed by Section 262 of the DGCL. A person having a beneficial interest in shares of Solutia common stock held of record in the name of another person, such as a broker, bank or other nominee, must act promptly to cause the record holder to follow the steps summarized in this proxy statement/prospectus and in a timely manner to perfect appraisal rights. **In view of the complexity of Section 262 of the DGCL, Solutia stockholders who may wish to pursue appraisal rights should consult their legal and financial advisors.**

**Solutia Special Meeting (See page 62)**

The Solutia special meeting will be held at 10:00 a.m., local time, on \_\_\_\_\_, 2012, at \_\_\_\_\_.

Holders of record of Solutia common stock at the close of business on the record date will be entitled to notice of and to vote at the Solutia special meeting with regard to Proposals 1-3. On the record date there were 122,837,608 shares of Solutia common stock outstanding and entitled to vote at the Solutia special meeting, held by approximately 3,334 holders of record. Each share of Solutia common stock issued and outstanding on the record date is entitled to one vote on each proposal to be voted upon at the Solutia special meeting.

As of the record date, Solutia's directors and executive officers, and their affiliates, as a group, owned and were entitled to vote 1,073,375 shares of Solutia common stock, or approximately 0.8% of the outstanding shares of Solutia common stock. Solutia currently expects that its directors and executive officers will vote their shares FOR Proposals 1, 2 and 3, but none of Solutia's directors or executive officers have entered into any agreement obligating them to do so.

**Table of Contents****SUMMARY HISTORICAL AND PRO FORMA FINANCIAL DATA****Summary Historical Consolidated Financial Data of Eastman**

The following table presents summary historical consolidated financial data for Eastman as of and for the fiscal years ended December 31, 2011, 2010, 2009, 2008 and 2007 and as of March 31, 2012 and for the three months ended March 31, 2012 and 2011. The information should be read in conjunction with Eastman's consolidated financial statements and the related notes thereto and the information under the heading

Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in its current report on Form 8-K filed on May 16, 2012 and its quarterly report on Form 10-Q for the three months ended March 31, 2012 which are incorporated by reference into this proxy statement/prospectus. During 2012, Eastman elected to change its method of accounting for actuarial gains and losses for its pension and other postretirement benefit plans as described in Note 2, "Accounting Methodology Change for Pension and Other Postretirement Benefit Plans" to the Company's consolidated financial statements in its current report on Form 8-K filed on May 16, 2012. The new method has been retrospectively applied to the financial results for all periods presented. The information as of December 31, 2009, 2008 and 2007 and for the fiscal years ended December 31, 2008 and 2007 should be read in conjunction with Eastman's consolidated financial statements and related notes thereto, which do not give effect to the change in accounting for pension and other postretirement obligations, which have previously been filed with, and are available from, the SEC but which are not incorporated by reference into this proxy statement/prospectus.

(Dollars in millions, except per share amounts)

<b>Operating Data</b>	<b>Three Months Ended March 31,</b>			<b>Year Ended December 31,</b>			
	<b>2012</b>	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(unaudited)</b>		<b>(audited)</b>	<b>(audited)</b>	<b>(audited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Sales	\$ 1,821	\$ 1,758	\$ 7,178	\$ 5,842	\$ 4,396	\$ 5,936	\$ 5,513
Operating earnings (1)	1,390	1,300	937	844	276	221	808
Earnings from continuing operations (2)	159	201	606	416	111	140	514
Earnings (loss) from discontinued operations (3)		9	9	9	(22)	(37)	(113)
Gain (loss) from disposal of discontinued operations (3)	(1)	30	31			18	(11)
Net earnings	\$ 158	\$ 240	\$ 646	\$ 425	\$ 89	\$ 121	\$ 390
<b>Basic earnings per share</b>							
Earnings from continuing operations	\$ 1.15	\$ 1.42	\$ 4.34	\$ 2.88	\$ 0.77	\$ 0.93	\$ 3.10
Earnings (loss) from discontinued operations (3)		0.28	0.29	0.07	(0.16)	(0.13)	(0.75)
Net earnings	\$ 1.15	\$ 1.70	\$ 4.63	\$ 2.95	\$ 0.61	\$ 0.80	\$ 2.35
<b>Diluted earnings per share</b>							
Earnings from continuing operations	\$ 1.13	\$ 1.39	\$ 4.24	\$ 2.81	\$ 0.76	\$ 0.92	\$ 3.06
Earnings (loss) from discontinued operations (3)	(0.01)	0.27	0.28	0.07	(0.15)	(0.12)	(0.74)
Net earnings	\$ 1.12	\$ 1.66	\$ 4.52	\$ 2.88	\$ 0.61	\$ 0.80	\$ 2.32
<b>Statement of Financial Position Data</b>							
Current assets	\$ 2,264		\$ 2,302	\$ 2,047	\$ 1,735	\$ 1,423	\$ 2,293
Net properties	3,136		3,107	3,219	3,110	3,198	2,846
Total assets	6,191		6,184	5,986	5,515	5,281	6,009
Current liabilities	997		1,114	1,070	800	832	1,122
Long-term borrowings	1,444		1,445	1,598	1,604	1,442	1,535
Total liabilities	4,166		4,314	4,359	4,002	3,728	3,927
Total stockholders' equity	2,025		1,870	1,627	1,513	1,553	2,082
Dividends declared per share	\$ 0.260	\$ 0.235	\$ 0.990	\$ 0.895	\$ 0.880	\$ 0.880	\$ 0.880



- (1) Operating earnings for 2009 included an asset impairment charge of \$179 million primarily for a discontinued Beaumont, Texas, industrial gasification project.

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- (2) Earnings from continuing operations for 2010 included a charge of \$115 million before tax for the early repayment of debt.
- (3) In first quarter 2011, Eastman completed the sale of the polyethylene terephthalate ( PET ) business, related assets at the Columbia, South Carolina site, and technology of its Performance Polymers segment. Performance Polymers segment operating results are presented as discontinued operations for all periods presented and are therefore not included in results from continuing operations in accordance with accounting principles generally accepted in the United States ( GAAP ).

**Summary Historical Consolidated Financial Data of Solutia**

The following table presents summary historical consolidated financial data for Solutia as of and for the twelve months ended December 31, 2011, 2010 and 2009, as of and for the ten months ended December 31, 2008, as of and for the two months ended February 29, 2008, as of and for the twelve months ended December 31, 2007 and as of and for the three months ended March 31, 2012 and 2011. The information should be read in conjunction with Solutia's consolidated financial statements and the related notes thereto and the information under the heading

Management's Discussion and Analysis of Financial Conditions and Results of Operations set forth in its annual report on Form 10-K for the fiscal year ended December 31, 2011 and its quarterly report on Form 10-Q for the three months ended March 31, 2012, which are incorporated by reference into this proxy statement/prospectus. The information as of December 31, 2009 and 2008, February 29, 2008 and December 31, 2007 and for the ten months ended December 31, 2008, the two months ended February 29, 2008 and the twelve months ended December 31, 2007 should be read in conjunction with Solutia's consolidated financial statements and related notes thereto, which have previously been filed with, and are available from, the SEC but which are not incorporated by reference into this proxy statement/prospectus.

(Dollars and shares in millions, except per share amounts)	Successor (1)					Predecessor (1)		
	Three Months Ended March 31,		Twelve Months Ended December 31,			Ten Months Ended December 31,	Two Months Ended February 29,	Twelve Months Ended December 31,
	2012	2011	2011	2010	2009	2008	2008	2007
	(unaudited)		(audited)				(audited)	
Net sales	\$ 498	\$ 509	\$ 2,097	\$ 1,950	\$ 1,618	\$ 1,705	\$ 321	\$ 1,612
Gross profit	\$ 158	\$ 162	\$ 634	\$ 608	\$ 477	\$ 364	\$ 92	\$ 372
As percent of net sales	32%	32%	30%	31%	29%	21%	29%	23%
Operating income (2)	\$ 76	\$ 105	\$ 404	\$ 331	\$ 242	\$ 118	\$ 48	\$ 129
As percent of net sales	15%	21%	19%	17%	15%	7%	15%	8%
Income (loss) from continuing operations before taxes	\$ 53	\$ 74	\$ 297	\$ 122	\$ 83	\$ 1	\$ 1,463	\$ (263)
Income (loss) from continuing operations (3)	\$ 54	\$ 66	\$ 267	\$ 91	\$ 66	\$ (14)	\$ 1,249	\$ (277)
Income (loss) from discontinued operations, net of tax	\$	\$	\$	\$ (9)	\$ (175)	\$ (649)	\$ 205	\$ 72
Net income attributable to noncontrolling interest	\$ 1	\$ 1	\$ 5	\$ 4	\$ 4	\$ 5	\$	\$ 3
Net income (loss) attributable to Solutia	\$ 53	\$ 65	\$ 262	\$ 78	\$ (113)	\$ (668)	\$ 1,454	\$ (208)

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(Dollars and shares in millions, except per share amounts)	Successor (1)					Predecessor (1)		
	Three Months Ended March 31,		Twelve Months Ended December 31,			Ten Months Ended December 31,	Two Months Ended February 29, December 31,	Twelve Months Ended December 31,
	2012	2011	2011	2010	2009	2008	2008	2007
	(unaudited)		(audited)			(audited)		
<b>Per Share Data:</b>								
Basic earnings (loss) per share from continuing operations attributable to Solutia (3)	\$ 0.44	\$ 0.54	\$ 2.19	\$ 0.73	\$ 0.58	\$ (0.25)	\$ 11.95	\$ (2.68)
Basic weighted average shares outstanding	121.2	119.4	119.8	118.9	106.5	74.7	104.5	104.5
Diluted earnings (loss) per share from continuing operations attributable to Solutia (3)	\$ 0.43	\$ 0.54	\$ 2.16	\$ 0.73	\$ 0.58	\$ (0.25)	\$ 11.95	\$ (2.68)
Diluted weighted average shares outstanding	122.6	121.2	121.3	120.0	106.7	74.7	104.5	104.5
Dividends declared per share	\$	\$	\$ 0.0375	\$	\$	\$	\$	\$
<b>Financial Position Continuing Operations:</b>								
Total assets	\$ 3,564		\$ 3,525	\$ 3,532	\$ 3,236	\$ 3,216	\$ 3,629	\$ 1,802
Liabilities not subject to compromise	\$ 2,537		\$ 2,573	\$ 2,758	\$ 2,604	\$ 2,895	\$ 3,306	\$ 2,005
Liabilities subject to compromise	\$		\$	\$	\$	\$	\$	\$ 1,922
Long-term debt (4)	\$ 1,338		\$ 1,337	\$ 1,463	\$ 1,264	\$ 1,359	\$ 1,796	\$ 359
Equity (deficit)	\$ 1,027		\$ 927	\$ 739	\$ 600	\$ 529	\$ 1,043	\$ (1,589)
<b>Other Data from Continuing Operations:</b>								
Working capital (5)	\$ 424		\$ 373	\$ 388	\$ 476	\$ 307	\$ 466	\$ (532)
Interest expense (6)	\$ 23	\$ 28	\$ 101	\$ 139	\$ 121	\$ 140	\$ 21	\$ 134
Income tax expense (7)	\$ (1)	\$ 8	\$ 30	\$ 31	\$ 17	\$ 15	\$ 214	\$ 14
Depreciation and amortization	\$ 30	\$ 32	\$ 125	\$ 117	\$ 107	\$ 89	\$ 11	\$ 58
Cash used for property, plant and equipment purchases	\$ 27	\$ 17	\$ 105	\$ 66	\$ 44	\$ 82	\$ 15	\$ 99
Employees	3,420		3,400	3,300	3,400	3,700	3,700	3,700

- (1) Solutia's emergence from bankruptcy resulted in its becoming a new reporting entity on March 1, 2008, which has a new capital structure, a new basis in the identifiable assets and liabilities and no retained earnings or accumulated losses. Accordingly, the financial data on or after March 1, 2008 ( Successor ) is not comparable to the financial data prior to this date ( Predecessor ).
- (2) Operating income includes net (gains) charges that affect comparability of (\$20) million in 2011, \$26 million in 2010, \$32 million in 2009, \$102 million in the ten months ended December 31, 2008, (\$2) million in the two months ended February 29, 2008 and \$41 million in 2007.
- (3) Income (loss) from continuing operations includes net (gains)/charges that affect comparability of (\$19) million in 2011, or (\$0.16) per share in 2011; \$101 million, or \$0.84 per share in 2010; \$67 million, or \$0.63 per share in 2009; \$79 million, or \$1.06 per share in the ten months ended December 31, 2008; (\$1,233) million, or (\$11.80) per share in the two months ended February 29, 2008; \$326 million, or \$3.12 per share in 2007; and \$4 million, or \$0.04 per share in 2006.
- (4) As of December 31, 2007, long-term debt excludes \$659 million of debt classified as subject to compromise in accordance with ASC 852 *Reorganizations*, as a result of Solutia's Chapter 11 bankruptcy filing in 2003.

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- (5) Working capital is defined as total current assets less total current liabilities.
- (6) Interest expense includes the recognition of interest on allowed secured claims as approved by the Bankruptcy Court of \$8 million in 2007. In addition, interest expense in all periods is affected by interest expense allocated to discontinued operations and in all periods prior to Solutia's emergence from bankruptcy for unrecorded contractual interest expense on unsecured debt subject to compromise.
- (7) Income tax expense includes an increase (decrease) in valuation allowances of \$(39) million in 2011, \$19 million in 2010, \$20 million in 2009, \$2 million in the ten months ended December 31, 2008, \$(252) million in the two months ended February 29, 2008 and \$82 million in 2007.

**Unaudited Summary Pro Forma Condensed Combined Financial Information**

The following table presents unaudited summary pro forma combined financial information about Eastman's consolidated balance sheet and statements of operations, after giving effect to the merger. The information under "Summary Pro Forma Condensed Combined Earnings Information" in the table below gives effect to the merger as if it had been completed on January 1, 2011. The information under "Summary Pro Forma Condensed Combined Financial Position Information" in the table below assumes the merger had been completed on March 31, 2012. This unaudited summary pro forma condensed combined financial information was prepared using the acquisition method of accounting with Eastman considered the acquirer of Solutia. Accordingly, the merger consideration has been allocated to assets and liabilities of Solutia based upon their estimated fair values as of the date of completion of the merger. Any amount of the merger consideration that is in excess of the estimated fair values of assets acquired and liabilities assumed in the merger will be recorded as goodwill in Eastman's statement of financial position after the completion of the merger.

The unaudited summary pro forma condensed combined financial information has been derived from and should be read in conjunction with the more detailed unaudited pro forma condensed combined financial statements (the "Statements") appearing elsewhere in this proxy statement/prospectus and the accompanying notes to the Statements. In addition, the Statements were based on and should be read in conjunction with the historical consolidated financial statements and related notes of each of Eastman and Solutia as of and for the applicable periods, which have been incorporated in this proxy statement/prospectus by reference. See "Where You Can Find More Information" beginning on page 177 and "Unaudited Pro Forma Condensed Combined Financial Information" beginning on page 38.

The unaudited summary pro forma condensed combined financial information is being provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of Eastman would have been had the merger occurred on the dates assumed, nor are they necessarily indicative of Eastman's future consolidated results of operations or consolidated financial position. The unaudited summary pro forma condensed combined financial information is based upon currently available information and estimates and assumptions that Eastman management believes are reasonable as of the date hereof. Any of the factors underlying these estimates and assumptions may change or prove to be materially different, and the estimates and assumptions may not be representative of facts existing at the closing date of the merger. The following includes adjustment for Eastman's change in accounting for pension and other postretirement benefit (OPEB) plans as discussed in footnote 2 to the unaudited pro forma condensed combined financial statements.

**Summary Pro Forma Condensed Combined Earnings Information:**

	<b>Three Month Ended March 31, 2012</b>	<b>Year Ended December 31, 2011</b>
(Dollars in millions, except per share amounts)		
Sales	\$ 2,319	\$ 9,275
Operating earnings	352	1,242
Earnings from continuing operations before nonrecurring items and income taxes	311	1,074
Earnings from continuing operations before nonrecurring items	\$ 217	\$ 748

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(Dollars in millions, except per share amounts)	<b>Three Month Ended March 31, 2012</b>	<b>Year Ended December 31, 2011</b>
<b>Basic earnings per share</b>		
Earnings from continuing operations before nonrecurring items(1)	\$ 1.43	\$ 4.84
<b>Diluted earnings per share</b>		
Earnings from continuing operations before nonrecurring items(1)	\$ 1.40	\$ 4.74

**Summary Pro Forma Condensed Combined Financial Position Information:**

(Dollars in millions)	<b>As of March 31, 2012</b>
Total assets	\$ 11,889
Long-term borrowings	4,824
Total stockholders' equity	2,718

(1) For a discussion of such nonrecurring items, see Note 4 of the notes to the accompanying Unaudited Pro Forma Condensed Combined Financial Statements.

**Comparative Per Share Data**

The following table shows, for the year ended December 31, 2011, and the three months ended March 31, 2012, historical and pro forma equivalent per share data for Solutia common stock and historical and pro forma combined per share data for Eastman common stock. The information in the table is derived from each of Solutia's and Eastman's respective historical consolidated financial statements incorporated by reference herein, as well as the unaudited pro forma condensed combined financial information included elsewhere herein.

The pro forma equivalent information shows the effect of the merger from the perspective of an owner of Solutia common stock. The information was computed by multiplying the pro forma combined income from continuing operations per share and Eastman's historical cash dividends declared per share for the year ended December 31, 2011 and the three months ended March 31, 2012, respectively, and pro forma combined book value per share as of March 31, 2012 by the exchange ratio of the stock portion of the merger consideration of 0.12 shares of Eastman common stock for each share of Solutia common stock. These computations exclude any potential benefit to Solutia stockholders from receiving any amount of cash as a component of the merger consideration.

The pro forma combined data below is presented for illustrative purposes only. The pro forma adjustments to the statement of earnings data are based on the assumption that the merger was completed on January 1, 2011, and the pro forma adjustments to the statement of financial position data are based on the assumption that the merger was completed on March 31, 2012.

Either company's actual historical financial condition and results of operations may have been different had the companies always been combined. You should not rely on this information as being indicative of the historical financial condition and results of operations that would have actually been achieved or of the future results of Eastman after the completion of the merger.

You should read the information below together with the historical financial statements and related notes of each of Eastman and Solutia, which are incorporated by reference in this proxy statement/prospectus, and with

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the information under the heading Unaudited Pro Forma Condensed Combined Financial Information beginning on page 38.

	Solutia Common Stock		Eastman Common Stock	
	Historical	Pro Forma Equivalent	Historical	Pro Forma Combined
<b>Income from Continuing Operations Per Share</b>				
Basic				
Year Ended December 31, 2011	\$ 2.19	\$ 0.58	\$ 4.34	\$ 4.84(1)
Three Months Ended March 31, 2012	\$ 0.44	\$ 0.17	\$ 1.15	\$ 1.43
Diluted				
Year Ended December 31, 2011	\$ 2.16	\$ 0.57	\$ 4.24	\$ 4.74(1)
Three Months Ended March 31, 2012	\$ 0.43	\$ 0.17	\$ 1.13	\$ 1.40
<b>Cash Dividends Declared Per Share</b>				
Year Ended December 31, 2011	\$ 0.0375	\$ 0.12	\$ 0.990	\$ 0.990
Three Months Ended March 31, 2012	\$	\$ 0.03	\$ 0.260	\$ 0.260
<b>Book Value Per Share</b>				
March 31, 2012	\$ 8.29	\$ 2.14	\$ 14.69	\$ 17.81

- (1) For a discussion of certain nonrecurring items excluded from pro forma combined income from continuing operations per share, see Note 4 of the notes to the accompanying Unaudited Pro Forma Condensed Consolidated Financial Statements.

**Comparative Market Value of Common Stock**

Eastman common stock and Solutia common stock are listed for trading on the New York Stock Exchange under the symbols EMN and SOA, respectively. The following table shows the closing prices per share of Eastman common stock and Solutia common stock as reported on January 26, 2012, the final trading day prior to the public announcement of the merger, and on May , 2012, the latest practicable date prior to the date of this proxy statement/prospectus. This table also shows the implied value of the merger consideration for each share of Solutia common stock, which was calculated by multiplying the closing price of Eastman common stock on the relevant date by the exchange ratio of the stock portion of the merger consideration of 0.12 shares of Eastman common stock for each share of Solutia common stock and adding the per share cash consideration of \$22.00, without interest. These computations do not include any potential benefit to Solutia stockholders from receiving any amount of cash as a component of merger consideration.

	Closing Price of Eastman Common Stock	Closing Price of Solutia Common Stock	Implied Value of Merger Consideration
As of January 26, 2012	\$ 47.12	\$ 19.51	\$ 27.65
As of May , 2012	\$	\$	\$

The market price of Eastman common stock and Solutia common stock will fluctuate prior to the Solutia special meeting and before the merger is completed, which will affect the implied value of the merger consideration paid to Solutia stockholders. You should obtain current market quotations for the shares before making any decisions with respect to the merger.

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**RISK FACTORS**

*In addition to the other information included in and incorporated by reference into this proxy statement/prospectus, including the matters addressed under the caption **Cautionary Statement Regarding Forward-Looking Statements** beginning on page 31, you should carefully read and consider the following risk factors in evaluating the proposals to be voted on at the Solutia special meeting and in determining whether to vote for adoption of the merger agreement. If the merger agreement is adopted by Solutia stockholders and all of the other conditions to the completion of the merger are satisfied or waived, and the merger is completed, holders of Solutia common stock will become holders of Eastman common stock and will be subject to the risks and uncertainties of a holder thereof. Please also refer to the additional risk factors of each of Eastman and Solutia identified in the periodic reports and other documents incorporated by reference into this proxy statement/prospectus. See **Where You Can Find More Information** beginning on page 177.*

**Risks Relating to the Merger**

*The parties may be unable to satisfy the conditions to the completion of the merger and the merger may not be completed.*

Completion of the merger is conditioned on, among other things, the adoption of the merger agreement by Solutia stockholders, the expiration or termination of the applicable waiting period under the HSR Act and the clearance of the merger under certain applicable foreign antitrust or competition laws, the absence of any law or regulation that prohibits the completion of the merger, and the approval of the shares of Eastman common stock to be issued in the merger for listing on the New York Stock Exchange. Each party's obligation to close the merger is also subject to the material accuracy of the representations and warranties of the other party in the merger agreement and the compliance in all material respects with covenants of the other party in the merger agreement and the absence of a material adverse effect (as defined in the merger agreement) on the other party.

Although Solutia and Eastman have agreed in the merger agreement to use reasonable best efforts to complete the merger as promptly as practicable, these and other conditions to the completion of the merger may fail to be satisfied. In addition, satisfying the conditions to and completion of the merger may take longer, and could cost more, than Solutia and Eastman expect.

*Failure to complete the merger could negatively affect the stock price and the future business and financial results of Solutia.*

Solutia and Eastman may not receive the necessary stockholder or regulatory approvals or satisfy the other conditions required for the completion of the merger. If the merger is not completed for any reason, Solutia will be subject to several risks, including the following:

Solutia may be required to pay significant transaction costs related to the merger, including under certain circumstances a termination fee of up to \$102 million payable to Eastman, and many of Solutia's costs relating to the merger (such as legal, accounting, and a portion of Solutia's financial advisory fees) are payable by Solutia whether or not the merger is completed;

The current market price of Solutia common stock may reflect a market assumption that the merger will occur, and a failure to complete the merger could result in a decline in the market price of Solutia common stock;

There may be substantial disruption to Solutia's business and a distraction of its management and employees from day-to-day operations, because matters related to the merger (including integration planning) may require substantial commitments of time and resources that could otherwise have been devoted to other opportunities that could have been beneficial; and

Solutia could not realize the benefits expected to result from the merger and Solutia would continue to face the risks that it currently faces as an independent company.





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If the merger is not completed, the risks described above may materialize and materially adversely affect Solutia's business, financial results, financial condition, and stock price.

### ***Solutia is subject to business uncertainties and contractual restrictions while the merger is pending.***

Uncertainty about the effect of the pending merger on Solutia employees and customers may have an adverse effect on Solutia. These uncertainties may impair Solutia's ability to attract, retain, and motivate key personnel until the merger is completed and could cause customers and others that deal with Solutia to defer decisions concerning Solutia, or to seek to change existing business relationships with Solutia. If key employees depart because of uncertainty about their future roles and the potential complexities of integration, Solutia's business, or Eastman's business following the merger, could be harmed.

In addition, the merger agreement restricts Solutia from making acquisitions or dispositions, making capital expenditures in excess of a specified amount, and taking other specified actions without the consent of Eastman until the merger occurs. These restrictions may prevent Solutia from pursuing attractive business opportunities or addressing other developments that may arise prior to the completion of the merger or from executing its business strategies.

### ***The merger agreement limits Solutia's ability to pursue alternatives to the merger and contains provisions that could affect the decisions of a third party considering making an alternative acquisition proposal to the merger.***

The merger agreement prohibits Solutia from soliciting, initiating, or encouraging alternative merger or acquisition proposals from any third party. Under the terms of the merger agreement, Solutia will be required to pay to Eastman a termination fee of up to \$102 million if the merger agreement is terminated under certain circumstances. This termination fee would be payable in certain circumstances involving Solutia accepting a different acquisition proposal or its board of directors recommending a different acquisition proposal to its stockholders prior to their vote. These provisions could affect the decision by a third party to make a competing acquisition proposal, including the structure, pricing, and terms proposed by a third party seeking to acquire or merge with Solutia.

### ***There may be a long delay between the receipt of Solutia stockholder adoption of the merger agreement and the closing of the merger, during which time Solutia will lose the ability to consider and pursue alternative acquisition proposals that might otherwise be superior to the proposal in the merger agreement and more beneficial to Solutia stockholders.***

Following the adoption of the merger agreement by the holders of Solutia common stock, the merger agreement prohibits Solutia from taking any actions to review, consider, or recommend any alternative acquisition proposals, including those that could be superior to the proposal in the merger agreement and more beneficial to Solutia stockholders. Given the potentially long delay between stockholder approval and satisfaction of all other conditions precedent to the completion of the merger, including the receipt of all required antitrust clearances, the time during which Solutia could be prevented from reviewing, considering, or recommending such proposals could be significant.

### ***Because the market value of the Eastman common stock that Solutia stockholders will receive in the merger may fluctuate, Solutia stockholders cannot be sure of the market value of the Eastman common stock to be issued upon completion of the merger.***

Solutia stockholders will receive a fixed number of shares of Eastman common stock in the merger as the stock portion of the merger consideration rather than a number of shares with a particular fixed market value. The market values of Eastman common stock and Solutia common stock at the time of the merger may vary significantly from their respective values on the date the merger agreement was executed, the date of this proxy statement/prospectus, or the date on which Solutia stockholders vote on the adoption of the merger agreement. Because this exchange ratio of the stock portion of the merger consideration will not be adjusted to reflect any

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changes in the market value of Eastman common stock or Solutia common stock, the market value of Eastman common stock issued in the merger and Solutia common stock surrendered in the merger may be higher or lower than the values of such shares on such earlier dates. Stock price changes may result from a variety of factors, including changes in businesses and operations, and other factors that are beyond the control of Eastman and Solutia, including changes in business prospects, regulatory considerations, and general and industry specific market and economic conditions.

***Officers and directors of Solutia have certain interests in the merger that are different from, or in addition to, the interests of Solutia stockholders. These interests may be perceived to have affected their decision to support or approve the merger.***

Solutia's executive officers and directors have economic interests in the merger that may be different from, or in addition to, those of Solutia stockholders generally. These interests include, but are not limited to: the treatment of equity awards held by Solutia's executive officers and directors (including the acceleration and payment with respect to unvested stock options, restricted stock, restricted stock units and performance share awards), the potential acceleration of the prorated annual incentives to Solutia's executive officers at the target level for the year in which the merger is completed, the potential acceleration of supplemental retirement benefits, the potential acceleration with respect to the prorated vesting for Solutia's named executive officers and full vesting for all of Solutia's other executive officers of the phantom stock units granted for the year in which the merger is completed, the potential payment of severance and other benefits to Solutia's executive officers, the potential payment of tax gross-ups to certain of Solutia's executive officers, and the continuation of certain rights to indemnification and of coverage under directors' and officers' liability insurance policies following completion of the merger. The Solutia board of directors was aware of and considered those interests, among other matters, in reaching its decision to approve and adopt the merger agreement and recommend that Solutia stockholders adopt the merger agreement.

***Eastman is required to obtain various U.S. and foreign regulatory consents, approvals and clearances to complete the merger, which consents, approvals and clearances may be subject to Eastman's compliance with certain conditions.***

Under the antitrust or competition laws of the United States, the European Union, China, South Korea, and the Ukraine, Eastman and Solutia cannot complete the merger until they file certain required notifications and report forms with the relevant antitrust or competition governmental entities and, where applicable, receive clearance (including the passage of applicable waiting periods) from such governmental entities to complete the merger. These required consents, approvals, and clearances may not be obtained. In deciding whether to grant antitrust or regulatory clearances, the relevant governmental entities will consider the effect of the merger on competition within their relevant jurisdiction. The terms and conditions of the approvals that are granted may impose requirements, limitations or costs or place restrictions on the conduct of Eastman's business after the completion of the merger. The merger agreement may require Eastman and Solutia to comply with conditions imposed by regulatory entities. Regulators may impose conditions, terms, obligations or restrictions and such conditions, terms, obligations or restrictions may have the effect of delaying completion of the merger, imposing additional material costs on or materially limiting the revenues of Eastman after the completion of the merger, or otherwise reducing the anticipated benefits to Eastman of the merger. In addition, such conditions, terms, obligations or restrictions may result in the delay or abandonment of the merger.

In the United States, completion of the merger requires that the parties file notification and report forms with the FTC and DOJ and observe specified waiting period requirements before completing the merger, and may require approvals by other governmental agencies as well. Eastman and Solutia have filed the required notifications with the Antitrust Division of the DOJ and the FTC. The waiting period under the HSR Act expired on March 28, 2012.

Outside of the United States, the parties have filed notification and reports forms in the European Union, China, South Korea, and the Ukraine. South Korea, China and the Ukraine cleared the merger on March 23, 2012, April 16, 2012 and April 25, 2012, respectively. On April 16, 2012, the European Commission accepted the parties' filing as complete, triggering a 25-business day Phase One waiting period.

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***The merger may be completed on different terms from those contained in the merger agreement.***

Prior to the completion of the merger, the parties may, under certain circumstances, amend or alter the terms of the merger agreement, including with respect to, among other things, the merger consideration to be received by Solutia stockholders, assets to be acquired, or any covenants or agreements with respect to the parties' respective operations during the pendency thereof (certain of these changes, including those with respect to the merger consideration to be received by Solutia stockholders, may be made only prior to the requisite stockholder approval). Any such amendments or alterations may have negative consequences to Solutia stockholders including, among other things, reducing the cash available for Eastman's or Solutia's operations or to meet respective obligations or restricting or limiting assets or operations of either of Eastman or Solutia, any of which could also have a material adverse effect on such company's business, financial condition, and results of operations.

***The unaudited pro forma financial information in this proxy statement/prospectus may not necessarily reflect Eastman's operating results and financial condition following the merger.***

The unaudited pro forma financial information included in this proxy statement/prospectus is derived from Eastman's and Solutia's separate historical consolidated financial statements. The preparation of this pro forma information is based upon available information and certain assumptions and estimates that Eastman and Solutia currently believe are reasonable, including certain assumptions with respect to the price of Eastman common stock, the value of the assets and liabilities of Solutia being acquired, and the expected amount of and expected interest rates on Eastman's outstanding debt at the closing of the merger. These assumptions and estimates may not prove to be accurate, and this pro forma financial information does not necessarily reflect what Eastman's results of operations and financial position would have been had the merger been completed if these assumptions were accurate, or occurred during the period presented, or what Eastman's results of operations or financial position will be in the future.

***Putative shareholder class action complaints have been filed against Eastman, Solutia and Solutia's board of directors, as well as against Merger Sub, challenging the proposed merger, and an unfavorable judgment or ruling in these lawsuits could prevent or delay the completion of the merger and result in substantial costs.***

Since the announcement on January 27, 2012 of the signing of the merger agreement, Solutia, Eastman, Merger Sub and the members of the Solutia board of directors have been named as defendants in several putative class action complaints challenging the proposed merger. The lawsuits generally allege, among other things, that the proposed merger fails to properly value Solutia, that the individual defendants breached their fiduciary duties in approving the merger agreement and that those breaches were aided and abetted by Eastman. The lawsuits seek, among other things, injunctive relief to enjoin the defendants from completing the merger on the agreed-upon terms, monetary relief and attorneys' fees and costs. For an update on the current status of the lawsuits, including information regarding the Memorandum of Understanding that was entered into by the parties to the Delaware actions on May 3, 2012, please see "The Merger - Litigation Related to the Merger" beginning on page 136.

One of the conditions to the closing of the merger is that no injunction preventing the completion of the merger and the other transactions contemplated by the merger agreement shall be in effect and that no statute, rule, regulation, order, injunction or decree shall have been enacted, entered, promulgated or enforced by any governmental entity that prohibits or makes illegal the completion of the merger. Consequently, if the plaintiffs secure injunctive or other relief prohibiting, delaying, or otherwise adversely affecting the defendants' ability to complete the merger, then such injunctive or other relief may prevent the merger from becoming effective within the expected time frame or at all. If completion of the merger is prevented or delayed, it could result in substantial costs to Solutia and Eastman. In addition, Solutia and Eastman could incur significant costs in connection with the lawsuits, including costs associated with the indemnification of Solutia's directors and officers.

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### **Risks Relating to the Business and Operations of Eastman After the Merger**

*Eastman may not realize the expected benefits of the merger because of integration difficulties and other challenges.*

The success of the merger will depend, in part, on Eastman's ability to realize the anticipated revenue, cost, tax, and other synergies from integrating Solutia's business with its existing business. The integration process may be complex, costly, and time-consuming. The difficulties of integrating the operations of Solutia's business could include, among others:

failure to implement Eastman's business plan for the combined business;

unanticipated issues in integrating logistics, information, communications, and other systems;

lost sales and customers as a result of certain customers of either of the two companies deciding not to do business with Eastman after the merger;

loss of key Solutia employees with knowledge of Solutia's historical business and operations;

unanticipated changes in applicable laws and regulations;

negative impacts on Eastman's internal control over financial reporting; and

other unanticipated issues, expenses, or liabilities that could impact, among other things, Eastman's ability to realize any expected synergies on a timely basis, or at all.

Eastman may not accomplish the integration of Solutia's business smoothly, successfully, or within the anticipated costs or time frame. The diversion of the attention of management from Eastman's current operations to the integration effort and any difficulties encountered in combining operations could prevent Eastman from realizing the full benefits anticipated to result from the merger and could adversely affect its business. In addition, the integration efforts could divert the focus and resources of the management of Eastman and Solutia from other strategic opportunities and operational matters during the integration process.

*Any delay in completing the merger may substantially reduce the benefits that Eastman expects to obtain from the merger.*

In addition to obtaining the required governmental clearances and approvals, the merger is subject to a number of other conditions beyond the control of Eastman and Solutia that may prevent, delay, or otherwise materially adversely affect its completion. Eastman and Solutia cannot predict whether or when the conditions required to complete the merger will be satisfied. The requirements for obtaining the required clearances and approvals could delay the effective time of the merger for a significant period of time or prevent it from occurring. Any delay in completing the merger may materially adversely affect the synergies and other benefits that Eastman expects to achieve if the merger and the integration of the companies' respective businesses are completed within the expected timeframe.

*Eastman will incur substantial additional indebtedness in connection with the merger.*

In connection with entering into the merger agreement, on February 29, 2012, Eastman entered into a \$1.2 billion five-year Term Loan Agreement and a \$2.3 billion Bridge Loan Agreement with the lenders and other parties to those agreements. Eastman intends to use this financing from the Term Loan Agreement and, in certain circumstances, the Bridge Loan Agreement, to pay, in part, the cash portion of the merger consideration and a portion of the fees and expenses related to the merger, which may include the repayment of certain outstanding borrowings of Solutia. In addition, Eastman expects to offer new debt securities prior to or following the completion of the merger. The commitments of the lenders under the Bridge Loan Agreement will be reduced on a dollar-for-dollar basis by any proceeds Eastman receives

from any offering of debt securities it may undertake.

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As a result, Eastman will incur additional indebtedness that will be substantially greater than its indebtedness prior to the merger. This new indebtedness will increase the risks Eastman now faces with its current indebtedness.

Each of the Term Loan Agreement and the Bridge Loan Agreement contains certain customary representations, warranties and covenants. Each of the Term Loan Agreement and the Bridge Loan Agreement also contains a financial covenant that will require Eastman to comply with a leverage ratio specified in the applicable agreement. These operating restrictions and financial covenants may limit Eastman's ability to finance future operations or capital needs or engage in other transactions that may be in the best interests of Eastman stockholders in the future.

***As a result of the merger, Eastman's goodwill, indefinite-lived intangible assets, and other intangible assets in its statement of financial position will increase. If its goodwill, indefinite-lived intangible assets, or other intangible assets become impaired in the future, Eastman would be required to record a significant, non-cash charge to earnings, which would also reduce its stockholders' equity.***

Under GAAP, goodwill and indefinite-lived intangible assets are reviewed for impairment on an annual basis (or more frequently if events or circumstances indicate that their carrying value may not be recoverable) and other intangible assets if events or circumstances indicate that their carrying value may not be recoverable. If Eastman's goodwill, indefinite-lived intangible assets, or other intangible assets are determined to be impaired in the future, Eastman will be required to record a significant, non-cash charge to earnings during the period in which the impairment is determined.

***The price of Eastman common stock may be affected by factors different from those affecting the price of Solutia common stock.***

The businesses of Eastman and Solutia differ in many respects, including product offerings and relationships with customers and suppliers, and, accordingly, the results of operations of Eastman after the merger and the market price of shares of Eastman common stock after the merger may be affected by factors different from those currently affecting the independent results of operations of Solutia. For a discussion of the businesses of Eastman and Solutia and of certain factors to consider in connection with their respective businesses, see the documents incorporated by reference into this proxy statement/prospectus and referred to under the section "Where You Can Find More Information" beginning on page 177.

***Solutia stockholders who become stockholders of Eastman will have their rights as stockholders governed by Eastman's corporate governance documents.***

As a result of the completion of the merger, holders of Solutia common stock, restricted shares of Solutia common stock and certain performance share awards will become holders of Eastman common stock, and holders of warrants to acquire Solutia common stock will become holders of warrants to acquire the merger consideration, which includes Eastman common stock, and their rights as Eastman stockholders will be governed by Eastman's corporate governance documents, including the Eastman Charter and the Eastman Bylaws, and the DGCL. As a result, there will be material differences between the current rights of Solutia stockholders and the rights they can expect to have as Eastman stockholders. Please see "Comparison of Rights of Holders of Eastman Common Stock and Solutia Common Stock" beginning on page 164.

***Solutia stockholders will have a reduced ownership and voting interest in Eastman after the merger and, as a result, will be able to exert less influence over management.***

Following the merger, each Solutia stockholder will become a stockholder of Eastman with a percentage ownership of Eastman after the merger that is much smaller than the stockholder's percentage ownership of Solutia. It is expected that the former stockholders of Solutia as a group will own approximately 10% of the outstanding shares of Eastman common stock immediately after the completion of the merger. Because of this, Solutia stockholders will have substantially less influence on the management and policies of Eastman after the merger than they now have with respect to the management and policies of Solutia.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

A number of the statements made or incorporated by reference in this proxy statement/prospectus are forward-looking statements within the meaning of the Private Securities Litigation Reform Act, Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are all statements, other than statements of historical fact. In some cases, forward-looking statements can be identified by terminology such as anticipates, believes, estimates, expects, intends, may, plans, projects, will, would, and similar expressions of the negative of these terms. These statements include statements regarding the intent, belief or current expectations of each of Eastman and Solutia and their respective subsidiaries, their directors and their officers with respect to, among other things, future events, including the merger, the respective financial results and financial trends expected to impact each of Eastman and Solutia prior to the completion of the merger, or if the merger is not completed, and expected to impact Eastman thereafter, assuming the merger is completed.

Forward-looking statements are based upon certain underlying assumptions, including any assumptions mentioned with the specific statements, as of the date such statements were made. Such assumptions are in turn based upon internal estimates and analyses of market conditions and trends, management plans and strategies, economic conditions and other factors. Forward-looking statements and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, those set forth under Risk Factors beginning on page 25, and those set forth under Risk Factors or any similar heading in the documents incorporated by reference herein.

Eastman and Solutia caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this proxy statement/prospectus in the case of forward-looking statements contained in this proxy statement/prospectus, or the dates of the documents incorporated by reference in this proxy statement/prospectus in the case of forward-looking statements made in those incorporated documents. Except as may be required by law, neither Eastman nor Solutia has any obligation to update or alter these forward-looking statements, whether as a result of new information, future events or otherwise.

Eastman and Solutia expressly qualify in their entirety all forward-looking statements attributable to Eastman or Solutia or any person acting on either of their respective behalf by the cautionary statements contained or referred to in this section.

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**INFORMATION ABOUT EASTMAN**

Eastman Chemical Company is a global chemical company which manufactures and sells a broad portfolio of chemicals, plastics, and fibers. Eastman began business in 1920 for the purpose of producing chemicals for Eastman Kodak Company's photographic business and became a public company, incorporated in Delaware, on December 31, 1993. Eastman has 19 manufacturing sites in 10 countries and equity interests in joint ventures that supply chemicals, plastics, and fibers products to customers throughout the world. Eastman's headquarters and largest manufacturing site are located in Kingsport, Tennessee.

Additional information about Eastman is included in the documents incorporated by reference into this proxy statement/prospectus. See [Where You Can Find More Information](#) beginning on page 177.



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**INFORMATION ABOUT SOLUTIA**

Solutia Inc. is a global manufacturer of performance materials and specialty chemicals used in a broad range of consumer and industrial applications including interlayers and aftermarket film for automotive and architectural glass; chemicals that promote safety and durability in tires; and encapsulants, coatings and specialty chemicals used in a variety of electronic, industrial and energy solutions. To serve its customers, Solutia utilizes a global infrastructure consisting of 26 manufacturing facilities, six technical centers and approximately 30 sales offices globally, collectively staffed by approximately 3,400 employees located in the United States, Europe, Latin America and Asia Pacific.

Additional information about Solutia is included in the documents incorporated by reference into this proxy statement/prospectus. See [Where You Can Find More Information](#) beginning on page 177.

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF EASTMAN**

The following table presents selected historical consolidated financial data for Eastman as of and for the fiscal years ended December 31, 2011, 2010, 2009, 2008 and 2007 and as of March 31, 2012 and for the three months ended March 31, 2012 and 2011. The information should be read in conjunction with Eastman's consolidated financial statements and the related notes thereto and the information under the heading

Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in its current report on Form 8-K filed on May 16, 2012 and its quarterly report on Form 10-Q for the three months ended March 31, 2012, which are incorporated by reference into this proxy statement/prospectus. During 2012, Eastman elected to change its method of accounting for actuarial gains and losses for its pension and other postretirement benefit plans as described in Note 2, "Accounting Methodology Change for Pension and Other Postretirement Benefit Plans" to the Company's consolidated financial statements in its current report on Form 8-K filed on May 16, 2012. The new method has been retrospectively applied to the financial results for all periods presented. The information as of December 31, 2009, 2008 and 2007 and for the fiscal years ended December 31, 2008 and 2007 should be read in conjunction with Eastman's consolidated financial statements and related notes thereto, which do not give effect to the change in accounting for pension and postretirement obligations, which have previously been filed with, and are available from, the SEC but which are not incorporated by reference into this proxy statement/prospectus.

(Dollars in millions, except per share amounts)

Operating Data	Three Months Ended March 31,		Year Ended December 31,				
	2012 (unaudited)	2011	2011 (audited)	2010 (audited)	2009 (audited)	2008 (unaudited)	2007 (unaudited)
Sales	\$1,821	\$ 1,758	\$ 7,178	\$ 5,842	\$ 4,396	\$ 5,936	\$ 5,513
Operating earnings (1)	1,390	1,300	937	844	276	221	808
Earnings from continuing operations (2)	159	201	606	416	111	140	514
Earnings (loss) from discontinued operations (3)		9	9	9	(22)	(37)	(113)
Gain (loss) from disposal of discontinued operations (3)	(1)	30	31			18	(11)
Net earnings	\$158	\$ 240	\$ 646	\$ 425	\$ 89	\$ 121	\$ 390
<b>Basic earnings per share</b>							
Earnings from continuing operations	\$1.15	\$ 1.42	\$ 4.34	\$ 2.88	\$ 0.77	\$ 0.93	\$ 3.10
Earnings (loss) from discontinued operations (3)		0.28	0.29	0.07	(0.16)	(0.13)	(0.75)
Net earnings	\$1.15	\$ 1.70	\$ 4.63	\$ 2.95	\$ 0.61	\$ 0.80	\$ 2.35
<b>Diluted earnings per share</b>							
Earnings from continuing operations	\$1.13	\$ 1.39	\$ 4.24	\$ 2.81	\$ 0.76	\$ 0.92	\$ 3.06
Earnings (loss) from discontinued operations (3)	(0.01)	0.27	0.28	0.07	(0.15)	(0.12)	(0.74)
Net earnings	\$1.12	\$ 1.66	\$ 4.52	\$ 2.88	\$ 0.61	\$ 0.80	\$ 2.32
<b>Statement of Financial Position Data</b>							
Current assets	\$2,264		\$ 2,302	\$ 2,047	\$ 1,735	\$ 1,423	\$ 2,293
Net properties	3,136		3,107	3,219	3,110	3,198	2,846
Total assets	6,191		6,184	5,986	5,515	5,281	6,009
Current liabilities	997		1,114	1,070	800	832	1,122
Long-term borrowings	1,444		1,445	1,598	1,604	1,442	1,535
Total liabilities	4,166		4,314	4,359	4,002	3,728	3,927
Total stockholders' equity	2,025		1,870	1,627	1,513	1,553	2,082
Dividends declared per share	\$0.260	\$ 0.235	\$ 0.990	\$ 0.895	\$ 0.880	\$ 0.880	\$ 0.880

(1) Operating earnings for 2009 included an asset impairment charge of \$179 million primarily for a discontinued Beaumont, Texas, industrial gasification project.



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- (2) Earnings from continuing operations for 2010 included a charge of \$115 million before tax for the early repayment of debt.
- (3) In first quarter 2011, Eastman completed the sale of the PET business, related assets at the Columbia, South Carolina site, and technology of its Performance Polymers segment. Performance Polymers segment operating results are presented as discontinued operations for all periods presented and are therefore not included in results from continuing operations in accordance with GAAP.

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF SOLUTIA**

The following table presents selected historical consolidated financial data for Solutia as of and for the twelve months ended December 31, 2011, 2010 and 2009, as of and for the ten months ended December 31, 2008, as of and for the two months ended February 29, 2008, as of and for the twelve months ended December 31, 2007 and as of and for the three months ended March 31, 2012 and 2011. The information should be read in conjunction with Solutia's consolidated financial statements and the related notes thereto and the information under the heading

Management's Discussion and Analysis of Financial Conditions and Results of Operations set forth in its annual report on Form 10-K for the fiscal year ended December 31, 2011 and its quarterly report on Form 10-Q for the three months ended March 31, 2012, which are incorporated by reference into this proxy statement/prospectus. The information as of December 31, 2009 and 2008, February 29, 2008 and December 31, 2007 and for the ten months ended December 31, 2008, the two months ended February 29, 2008 and the twelve months ended December 31, 2007 should be read in conjunction with Solutia's consolidated financial statements and related notes thereto, which have previously been filed with, and are available from, the SEC but which are not incorporated by reference into this proxy statement/prospectus.

(Dollars and shares in millions, except per share amounts)	Successor (1)					Ten Months Ended December 31, 2008	Predecessor (1)	
	Three Months Ended March 31,		Twelve Months Ended December 31,				Two Months Ended February 29,	Twelve Months Ended December 31,
	2012	2011	2011	2010	2009		2008	2007
	(unaudited)		(audited)				(audited)	
Net sales	\$ 498	\$ 509	\$ 2,097	\$ 1,950	\$ 1,618	\$ 1,705	\$ 321	\$ 1,612
Gross profit	\$ 158	\$ 162	\$ 634	\$ 608	\$ 477	\$ 364	\$ 92	\$ 372
As percent of net sales	32%	32%	30%	31%	29%	21%	29%	23%
Operating income (2)	\$ 76	\$ 105	\$ 404	\$ 331	\$ 242	\$ 118	\$ 48	\$ 129
As percent of net sales	15%	21%	19%	17%	15%	7%	15%	8%
Income (loss) from continuing operations before taxes	\$ 53	\$ 74	\$ 297	\$ 122	\$ 83	\$ 1	\$ 1,463	\$ (263)
Income (loss) from continuing operations (3)	\$ 54	\$ 66	\$ 267	\$ 91	\$ 66	\$ (14)	\$ 1,249	\$ (277)
Income (loss) from discontinued operations, net of tax	\$	\$	\$	\$ (9)	\$ (175)	\$ (649)	\$ 205	\$ 72
Net income attributable to noncontrolling interest	\$ 1	\$ 1	\$ 5	\$ 4	\$ 4	\$ 5	\$	\$ 3
Net income (loss) attributable to Solutia	\$ 53	\$ 65	\$ 262	\$ 78	\$ (113)	\$ (668)	\$ 1,454	\$ (208)
<b>Per Share Data:</b>								
Basic earnings (loss) per share from continuing operations attributable to Solutia (3)	\$ 0.44	\$ 0.54	\$ 2.19	\$ 0.73	\$ 0.58	\$ (0.25)	\$ 11.95	\$ (2.68)
Basic weighted average shares outstanding	121.2	119.4	119.8	118.9	106.5	74.7	104.5	104.5
Diluted earnings (loss) per share from continuing operations attributable to Solutia (3)	\$ 0.43	\$ 0.54	\$ 2.16	\$ 0.73	\$ 0.58	\$ (0.25)	\$ 11.95	\$ (2.68)
Diluted weighted average shares outstanding	122.6	121.2	121.3	120.0	106.7	74.7	104.5	104.5
Dividends declared per share	\$	\$	\$ 0.0375	\$	\$	\$	\$	\$

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(Dollars and shares in millions, except per share amounts)	Successor (1)					Predecessor (1)		
	Three Months Ended		Twelve Months Ended			Ten Months Ended	Two Months Ended	Twelve Months Ended
	March 31,		December 31,			December 31,	February 29,	December 31,
	2012	2011	2011	2010	2009	2008	2008	2007
	(unaudited)		(audited)				(audited)	
<b>Financial Position Continuing Operations:</b>								
Total assets	\$ 3,564		\$ 3,525	\$ 3,532	\$ 3,236	\$ 3,216	\$ 3,629	\$ 1,802
Liabilities not subject to compromise	\$ 2,537		\$ 2,573	\$ 2,758	\$ 2,604	\$ 2,895	\$ 3,306	\$ 2,005
Liabilities subject to compromise	\$		\$	\$	\$	\$	\$	\$ 1,922
Long-term debt (4)	\$ 1,338		\$ 1,337	\$ 1,463	\$ 1,264	\$ 1,359	\$ 1,796	\$ 359
Equity (deficit)	\$ 1,027		\$ 927	\$ 739	\$ 600	\$ 529	\$ 1,043	\$ (1,589)
<b>Other Data from Continuing Operations:</b>								
Working capital (5)	\$ 424		\$ 373	\$ 388	\$ 476	\$ 307	\$ 466	\$ (532)
Interest expense (6)	\$ 23	\$ 28	\$ 101	\$ 139	\$ 121	\$ 140	\$ 21	\$ 134
Income tax expense (7)	\$ (1)	\$ 8	\$ 30	\$ 31	\$ 17	\$ 15	\$ 214	\$ 14
Depreciation and amortization	\$ 30	\$ 32	\$ 125	\$ 117	\$ 107	\$ 89	\$ 11	\$ 58
Cash used for property, plant and equipment purchases	\$ 27	\$ 17	\$ 105	\$ 66	\$ 44	\$ 82	\$ 15	\$ 99
Employees	3,420		3,400	3,300	3,400	3,700	3,700	3,700

- (1) Solutia's emergence from bankruptcy resulted in its becoming a new reporting entity on March 1, 2008, which has a new capital structure, a new basis in the identifiable assets and liabilities and no retained earnings or accumulated losses. Accordingly, the financial data on or after March 1, 2008 ( Successor ) is not comparable to the financial data prior to this date ( Predecessor ).
- (2) Operating income includes net (gains) charges that affect comparability of (\$20) million in 2011, \$26 million in 2010, \$32 million in 2009, \$102 million in the ten months ended December 31, 2008, (\$2) million in the two months ended February 29, 2008 and \$41 million in 2007.
- (3) Income (loss) from continuing operations includes net (gains)/charges that affect comparability of (\$19) million in 2011, or (\$0.16) per share in 2011; \$101 million, or \$0.84 per share in 2010; \$67 million, or \$0.63 per share in 2009; \$79 million, or \$1.06 per share in the ten months ended December 31, 2008; (\$1,233) million, or (\$11.80) per share in the two months ended February 29, 2008; \$326 million, or \$3.12 per share in 2007; and \$4 million, or \$0.04 per share in 2006.
- (4) As of December 31, 2007, long-term debt excludes \$659 million of debt classified as subject to compromise in accordance with ASC 852 *Reorganizations*, as a result of Solutia's Chapter 11 bankruptcy filing in 2003.
- (5) Working capital is defined as total current assets less total current liabilities.
- (6) Interest expense includes the recognition of interest on allowed secured claims as approved by the Bankruptcy Court of \$8 million in 2007. In addition, interest expense in all periods is affected by interest expense allocated to discontinued operations and in all periods prior to Solutia's emergence from bankruptcy for unrecorded contractual interest expense on unsecured debt subject to compromise.
- (7) Income tax expense includes an increase (decrease) in valuation allowances of \$(39) million in 2011, \$19 million in 2010, \$20 million in 2009, \$2 million in the ten months ended December 31, 2008, \$(252) million in the two months ended February 29, 2008 and \$82 million in 2007.

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**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The accompanying Unaudited Pro Forma Condensed Combined Statement of Financial Position (the Pro Forma Balance Sheet ) as of March 31, 2012 combines the historical consolidated statements of financial position of Eastman and Solutia, giving effect to the merger as if it had been completed on March 31, 2012. The accompanying Unaudited Pro Forma Condensed Combined Statements of Earnings (the Pro Forma Income Statements ) for the three months ended March 31, 2012 and the year ended December 31, 2011 combine the historical consolidated statements of earnings of Eastman and Solutia, giving effect to the merger as if it had been completed on January 1, 2011, the beginning of the earliest period presented.

The accompanying unaudited pro forma condensed combined financial statements (the Statements ) and related notes were prepared using the acquisition method of accounting with Eastman considered the acquirer of Solutia. Accordingly, the merger consideration to be paid in the merger has been allocated to assets and liabilities of Solutia based upon their estimated fair values as of the date of completion of the merger. Any amount of the merger consideration that is in excess of the estimated fair values of assets acquired and liabilities assumed will be recorded as goodwill in Eastman's statement of financial position after the completion of the merger. As of the date of this proxy statement/prospectus, Eastman has not completed the detailed valuation work necessary to arrive at the required estimates of the fair value of the Solutia assets to be acquired and the liabilities to be assumed and the related allocation of purchase price, nor has it identified all adjustments necessary to conform Solutia's accounting policies to Eastman's accounting policies. A final determination of the fair value of Solutia's assets and liabilities will be based on the actual net tangible and intangible assets and liabilities of Solutia that exist as of the date of completion of the merger and, therefore, cannot be made prior to that date. Additionally, a portion of the merger consideration to be paid by Eastman to complete the merger will be determined based on the trading price of Eastman common stock at the time of the completion of the merger. Accordingly, the accompanying unaudited pro forma purchase price allocation is preliminary and is subject to further adjustments as additional information becomes available and as additional analyses are performed. The preliminary unaudited pro forma purchase price allocation has been made solely for the purpose of preparing the accompanying Statements. The preliminary purchase price allocation was based on reviews of publicly disclosed allocations for other acquisitions in the chemical industry, Eastman's historical experience, data that was available through the public domain and Eastman's due diligence review of Solutia's business. Until the merger is completed, both companies are limited in their ability to share information with the other. Upon completion of the merger, valuation work will be performed. Increases or decreases in the fair value of relevant statement of financial position amounts will result in adjustments to the statement of financial position and/or statements of earnings until the purchase price allocation is finalized. There can be no assurance that such finalization will not result in material changes from the preliminary purchase price allocation included in the accompanying Statements.

Eastman expects to incur significant costs and achieve significant revenue and other synergies in connection with integrating the operations of Eastman and Solutia. The accompanying Statements do not reflect the costs of any integration activities or benefits that may result from realization of future cost savings from operating efficiencies, or any revenue, tax, or other synergies expected to result from the merger. In addition, certain nonrecurring items, such as estimated transaction costs directly attributable to the merger, have been excluded from pro forma earnings from continuing operations before nonrecurring items. See Note 4, following *Adjustments to Unaudited Pro Forma Condensed Combined Statements of Earnings*. However, the estimated transaction costs are reflected in the accompanying Pro Forma Balance Sheet as a decrease to both cash and to retained earnings.

The accompanying Statements and related notes are being provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Eastman would have been had the merger occurred on the dates assumed, nor are they necessarily indicative of Eastman's future consolidated results of operations or consolidated financial position. The Statements are based upon currently available information and estimates and assumptions that Eastman management believes are

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reasonable as of the date hereof. Any of the factors underlying these estimates and assumptions may change or prove to be materially different, and the estimates and assumptions may not be representative of facts existing at the closing date of the merger.

On May 16, 2012, Eastman filed a Current Report on Form 8-K to retrospectively adjust certain Items of Eastman's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 to reflect Eastman management's adoption of an accounting methodology change for Eastman's pension and other postretirement benefit ( OPEB ) plans actuarial gains and losses, the adoption of amended accounting guidance related to the presentation of other comprehensive income that became effective for reporting periods beginning on or after December 15, 2011 and to include certain other disclosures not material to Eastman's historical financial condition, results of operations or liquidity. Eastman's historical financial information for the year ended December 31, 2011 presented in these Statements reflects all adjustments to financial statement line items as presented in the Current Report on Form 8-K. Additionally, both Eastman's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 and these Statements present Eastman's financial position and results of operations after application of this change in accounting principle.

The accompanying Statements have been developed from and should be read in conjunction with the unaudited interim consolidated financial statements of Eastman and Solutia contained in their respective Quarterly Reports on Form 10-Q for the quarterly period ended March 31, 2012, the audited consolidated financial statements of Eastman contained in its Current Report on Form 8-K filed May 16, 2012 and the audited consolidated financial statements of Solutia contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, each of which is incorporated by reference in this proxy statement/prospectus.

Solutia's historical consolidated financial statements presented herein have not been retrospectively adjusted for the change in accounting methodology for pension and OPEB plans actuarial gains and losses adopted by Eastman during the first quarter of 2012. To present the pro forma information for each company on a comparable basis, the column Effect of Accounting Change Solutia has been added to the accompanying Statements to reflect the impact of such change on the historical consolidated financial statements of Solutia. Additionally, the historical consolidated financial statements of Solutia presented herein have been adjusted by condensing and disaggregating certain line items in order to conform with Eastman's financial statement presentation.



**Table of Contents****UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF EARNINGS****For the three months ended March 31, 2012**

(Dollars in millions, except per share amounts)	Historical Eastman	Historical Solutia	Effect of Accounting Change - Solutia	Adjusted Solutia (After Accounting Change)	Pro Forma Adjustments	Pro Forma Combined
Sales	\$ 1,821	\$ 498	\$	\$ 498	\$	\$ 2,319
Cost of sales	1,390	340	(2)	338	5 (a)	1,733
Gross profit	431	158	2	160	(5)	586
Selling, general and administrative expenses	126	75	(1)	74	6 (a)	186
					(20) (b)	
Research and development expenses	41	8		8		49
Other operating income		(1)		(1)		(1)
Operating earnings	264	76	3	79	9	352
Net interest expense	19	23		23	2 (c)	44
Other charges (income), net	1	1		1	(5) (b)	(3)
Earnings from continuing operations before nonrecurring items and income taxes	244	52	3	55	12	311
Provision for income taxes from continuing operations	85	(1)	1	0	(4) (d)	94
					12 (d)	
					1 (b)(d)	
Earnings from continuing operations before nonrecurring items(1)	\$ 159	\$ 53	\$ 2	\$ 55	\$ 3	\$ 217
Basic earnings per share						
Earnings from continuing operations before nonrecurring items(1)	\$ 1.15	\$ 0.44	\$ 0.02	\$ 0.46		\$ 1.43
Diluted earnings per share						
Earnings from continuing operations before nonrecurring items(1)	\$ 1.13	\$ 0.43	\$ 0.02	\$ 0.45		\$ 1.40
Shares (in millions) used for earnings per share calculation						
Basic	137.3	121.2		121.2	(106.5) (e)	152.0
Diluted	140.7	122.6		122.6	(107.9) (e)	155.4

- (1) As indicated in the introductory paragraphs to these Statements and Note 4 hereof, certain nonrecurring items directly attributable to the merger have been excluded from pro forma earnings from continuing operations before nonrecurring items.

The accompanying notes are an integral part of these  
unaudited pro forma condensed combined financial statements.



**Table of Contents****UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF EARNINGS**

For the year ended December 31, 2011

(Dollars in millions, except per share amounts)	Historical Eastman	Historical Solutia	Effect of Accounting Change - Solutia	Adjusted Solutia (After Accounting Change)	Pro Forma Adjustments		Pro Forma Combined
Sales	\$ 7,178	\$ 2,097	\$	\$ 2,097	\$		\$ 9,275
Cost of sales	5,609	1,463	36	1,499	21	(a)	7,129
Gross profit	1,569	634	(36)	598	(21)		2,146
Selling, general and administrative expenses	481	240	16	256	26	(a)	763
Research and development expenses	159	24		24			183
Asset impairments and restructuring charges (gains), net	(8)	19		19			11
Other operating income		(53)		(53)			(53)
Operating earnings	937	404	(52)	352	(47)		1,242
Net interest expense	76	101		101	3	(c)	180
Early debt extinguishment costs		4		4	(4)	(f)	
Other charges (income), net	(19)	7		7			(12)
Earnings from continuing operations before nonrecurring items and income taxes	880	292	(52)	240	(46)		1,074
Provision for income taxes from continuing operations	274	30	(14)	16	(13)	(d)	326
					49	(d)	
Earnings from continuing operations before nonrecurring items(1)	\$ 606	\$ 262	\$ (38)	\$ 224	\$ (82)		\$ 748
Basic earnings per share							
Earnings from continuing operations before nonrecurring items(1)	\$ 4.34	\$ 2.19	\$ (0.32)	\$ 1.87			\$ 4.84
Diluted earnings per share							
Earnings from continuing operations before nonrecurring items(1)	\$ 4.24	\$ 2.16	\$ (0.31)	\$ 1.85			\$ 4.74
Shares (in millions) used for earnings per share calculation							
Basic	139.7	119.8		119.8	(105.1)	(e)	154.4
Diluted	143.1	121.3		121.3	(106.6)	(e)	157.8

- (1) As indicated in the introductory paragraphs to these Statements and Note 4 hereof, certain nonrecurring items directly attributable to the merger have been excluded from pro forma earnings from continuing operations before nonrecurring items.

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

**Table of Contents****UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF FINANCIAL POSITION**

March 31, 2012

(Dollars in millions, except per share amounts)	Historical Eastman	Historical Solutia	Effect of Accounting Change - Solutia	Adjusted Solutia (After Accounting Change)	Pro Forma Adjustments	Pro Forma Combined
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 569	\$ 108	\$	\$ 108	\$ (667)	(g) \$ 10
Short-term time deposits	80				(80)	(g)
Trade receivables, net	740	221		221		961
Miscellaneous receivables	68	74		74	(8)	(h) 134
Inventories	768	384		384	96	(i) 1,248
Other current assets	39	29		29	11	(j) 79
<b>Total current assets</b>	<b>2,264</b>	<b>816</b>		<b>816</b>	<b>(648)</b>	<b>2,432</b>
<b>Properties</b>						
Properties and equipment at cost	8,479	1,239		1,239	(141)	9,577
Less: Accumulated depreciation	5,343	286		286	(286)	5,343
<b>Net properties</b>	<b>3,136</b>	<b>953</b>		<b>953</b>	<b>145</b>	<b>(k) 4,234</b>
Goodwill	408	789		789	1,239	(l) 2,436
Identifiable intangible assets	100	916		916	899	(m) 1,915
Other noncurrent assets	283	90		90	499	(n) 872
<b>Total assets</b>	<b>\$ 6,191</b>	<b>\$ 3,564</b>	<b>\$</b>	<b>\$ 3,564</b>	<b>\$ 2,134</b>	<b>\$ 11,889</b>
<b>Liabilities and Stockholders' Equity</b>						
<b>Current liabilities</b>						
Payables and other current liabilities	\$ 846	\$ 396	\$	\$ 396	\$ (9)	(o)
					(23)	(o) \$ 1,210
Borrowings due within one year	151				120	(p) 271
<b>Total current liabilities</b>	<b>997</b>	<b>396</b>		<b>396</b>	<b>88</b>	<b>1,481</b>
Long-term borrowings	1,444	1,338		1,338	2,042	(p) 4,824
Deferred income tax liabilities	223	183		183	339	(q) 745
Post-employment obligations	1,395	287		287		1,682
Other long-term liabilities	107	343		343	(11)	(r) 439
<b>Total liabilities</b>	<b>4,166</b>	<b>2,547</b>		<b>2,547</b>	<b>2,458</b>	<b>9,171</b>
<b>Stockholders' equity</b>						
Common stock (\$0.01 par value per share)	2	1		1	(1)	(s) 2
Additional paid-in capital	918	1,672		1,672	(936)	(s) 1,654
Retained earnings	2,882	(388)	(174)	(562)	519	(s) 2,839
Accumulated other comprehensive loss	153	(248)	174	(74)	74	(s) 153
	<b>3,955</b>	<b>1,037</b>		<b>1,037</b>	<b>(344)</b>	<b>4,648</b>

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Less: Treasury stock at cost	1,930	20	20	(20)	(s)	1,930
Total stockholders equity	2,025	1,017	1,017	(324)		2,718
Total liabilities and stockholders equity	\$ 6,191	\$ 3,564	\$ 3,564	\$ 2,134		\$ 11,889

The accompanying notes are an integral part of these  
 unaudited pro forma condensed combined financial statements.

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**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

**NOTE 1. DESCRIPTION OF THE TRANSACTION**

As previously disclosed, Eastman entered into the merger agreement with Solutia and Merger Sub. Pursuant to the merger agreement, at the closing of the merger, Merger Sub will merge with and into Solutia, with Solutia surviving the merger and becoming an indirect wholly-owned subsidiary of Eastman. At the closing of the merger, each outstanding share of Solutia common stock (other than shares owned by Solutia as treasury stock, shares owned by Eastman or Merger Sub or shares held by holders properly exercising appraisal rights under the Delaware General Corporation Law) will be cancelled and converted automatically into the right to receive (subject to certain limitations set forth in the merger agreement) (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock.

In addition, at the effective time of the merger: (i) each outstanding option to acquire shares of Solutia common stock issued under any of the Solutia Equity Plans, whether or not then vested or exercised, will be cancelled and terminated in exchange for the right to receive, in cash, the amount by which the cash value of the merger consideration (using the five-day average trading price of Eastman's common stock ending on (and including) the trading day that is two trading days prior to the merger) exceeds such option's exercise price; (ii) restrictions on any restricted shares of Solutia common stock issued under any Solutia Equity Plan will lapse and such shares will be fully vested, and the holder thereof will be entitled to receive, for each such restricted share of Solutia common stock, the merger consideration; (iii) each restricted stock unit issued under any Solutia Equity Plan will be converted into a vested right to receive, in cash, the value of the merger consideration (using the five-day average trading price of Eastman's common stock ending on (and including) the trading day that is two trading days prior to the merger); and (iv) restrictions on any performance share award or performance share unit award granted under any Solutia Equity Plan (a Performance Share) will lapse and such Performance Share will become vested based on no greater than the performance results for the applicable performance period according to the relevant award provisions, and the holder thereof will be entitled to receive, in the case of Performance Shares in the form of restricted stock, the merger consideration and, in the case of Performance Shares in the form of restricted stock units, the cash value of the merger consideration (using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two trading days prior to the merger).

Also at the effective time of the merger, each warrant issued under the Warrant Agreement, dated February 28, 2008, between Solutia and the warrant agent named therein, whether or not then vested or exercisable, will be converted into a warrant to acquire, upon exercise, on substantially the same terms and conditions as were applicable to such warrant immediately prior to the effective time of the merger, the merger consideration. The warrants were considered when calculating the merger consideration, but were determined to be *de minimis* and therefore not included in these Statements.

Based on the estimated number of shares of Solutia common stock and Eastman common stock outstanding on May 10, 2012, Solutia stockholders will own approximately 10% of the outstanding shares of Eastman common stock upon closing of the merger.

**NOTE 2. BASIS OF PRO FORMA PRESENTATION**

The Statements have been derived from the historical consolidated financial statements of Eastman and Solutia that are incorporated by reference into this proxy statement/prospectus. Certain financial statement line items included in Solutia's historical presentation have been disaggregated or condensed to conform to corresponding financial statement line items included in Eastman's historical presentation. These include: net income attributable to noncontrolling interest, which has been presented within the caption other charges (income), net; current assets of discontinued operations, which have been condensed into other current assets; accrued liabilities and current liabilities of discontinued operations, which have been condensed into payables

**Table of Contents****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

and other current liabilities; and environmental remediation, non-current liabilities of discontinued operations, and noncontrolling interest which have been condensed into other long-term liabilities. Additionally, for the year ended December 31, 2011, certain components of other operating income, net, and selling and general administrative costs relating to asset impairment or restructuring charges have been presented within the caption asset impairment and restructuring charges (gains), net. There were no material charges of this nature for Solutia during first quarter 2012. The reclassification of these items had no significant impact on the historical total assets, total liabilities, or stockholders' equity reported by Eastman or Solutia, respectively. The reclassifications also did not significantly impact the historical earnings from continuing operations. Additionally, sales between Eastman and Solutia were considered immaterial for adjustment to sales and earnings from continuing operations before nonrecurring items. Additionally, the Pro Forma Income Statements and Pro Forma Balance Sheet present changes to financial statement line items of Solutia giving effect to the retrospective application of the accounting methodology change for pension and OPEB plans actuarial gains and losses adopted by Eastman.

Additionally, as part of its financial due diligence review of Solutia, Eastman performed certain procedures for the purpose of identifying any material differences in significant accounting policies between Eastman and Solutia, and any accounting adjustments that would be required in connection with adopting uniform policies. Procedures performed by Eastman involved a review of Solutia's publicly disclosed summary of significant accounting policies, including those disclosed in Solutia's 2011 Annual Report on Form 10-K and preliminary discussion with Solutia management regarding Solutia's significant accounting policies to identify material adjustments. While Eastman expects to engage in additional discussion with Solutia's management and continue to evaluate the impact of Solutia's accounting policies on its historical results after completion of the merger, based on the completed procedures, Eastman management does not believe there are any differences in the accounting policies of Solutia and Eastman that will result in material adjustments to the Eastman's consolidated financial statements as a result of conforming Solutia's accounting policies to those of Eastman.

The merger is reflected in the Statements as an acquisition of Solutia by Eastman using the acquisition method of accounting, in accordance with business combination accounting guidance under accounting principles generally accepted in the United States ( GAAP ). Under these accounting standards, the total estimated purchase price will be calculated as described in Note 3 to the Statements, and the assets acquired and the liabilities assumed will be measured at estimated fair value. For the purpose of measuring the estimated fair value of the assets acquired and liabilities assumed, Eastman has applied the accounting guidance under GAAP for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The fair value measurements utilize estimates based on key assumptions in connection with the merger, including historical and current market data. The unaudited pro forma adjustments included herein are preliminary and will be revised at the time of the merger as additional information becomes available and as valuation work is performed. The final purchase price allocation will be determined after the completion of the merger, and the final allocations may differ materially from those presented.

**NOTE 3. ESTIMATE OF CONSIDERATION EXPECTED TO BE TRANSFERRED**

Based on the closing price per share of Eastman common stock on the New York Stock Exchange on May 10, 2012 (the most recent practicable date) of \$50.00 and the number of shares of Solutia common stock, options to purchase Solutia common stock, restricted shares of Solutia common stock, Solutia restricted stock units, Solutia performance share awards, and Solutia performance share unit awards outstanding at March 31, 2012, the total merger consideration would have been approximately \$3.5 billion, consisting of \$2.7 billion of cash and 14.7 million shares of Eastman common stock. Changes in the share price of Eastman common stock, or the number of shares of Solutia common stock, restricted shares of Solutia common stock, Solutia restricted stock units, Solutia performance share awards, and Solutia performance share unit awards at the closing of the

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merger could result in material differences in the merger consideration and, thus, the purchase price and related purchase price allocation in the merger. At the effective time of the merger, each outstanding share of Solutia common stock (other than shares owned by Solutia as treasury stock and shares held by holders properly exercising appraisal rights under the Delaware General Corporation Law) will be cancelled and converted automatically into the right to receive (subject to certain limitations set forth in the merger agreement) (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock.

The following is a preliminary estimate of the merger consideration to be paid by Eastman in the merger, including consideration to be paid to holders of options to purchase Solutia common stock, restricted shares of Solutia common stock, Solutia restricted stock units, Solutia performance share awards, and Solutia performance share unit awards pursuant to the provisions above:

(Dollars in millions)	Cash Consideration	Equity Consideration	Total
To holders of Solutia common stock, including restricted shares	\$ 2,698	\$ 736	\$ 3,434
To holders of outstanding Solutia stock incentive-based compensation	24		24
<b>Total consideration</b>	<b>\$ 2,722</b>	<b>\$ 736</b>	<b>\$ 3,458</b>

Also at the effective time of the merger, each warrant issued under the Warrant Agreement, dated February 28, 2008, between Solutia and the warrant agent named therein, whether or not then vested or exercisable, will be converted into a warrant to acquire, upon exercise, on substantially the same terms and conditions as were applicable to such warrant immediately prior to the effective time of the merger, the merger consideration. The warrants were considered when calculating the merger consideration, but were determined to be de minimis and therefore not included in these Statements.

Because Solutia's 382 Rights Agreement has been amended by Solutia to provide that such agreement, and the rights issued thereunder, will terminate immediately prior to the effective time of the merger without any consideration for such rights being paid or payable to the holders thereof, no value was attributed to such rights in these Statements.

The estimated value of the merger consideration reflected in these Statements does not purport to represent the actual value of the total merger consideration that will be received by Solutia's stockholders and other equity holders when the merger is completed. In accordance with GAAP, the fair value of equity securities issued as part of the merger consideration will be measured on the closing date of the merger at the then-current market price. This requirement will likely result in a per share value component different from the \$50.00 assumed in these Statements and that difference may be material. For example, an increase or decrease by 10% in the price of Eastman common stock on the closing date of the merger from the price of Eastman common stock assumed in these Statements would increase or decrease the value of the merger consideration by approximately \$75 million, which would be reflected in these Statements as an equivalent increase or decrease to goodwill.



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The allocation of the preliminary purchase price to the fair values of assets to be acquired and liabilities to be assumed in the merger includes unaudited pro forma adjustments to reflect the expected fair values of Solutia's assets and liabilities at the completion of the merger. The allocation of the preliminary purchase price is as follows (in millions):

Current assets	\$ 923
Properties	1,098
Goodwill	2,028
Identifiable intangible assets	1,815
Other noncurrent assets	585
Total assets	\$ 6,449
Current liabilities	(396)
Long-term borrowings	(1,443)
Other liabilities and noncontrolling interest	(1,152)
Total liabilities	(2,991)
Estimated purchase price	\$ 3,458

The preliminary purchase price allocation was based on reviews of publicly disclosed allocations for other acquisitions in the chemical industry, Eastman's historical experience, other available public information and Eastman's financial due diligence review of Solutia's business. The analysis was performed at an aggregate level and was based on estimates that are reflective of market participant assumptions including the amount, timing, and realization of future cash flows. Eastman utilized the income, market, or cost approach (or a combination thereof) for the preliminary valuation of assets, as appropriate, and utilized valuation inputs in these models and analyses that were based on market participant assumptions. Market participants are considered to be buyers and sellers unrelated to Eastman in the principal or most advantageous market for the asset. Eastman management estimated the fair market value of fixed-rate debt based on observable market prices. For all other liabilities, the carrying value was determined to be a reasonable approximation of fair value based on information available to Eastman management.

With respect to properties to be acquired in the merger, Solutia has a number of manufacturing and distribution sites and related facilities, owns land and leases sites that include leasehold improvements, and owns machinery and equipment for use in its manufacturing operations. Eastman management believes that it is probable that the fair value of the property, plant and equipment differs from that on Solutia's March 31, 2012 consolidated statement of financial position. In this assessment, Eastman management considered Eastman's experience in recent acquisitions as well as other acquisitions in the chemical industry. Eastman management estimated the fair value adjustment of approximately 15% above current book value considering the valuation of such assets at fair value upon Solutia's emergence from bankruptcy in 2008, the length of time since Solutia's bankruptcy, and Solutia's depreciation policies and practices.

With respect to the intangible assets to be acquired in the merger, Solutia owns the rights to a number of trade names and trademarks that are both business-to-business and business-to-consumer in nature, including Saflex®, Llumar®, and Skydrol®. Certain of these trade names and trademarks are associated with products that Eastman management believes have a leading market share in each of their respective categories. Solutia also owns significant technology related to many of its products protected by a number of existing patents, pending patents, and trade secrets. This intellectual property is of significant importance to Solutia's operations and continued success. In addition to these intangible assets, Solutia has a number of valuable customer relationships in industries such as automotive tires and aviation, many of which were developed over a number of years of providing consistent quality products and services.

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With respect to goodwill expected to be recognized in the merger, Eastman management believes that the predominant portion of the goodwill expected to result from the merger relates to Solutia as a going concern and the fair value of expected synergies from combining the Eastman and Solutia businesses. The going concern element represents the ability to earn a higher return on the combined assembled collection of assets and businesses of Solutia than if those assets and businesses were to be acquired separately. The synergies from the combination of Eastman and Solutia are expected to be in the form of both increased revenues and decreased costs. Revenue synergies are expected to arise from Eastman acquiring access to complementary and adjacent key end-use markets, including automotive and architectural, and the potential for Eastman to increase its revenues and earnings in the Asia Pacific region. Cost synergies are expected to arise from reduction of corporate costs, raw material cost and procurement savings, and manufacturing and supply chain processes efficiency improvements and cost reductions across a larger business. Other relevant elements of goodwill are expected to include work force and technology and customers expected post-merger. The accompanying Statements do not reflect the costs of any integration activities or benefits that may result from realization of future cost savings from operating efficiencies, or any revenue, tax, or other synergies expected to result from the merger.

With respect to probable loss contingencies considered in the preparation of the preliminary purchase price allocation, based on the information available to Eastman at the time of preparation of the Statements, Eastman management concluded that the fair value of probable loss contingencies, including those related to legal and environmental matters, is not expected to be significantly different from the loss contingencies recognized on Solutia's historical statement of financial position. While estimation of fair value would require significant knowledge of complex legal matters and strategies, which cannot occur prior to the closing date of the merger, nothing came to Eastman's attention during its legal, business, or financial due diligence review of Solutia that indicated to Eastman a material difference between Solutia's estimate of the probable loss for contingencies and estimates Eastman might make. Accordingly, Solutia's estimate of probable losses for contingencies, prepared as prescribed under GAAP and with full and unrestricted access to all relevant information, was used in preparing the preliminary purchase price allocation without adjustment.

Eastman has made preliminary allocation estimates based on limited access to information and will not have sufficient information to make final allocations until after completion of the merger. The final determination of the purchase price allocation is anticipated to be completed as soon as practicable after completion of the merger. Eastman anticipates that the valuations of the acquired assets and liabilities will include, but not be limited to, inventory, fixed assets, customer relationships, technology know how, trade names and other potential intangible assets. The valuations will consist of physical appraisals, discounted cash flow analyses, or other appropriate valuation techniques to determine the fair value of the assets acquired and liabilities assumed.

The final merger consideration, and amounts allocated to assets acquired and liabilities assumed in the merger could differ materially from the preliminary amounts presented in these Statements. A decrease in the fair value of assets acquired or an increase in the fair value of liabilities assumed in the merger from those preliminary valuations presented in these Statements would result in a dollar-for-dollar corresponding increase in the amount of goodwill that will result from the merger. In addition, if the value of the acquired assets is higher than the preliminary indication, it may result in higher amortization and depreciation expense than is presented in these Statements. See Note 4(a) for the effects of changes in estimated fair value of properties and amortizable intangible assets to be acquired in the merger on the calculation of pro forma depreciation and amortization expense.

**Table of Contents****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS****NOTE 4. ADJUSTMENTS TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The unaudited pro forma adjustments included in the Statements are as follows:

*Adjustments to Unaudited Pro Forma Condensed Combined Statements of Earnings**(a) Depreciation and amortization*

The adjustment to depreciation and amortization expense recorded in cost of sales and selling, general and administrative expenses is a result of the fair market value adjustments of \$145 million and \$713 million and estimated remaining useful lives of 12 years and 20 years for depreciable properties and amortizable intangible assets to be acquired, respectively. See Note 4(m) for the detail of the identifiable intangible assets expected to be acquired in the merger and the preliminary purchase price allocation applicable thereto.

The preliminary estimated useful lives and fair value adjustments of the Solutia assets to be acquired in the merger were determined in accordance with the procedures described in Note 3 hereof. With other assumptions held constant, a 10% increase in the fair value adjustment for properties and amortizable intangible assets as calculated would increase annual pro forma depreciation expense by approximately \$1 million and amortization expense by \$3 million, respectively. With other assumptions held constant, a decrease of one year in the estimated remaining weighted average useful lives of properties and amortizable intangible assets would increase annual pro forma depreciation expense by \$1 million and amortization expense by \$2 million, respectively.

The pro forma depreciation and amortization expense adjustments have been allocated to cost of sales and selling, general, and administrative expenses, respectively, as follows (in millions):

	Three Months Ended March 31, 2012		
	Cost of Sales	Selling, General, and Administrative Expenses	Total
Pro forma depreciation adjustment	\$ 3	\$	\$ 3
Pro forma amortization adjustment	2	6	8
<b>Total adjustment</b>	<b>\$ 5</b>	<b>\$ 6</b>	<b>\$ 11</b>

	Year Ended December 31, 2011		
	Cost of Sales	Selling, General, and Administrative Expenses	Total
Pro forma depreciation adjustment	\$ 11	1	12
Pro forma amortization adjustment	10	25	35
<b>Total adjustment</b>	<b>\$ 21</b>	<b>\$ 26</b>	<b>\$ 47</b>

**Table of Contents****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS***(b) Transaction related expenses*

Transaction related expenses recognized by Eastman and Solutia during first quarter 2012 and their related tax effects have been eliminated from the Pro Forma Income Statement, as these items are directly attributable to the merger and will not have an ongoing impact. No material transaction costs were expensed or accrued by either Eastman or Solutia in their actual 2011 historical financial statements. The expenses historically recognized by Eastman and Solutia and their respective Pro Forma Income Statement line items are as follows (in millions):

	Three Months Ended March 31, 2012		
	Eastman	Solutia	Total
Selling, general, and administrative expenses	\$ 9	\$ 11	\$ 20
Other charges (income), net	5		5
<b>Total expenses</b>	<b>14</b>	<b>11</b>	<b>25</b>
Less: income tax benefit	1		1
<b>Net earnings impact</b>	<b>\$ 13</b>	<b>\$ 11</b>	<b>\$ 24</b>

*(c) Net interest expense*

The unaudited pro forma adjustment to net interest expense is calculated as follows (in millions):

	Three Months Ended March 31, 2012	Year Ended December 31, 2011
Reduction in Solutia's total interest expense	\$ (25)	\$ (105)
Interest expense from expected additional indebtedness	26	105
Reduction in interest income	1	3
<b>Total adjustment</b>	<b>\$ 2</b>	<b>\$ 3</b>

The unaudited pro forma adjustment of \$2 million for the three months ended March 31, 2012 reflects a reduction in Solutia's total interest expense of \$25 million as a result of the expected refinancing of Solutia's outstanding debt in connection with the completion of the merger. Additional pro forma interest expense of \$26 million assumes the expected incurrence by Eastman of an additional \$3,500 million of indebtedness in connection with the merger with a weighted average interest rate of 3.0%, as described below, and also includes amortization of \$1 million of new financing costs of \$18 million. The unaudited pro forma adjustment of \$3 million for the year ended December 31, 2011 reflects a reduction in Solutia's total interest expense of \$105 million as a result of the expected refinancing of Solutia's outstanding debt in connection with the completion of the merger and additional pro forma interest expense of \$105 million related to the expected incurrence by Eastman of additional debt discussed above, including amortization of \$3 million of new financing costs. The reduction in interest income for both periods, contributing to higher net interest expense, is due to lower average cash balances as a result of the expected use of cash on hand to pay a portion of the cash portion of the merger consideration and transaction-related costs.

Eastman has entered into certain definitive agreements providing for this financing, including the Term Loan Agreement and the Bridge Loan Agreement as discussed under the heading "The Merger Financing for the Merger" beginning on page 71. These Statements have assumed that Eastman will complete an offering of debt securities based on current market conditions and, as a result, will not borrow any amounts under the Bridge Loan Agreement. See Note 4(p) for additional detail concerning estimated long-term debt. Unaudited pro forma interest expense includes estimates for variable rate interest costs as well as the amortization of financing costs and fees.



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The weighted average interest rate of 3.0% was calculated based upon the expected composition and interest rates of this additional indebtedness as follows (dollars in millions):

	Amount	Index	Expected Interest Rate
Term Loan	\$ 1,200	1-month LIBOR	1.75%
5 Year Notes	1,000	5-year Treasury	2.70%
10 Year Notes	1,000	10-year Treasury	4.00%
30 Year Notes	300	30-year Treasury	5.30%
	\$ 3,500		

A 0.125% change in the interest rate on expected borrowings would change annual pro forma interest expense by approximately \$4 million. In addition, if Eastman does not obtain financing on the terms as anticipated in these Statements and borrows under the Bridge Loan Agreement, it would be subject to interest expense and costs different from those assumed in these Statements. Specifically, Eastman expects that borrowings under the Bridge Loan Agreement would be at an interest rate of 1.75% per annum. Any such borrowings under the Bridge Loan Agreement, if made, would be classified as a component of current liabilities.

(d) *Income tax expense*

The unaudited pro forma adjustment to income tax expense is calculated as follows (in millions):

	Three Months Ended March 31, 2012	Year Ended December 31, 2011
Benefit due to additional depreciation and amortization	\$ (3)	\$ (13)
Benefit due to additional interest expense	(1)	(1)
Additional tax due to elimination of early debt extinguishment costs		1
Additional tax due to elimination of historically recognized transaction related costs	1	
Increase to eliminate net benefits from changes in valuation allowances	12	49
Total adjustment	\$ 9	\$ 36

To calculate the pro forma adjustment to income tax expense due to additional depreciation and amortization for the three months ended March 31, 2012, Solutia's first quarter 2012 blended global statutory tax rate of 29% has been applied to the unaudited pro forma depreciation and amortization adjustment of \$11 million, as these expenses are expected to be incurred both in and outside of the United States. This rate was derived based upon Solutia's first quarter 2012 split of U.S. and foreign pre-tax earnings, with the U.S. pre-tax amount increased for Solutia's historical interest expense, which resulted in a pre-tax income split of approximately 41% and 59%, respectively. Solutia's first quarter 2012 blended federal and state statutory tax rate of 37% was applied to the adjusted U.S. pre-tax amount and its foreign statutory tax rate of approximately 23% was applied to the foreign pre-tax amount, resulting in a total blended rate of 29%.

To calculate the pro forma adjustment to income tax expense due to additional depreciation and amortization for the year ended December 31, 2011, Solutia's 2011 blended global statutory tax rate of 27% has been applied to the unaudited pro forma depreciation and amortization adjustment of \$47 million, as these expenses are expected to be incurred both in and outside of the United States. This rate was derived based upon Solutia's 2011 split of U.S. and foreign pre-tax earnings, with the U.S. pre-tax amount increased for Solutia's historical interest expense, which resulted in a pre-tax income split of approximately 55% and 45%, respectively. Solutia's 2011 blended federal and state statutory tax rate of 37% was applied to the adjusted U.S. pre-tax amount and its foreign statutory tax rate of approximately 16% was applied to the foreign pre-tax amount, resulting in a total blended rate of 27%.



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To calculate the pro forma adjustment to income tax expense due to additional interest expense, Solutia's first quarter 2012 and full year 2011 combined U.S. federal and state statutory tax rate of 37% has been applied to the pro forma interest expense adjustment of \$2 million and \$3 million, respectively, because the additional interest expense resulting from the merger is expected to be incurred in the United States. This rate was also applied to the \$4 million elimination of 2011 early debt extinguishment costs to determine the related unaudited pro forma tax expense adjustment.

Transaction related expenses recognized by Eastman and Solutia during first quarter 2012 and their related tax effects have been eliminated from the Pro Forma Income Statement for the three months ended March 31, 2012, as these items are directly attributable to the merger and will not have an ongoing impact. The pro forma adjustment to income tax expense for first quarter 2012 reflects the elimination of a \$1 million tax benefit from previously recognized transaction related expenses. See Note 4(b).

In addition, net benefits of \$12 million and \$49 million to the first quarter 2012 and full year 2011 income tax provision reported by Solutia for changes in valuation allowances have been eliminated, as such benefits will not be available to Eastman after the completion of the merger based upon the assumptions under which these unaudited pro forma adjustments have been prepared. See Note 4(j) for more information about the release of Solutia's valuation reserve against its deferred tax assets related to net operating losses and foreign tax credit carryforwards.

*(e) Shares outstanding*

The unaudited pro forma adjustment to shares outstanding used in the calculation of basic and diluted earnings per share is calculated as follows (in millions of shares):

	Three Months Ended		Year Ended	
	March 31, 2012		December 31, 2011	
	Basic	Diluted	Basic	Diluted
Elimination of all outstanding shares of Solutia common stock	(121.2)	(122.6)	(119.8)	(121.3)
Issuance of Eastman common stock	14.7	14.7	14.7	14.7
<b>Total adjustment</b>	<b>(106.5)</b>	<b>(107.9)</b>	<b>(105.1)</b>	<b>(106.6)</b>

As all outstanding shares of Solutia common stock will be eliminated in the merger, the unaudited pro forma weighted average number of basic shares outstanding is calculated by adding Eastman's weighted average number of basic shares outstanding for the period and the number of shares of Eastman common stock expected to be issued to Solutia stockholders in the merger. Similarly, the unaudited pro forma weighted average number of diluted shares outstanding is calculated by adding Eastman's weighted average number of diluted shares outstanding for the period and the number of shares of Eastman common stock expected to be issued in the merger. As each outstanding option to acquire shares of Solutia common stock issued under any of the Solutia Equity Plans, whether or not then vested or exercisable, will be cancelled and terminated at the effective time of the merger in exchange for the right to receive cash, such options were excluded from this calculation. In addition, approximately 0.5 million shares to be issuable under Solutia warrants to be converted into warrants to purchase Eastman common stock as provided for in the merger agreement were excluded as antidilutive to earnings per share. See Note 1 for more information about treatment of share-based compensation and warrants under the provisions of the merger agreement.

*(f) Early debt extinguishment costs*

Existing Solutia debt is expected to be refinanced in connection with completion of the merger. As such, related early debt extinguishment costs of \$4 million for the year ended December 31, 2011 have been eliminated.



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There were no material early debt extinguishment costs for Solutia during first quarter 2012. See Note 4(p) for additional detail concerning estimated long-term debt.

In addition to the foregoing adjustments to the unaudited pro forma condensed combined statement of earnings, the following remaining expected estimated costs directly attributable to the merger, which are in addition to those discussed in Note 4(b) above, represent nonrecurring items that are excluded from Earnings from continuing operations before nonrecurring items (in millions):

	Estimated Bridge Loan Fees	Estimated Advisory Costs	Estimated Total
Gross expense	\$ (12)	\$ (40)	\$ (52)
Tax benefit (1)	4	5	9
<b>Net adjustment</b>	<b>\$ (8)</b>	<b>\$ (35)</b>	<b>\$ (43)</b>

(1) Estimated tax benefit from tax deductible portion of costs. See Note 4(o) for additional detail concerning tax effects of one-time costs.

***Adjustments to Unaudited Pro Forma Condensed Combined Statement of Financial Position******(g) Cash and short-term time deposits***

The unaudited pro forma adjustment represents a net decrease in cash on hand of \$747 million and short-term time deposits of \$80 million. The unaudited pro forma adjustment to cash is calculated as follows (in millions):

Proceeds from additional indebtedness	\$ 3,500
Cash portion of merger consideration	(2,722)
Repayment of Solutia debt at fair value	(1,443)
Financing fees	(19)
Advisory costs	(45)
Costs to settle Solutia's interest rate hedging contracts	(18)
<b>Total adjustment</b>	<b>(747)</b>
Liquidation of short-term time deposits	80
<b>Total adjustment to cash and cash equivalents</b>	<b>\$ (667)</b>

Components of the adjustment include an increase in cash resulting from new debt expected to be incurred in connection with the merger and a decrease in cash resulting from payment of the cash component of the merger consideration, the expected refinancing of existing Solutia debt at fair market value, and estimated transaction related costs of \$83 million, including settlement of Solutia's interest rate hedging net liability, financing fees, and advisory costs. The cash adjustment for financing fees reflects total estimated financing fees of \$35 million less amounts paid by Eastman during first quarter 2012 of \$16 million. The cash adjustment for advisory costs reflects total estimated costs of \$60 million, less amounts paid during first quarter 2012 by Eastman and Solutia of \$6 million and \$9 million, respectively.

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Due to change-in-control provisions of certain existing interest rate hedging contracts of Solutia, such contracts are expected to be settled shortly after the completion of the merger. Net cash used to settle these contracts and the elimination of related balance sheet accounts are as follows (in millions):

<b>Cash from elimination of assets</b>	
Miscellaneous receivables	\$ 8
Other noncurrent assets	3
Total cash from elimination of assets	11
<b>Cash used to eliminate liabilities</b>	
Accrued liabilities	(18)
Other noncurrent liabilities	(11)
Total cash used to eliminate liabilities	(29)
<b>Total net cash used</b>	<b>\$ (18)</b>

*(h) Miscellaneous receivables*

The unaudited pro forma adjustment reflects the elimination of miscellaneous receivables of \$8 million related to the elimination of Solutia's interest rate hedging net liability. See Note 4(g) for additional detail concerning the elimination of Solutia's interest rate hedging net liability.

*(i) Inventories*

The unaudited pro forma adjustment of \$96 million represents the step-up of Solutia's inventories balance to the preliminary estimated fair value of approximately \$480 million as of March 31, 2012. As raw materials inventory was assumed to be at market value, the adjustment is related to work-in-process and finished goods inventory. The preliminary fair value of finished goods inventory to be acquired in the merger was determined based on procedures performed during due diligence, which included analysis of estimated future selling prices, costs of disposal, and gross profit on disposal costs. The preliminary fair value of work-in-process inventory also considered costs to complete inventory and estimated profit on these costs. Assumptions used were derived from historical financial information publicly disclosed by Solutia as well as discussions with Solutia management and Eastman's experience with recent acquisitions.

*(j) Other current assets*

The unaudited pro forma adjustment to other current assets reflects the elimination of an \$11 million (current portion) valuation reserve against Solutia's deferred tax assets. This \$11 million adjustment as well as adjustments to other noncurrent assets and deferred tax liabilities reflect elimination of \$555 million of Solutia's valuation reserve against its deferred tax assets (current and noncurrent) related to net operating losses and foreign tax credit carryforwards that Eastman management anticipates that Eastman will more likely than not realize after completion of the merger.

Eastman management anticipates that Eastman will generate sufficient earnings over the next fifteen years to utilize remaining net operating loss and foreign tax credit carryforwards for which the valuation reserves have been eliminated. Eastman estimates that at the closing of the merger, \$675 million of Solutia's remaining net operating loss carryforwards will be available to offset Eastman's U.S. taxable income within the next three years based upon application of relevant sections of the Code.

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The unaudited pro forma adjustment of \$145 million represents the step-up of Solutia's net properties to the preliminarily estimated fair value of \$1,098 million as of March 31, 2012. Properties to be acquired in the merger include buildings, land, improvements, machinery and equipment, and construction in process. The unaudited pro forma fair value adjustment was determined during preliminary valuation work performed during due diligence. Although more detailed valuation work will be performed upon completion of the merger, Eastman management based this adjustment upon the nature of the assets to be acquired and knowledge of the chemicals industry.

To determine the preliminary estimated weighted average useful life of 12 years of the properties to be acquired in the merger, Eastman management considered the composition of the assets by category and applied useful life standards used by Eastman for similar assets. In its analysis, Eastman management also considered the historical useful lives of major categories of assets, including buildings and machinery and equipment, as publicly disclosed by Solutia. See Note 4(a) for a discussion of the possible effects of changes in the preliminary fair value and estimated remaining weighted average useful lives of properties to be acquired in the merger on the calculation of pro forma depreciation expense from those presented herein.

*(l) Goodwill*

Goodwill reflects the preliminary estimate of the excess of the purchase price to be paid by Eastman over the fair value of Solutia's identifiable assets to be acquired and liabilities to be assumed in the merger and is not amortized. The estimated purchase price to be paid by Eastman in the merger, based on the closing price of Eastman common stock on May 10, 2012 (the most recent practicable date), and the excess of the purchase price over the estimated fair value of the identifiable net assets to be acquired is calculated as follows (in millions):

Preliminary purchase price	\$ 3,458
Less: fair value of net assets to be acquired	(1,430)
<b>Total new goodwill</b>	<b>2,028</b>
Less: Solutia historical goodwill	(789)
<b>Pro forma goodwill adjustment</b>	<b>\$ 1,239</b>

See Note 3 for details regarding the effects of changes in the price of Eastman common stock and the preliminary fair values of assets to be acquired and liabilities to be assumed from those presented herein on the calculation of goodwill.

*(m) Identifiable intangible assets*

The unaudited pro forma adjustment reflects the step-up to the preliminary estimated fair value of Solutia's identifiable intangible assets from the respective carrying values reported by Solutia as of March 31, 2012. The intangible assets primarily consist of customer relationships; technology, including unpatented technology and patents; and trade names and trademarks as follows (in millions):

	As Reported	Adjustment	Estimated Fair Value
Customer relationships	\$ 534	\$ 486	\$ 1,020
Technology	198	227	425
Trade names and trademarks	184	186	370
<b>Total</b>	<b>\$ 916</b>	<b>\$ 899</b>	<b>\$ 1,815</b>



**Table of Contents****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The estimated fair value of amortizable intangible assets is expected to be amortized on a straight-line basis over estimated useful lives that will generally range from 5 to 13 years for technology and 24 years for customer relationship intangible assets, subject to the finalization of the purchase price allocation in the merger. The amortizable life for each category of asset was determined by examining the pattern and life of expected cash flows from these items. The estimated amortizable life of customer relationships was determined after consideration of Solutia's historical customer buying and attrition patterns. Based on financial due diligence, Eastman management currently believes that Solutia's customers have demonstrated a fairly consistent buying pattern for many years and a number of the customer relationships have existed for decades. Eastman's preliminary evaluations have indicated that there appears to be very little turnover in Solutia's customers and management has no reason to believe that this historical experience will change in the future. Given the long life associated with the expected cash flows and the pattern of attrition, management believes that a 24 year amortizable life is appropriate. The trade names and trademarks are expected to be indefinite-lived intangible assets, as these assets have no legal, contractual, regulatory, economic, or other competitive limiting factors and Eastman management expects to use them for the foreseeable future. See Note 4(a) for a discussion of the possible effects of changes in the preliminary fair value and estimated remaining weighted average useful life of intangible assets to be acquired in the merger from those presented herein on the calculation of pro forma amortization expense.

*(n) Other noncurrent assets*

The unaudited pro forma adjustment to other noncurrent assets is calculated as follows (in millions):

Elimination of valuation reserve against deferred tax assets of Solutia	\$ 519
Elimination of unamortized financing costs of Solutia	(25)
Capitalized financing costs related to additional indebtedness	8
Elimination of assets related to interest rate hedging contracts	(3)
<b>Total adjustment</b>	<b>\$ 499</b>

The unaudited pro forma adjustment reflects the elimination of a portion of the valuation reserve against Solutia's deferred tax assets. See Note 4(j) for additional detail concerning the release of Solutia's valuation reserve against its deferred tax assets related to net operating losses and foreign tax credit carryforwards. The adjustment also reflects the elimination of unamortized deferred financing costs associated with existing Solutia debt expected to be refinanced in connection with the merger and the addition of financing costs expected to be incurred by Eastman relating to expected additional indebtedness in connection with the completion of the merger. The adjustment for capitalized financing costs reflects the total expected amount of these costs of \$18 million less amounts of \$10 million reflected in Eastman's historical statement of financial position as of March 31, 2012. The unaudited pro forma adjustment also reflects the elimination of other noncurrent assets related to the settlement of Solutia's interest rate hedging net liability. See Note 4(g) for additional detail concerning the elimination of Solutia's interest rate hedging net liability.

*(o) Payables and other current liabilities*

The unaudited pro forma adjustment to payables and other current liabilities is calculated as follows (in millions):

Tax benefit from Bridge Loan fees	\$ (4)
Tax benefit from deductible advisory costs	(5)
Elimination of liabilities related to interest rate hedging contracts	(18)
Elimination of accrued transaction costs	(5)
<b>Total adjustment</b>	<b>\$ (32)</b>



**Table of Contents****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The unaudited pro forma adjustment reflects a decrease in income taxes payable resulting from the tax deductibility of one-time costs, including financing costs of \$12 million (\$17 million, net of \$5 million previously recognized by Eastman during first quarter 2012) for the Bridge Loan related to the merger and estimated tax deductible advisory costs of \$13 million (\$18 million, net of \$5 million previously recognized by Solutia during first quarter 2012). Adjustments to income taxes payable are based on applying the first quarter 2012 combined statutory U.S. federal and state tax rate of 37% to these costs. The unaudited pro forma adjustment also reflects the elimination of Solutia's \$18 million interest rate hedging gross liability. See Note 4(g) for additional detail concerning the elimination of Solutia's interest rate hedging net liability. The adjustment also reflects elimination of total transaction costs payable reflected in the historical statements of financial position as of March 31, 2012 of Eastman and Solutia of \$5 million, as such amounts are expected to be paid at the closing of the merger.

**(p) Debt**

The unaudited pro forma debt adjustments are classified between short-term borrowings (due within one year) and long-term borrowings as follows (in millions):

	Adjustments to Solutia debt	Refinancing of Solutia debt at fair value	Debt expected to be incurred by Eastman	Debt adjustment
Borrowings due within one year	\$ 105	\$ (1,443)	\$ 120	\$ 120
Long-term borrowings			3,380	2,042
<b>Total</b>	<b>\$ 105</b>	<b>\$ (1,443)</b>	<b>\$ 3,500</b>	<b>\$ 2,162</b>

Adjustments to Solutia debt include a fair value adjustment in the amount of \$102 million and elimination of unamortized bond discount of \$3 million. Due to the expected refinancing of existing Solutia debt in connection with the completion of the merger, the adjustment reflects the elimination of \$1,443 million of outstanding Solutia debt at fair market value, which includes the carrying value of \$1,338 million and the \$105 million adjustment. The fair value of this debt is likely to fluctuate until the merger is completed.

The adjustment also includes an estimated \$3,500 million of debt expected to be incurred by Eastman primarily to repay the Solutia debt and fund transaction-related items, including the cash portion of the merger consideration and other one-time costs. Eastman has entered into certain definitive agreements providing for this financing including the Term Loan Agreement and the Bridge Loan Agreement as discussed under the heading "The Merger Financing for the Merger" beginning on page 71. The \$120 million current portion of the debt adjustment reflects the provisions of the Term Loan Agreement, which require 10% of the expected \$1,200 million balance to be repaid within one year of borrowing.

These Statements have assumed that Eastman will complete an offering of debt securities based on current market conditions and, as a result, will not borrow any amounts under The Bridge Loan Agreement. Any borrowings under the Bridge Loan Agreement, if made, would be classified as a component of current liabilities.

**Table of Contents****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS***(q) Deferred income tax liabilities*

The unaudited pro forma adjustment to deferred income tax liabilities is calculated as follows (in millions):

Net deferred income taxes arising from fair value adjustments:	
Inventories	\$ 28
Properties	42
Identifiable intangible assets	333
Debt	(39)
Total net deferred income taxes arising from fair value adjustments	364
Elimination of valuation reserve against deferred tax assets of Solutia	(25)
Total adjustment	\$ 339

The unaudited pro forma adjustment reflects the change in net deferred income taxes arising from fair value adjustments to Solutia's assets to be acquired and liabilities to be assumed by Eastman in the merger. Deferred income taxes arising from the estimated fair value adjustments for acquired inventory and properties have been calculated by applying Solutia's first quarter 2012 blended global statutory tax rate of 29% to the related fair value adjustments of \$96 million and \$145 million, respectively. Deferred income taxes arising from the estimated fair value adjustments related to Solutia's identifiable intangible assets and existing debt, which are maintained in the U.S., have been calculated by applying the first quarter 2012 combined statutory U.S. federal and state tax rate of 37% to the related fair value adjustments of \$899 million and \$105 million, respectively. Although Eastman expects to refinance Solutia's existing debt in connection with completion of the merger (see Note 4(p)), the repayment of the debt at fair value is expected to generate a tax benefit for the difference between fair value and book value. Accordingly, a deferred tax asset has been reflected (as a reduction of the net deferred tax liability) for the difference. The unaudited pro forma adjustment also includes the elimination of a \$25 million tax valuation reserve against Solutia's deferred tax assets. See Note 4(j) for additional detail concerning the release of Solutia's valuation reserve against its deferred tax assets related to net operating losses and foreign tax credit carryforwards.

*(r) Other long-term liabilities*

The unaudited pro forma adjustment reflects the elimination of Solutia's \$11 million interest rate hedging gross liability. See Note 4(g) for additional detail concerning the elimination of Solutia's interest rate hedging net liability.

*(s) Stockholders' equity*

The Pro Forma Balance Sheet reflects the elimination of Solutia's historical equity balances, certain of which have been adjusted for retrospective application of the accounting methodology change for pension and OPEB plans actuarial gains and losses described in the paragraphs immediately preceding these statements, and certain other adjustments, including the issuance of approximately 14.7 million shares of Eastman common stock expected to be issued in the merger (based upon the number of shares of Solutia common stock and shares underlying equity compensation awards outstanding at March 31, 2012). The unaudited pro forma adjustment to additional paid-in capital is calculated as follows (in millions):

Elimination of historical balance	\$ (1,672)
Additional paid-in capital from merger	736
Total adjustment	\$ (936)





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The unaudited pro forma adjustment to retained earnings is calculated as follows (in millions):

Elimination of historical balance, after adjustment for accounting methodology change	\$ 562
Other adjustments	
Bridge loan fees	(12)
Advisory costs	(40)
Tax benefit of one-time costs	9
 Total other adjustments	 (43)
 Total adjustment	 \$ 519

Retained earnings were reduced for estimated transaction costs, including estimated remaining transaction fees (\$60 million in total expected costs net of previously accrued amounts of \$20 million) and remaining financing costs related to the Bridge Loan Agreement (\$17 million of total expected costs net of previously accrued amounts of \$5 million), net of the estimated tax effects related to one-time costs. See Note 4(o) for additional detail concerning tax effects of one-time costs. These estimated transaction costs have been excluded from the Pro Forma Income Statement as they reflect charges directly attributable to the merger that will not have an ongoing impact on Eastman. See the disclosures immediately following Note 4(f). No material transaction costs have been expensed or accrued by either Eastman or Solutia in their actual 2011 historical financial statements. Transaction costs historically expensed by Eastman and Solutia during first quarter 2012 have been eliminated from the Pro Forma Income Statement for the three months ended March 31, 2012. See Note 4(b).

**NOTE 5. NON-GAAP FINANCIAL MEASURES**

In addition to evaluating financial condition and results of operations in accordance with GAAP, management also reviews and evaluates certain alternative financial measures not prepared in accordance with GAAP. Non-GAAP measures do not have definitions under GAAP and may be defined differently by and not be comparable to, similarly titled measures used by, other companies. As a result, management considers and evaluates non-GAAP measures in connection with a review of the most directly comparable measure calculated in accordance with GAAP. Management cautions investors not to place undue reliance on such non-GAAP measures, but also to consider them with the most directly comparable GAAP measure.

Eastman management evaluates and analyzes results and the impact on Eastman of strategic decisions and actions relating to, among other things, cost reduction, growth, and profitability improvement initiatives, and other non-recurring or unusual events outside of normal business and operations, by considering financial results and measures both including and excluding certain items. The items excluded by Eastman management in its evaluation of results do not directly arise from Eastman's core operations, and generally are expected to be of an unusual or non-recurring nature. Specifically, as presented herein, Eastman has excluded asset impairments and restructuring charges (gains) and certain gains on the sale of investments and divestitures of businesses, each of which is expected to be non-recurring and results from various non-core transactions that do not impact Eastman's results consistently (and, in the case of assets impairments and restructuring charges, are not cash transactions impacting profitability), as well as MTM pension and OPEB plan adjustments, as these adjustments arise from a change in accounting principle on a company-wide basis retrospectively applied to all prior periods. Because these non-recurring or non-core costs and gains may materially affect Eastman's financial condition or results in a specific period in which they are recognized, management also evaluates, and makes resource allocation and performance evaluation decisions based on, the related non-GAAP measures excluding such items. In addition to using such measures to evaluate results in a specific period, management believes that such measures may provide more complete and consistent comparisons of Eastman's operational performance on a period-over-period historical basis and a better indication of expected future trends. Management discloses these non-GAAP measures, and the related reconciliations, because it believes investors use these metrics in



**Table of Contents****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

evaluating longer-term period-over-period performance, and to allow investors to better understand and evaluate the information used by management to assess Eastman's and its segments' operating performance, make resource allocation decisions, and evaluate organizational and individual performance in determining certain performance-based compensation. As no material non-recurring items of this nature were recognized by Eastman or Solutia during first quarter 2012, these measures are only presented for the year ended December 31, 2011.

	<b>Year Ended December 31, 2011</b>			
	<b>Earnings from Continuing Operations Before Nonrecurring Items (1)</b>			<b>Per Diluted Share</b>
	<b>Operating Earnings</b>	<b>Before Tax</b>	<b>After Tax</b>	
(Dollars in millions, except per share amounts; unaudited)				
<b>Pro forma combined, including the effect of the accounting methodology change for pension and OPEB plans</b>	\$ 1,242	\$ 1,074	\$ 748	\$ 4.74
<b>Certain items:</b>				
Asset impairments and restructuring charges, net (2)(3)	11	11	10	0.07
Gains on sale of investments and divestiture of businesses (4)	(46)	(46)	(44)	(0.28)
Eastman MTM pension and OPEB adjustment (5)	144	144	88	0.55
Solutia MTM pension and OPEB adjustment (6)	56	56	41	0.26
<b>Excluding items</b>	<b>\$ 1,407</b>	<b>\$ 1,239</b>	<b>\$ 843</b>	<b>\$ 5.34</b>

- (1) As indicated in the introductory paragraphs to the unaudited pro forma condensed combined financial statements and Note 4 hereof, certain nonrecurring items directly attributable to the merger have been excluded from pro forma earnings from continuing operations before nonrecurring items.
- (2) Eastman asset impairments and restructuring charges (gains), net, include a \$15 million gain from the sale of the previously impaired methanol and ammonia assets related to the terminated Beaumont, Texas industrial gasification project in second quarter and \$7 million in restructuring charges primarily for severance associated with the acquisition and integration of Sterling Chemicals, Inc. in third quarter.
- (3) Solutia asset impairments and restructuring charges (gains), net, consist of \$14 million in restructuring charges for severance, pension settlement, and other charges related to the relocation of European regional headquarters and \$5 million for severance costs and share-based compensation expense on executive officer separation agreement.
- (4) Solutia gains on sale of investments and divestiture of businesses consist of a \$29 million gain related to the sale of remaining two percent ownership interest in Ascend Performance Materials Holdings, Inc. and a \$17 million gain on certain other rubber chemicals divestitures.
- (5) Eastman MTM adjustment for pension and OPEB plans actuarial net losses resulting from the change in pension and OPEB accounting methodology. See the paragraphs immediately preceding these Statements.
- (6) Solutia's estimated MTM adjustment for pension and OPEB plans actuarial net losses.

**Table of Contents****COMPARATIVE PER SHARE DATA**

The following table shows, for the year ended December 31, 2011, and the three months ended March 31, 2012, historical and pro forma equivalent per share data for Solutia common stock and historical and pro forma combined per share data for Eastman common stock. The information in the table is derived from each of Solutia's and Eastman's respective historical consolidated financial statements incorporated by reference herein, as well as the unaudited pro forma condensed combined financial information included elsewhere herein.

The pro forma equivalent information shows the effect of the merger from the perspective of an owner of Solutia common stock. The information was computed by multiplying the pro forma combined income from continuing operations per share and Eastman's historical cash dividends declared per share for the year ended December 31, 2011 and the three months ended March 31, 2012, respectively and pro forma combined book value per share as of March 31, 2012 by the exchange ratio of the stock portion of the merger consideration of 0.12 shares of Eastman common stock for each share of Solutia common stock. These computations exclude any potential benefit to Solutia stockholders from receiving any amount of cash as a component of the merger consideration.

The pro forma combined data below is presented for illustrative purposes only. The pro forma adjustments to the statement of earnings data are based on the assumption that the merger was completed on January 1, 2011, and the pro forma adjustments to the statement of financial position data are based on the assumption that the merger was completed on March 31, 2012.

Either company's actual historical financial condition and results of operations may have been different had the companies always been combined. You should not rely on this information as being indicative of the historical financial condition and results of operations that would have actually been achieved or of the future results of Eastman after the completion of the merger.

You should read the information below together with the historical financial statements and related notes of each of Eastman and Solutia, which are incorporated by reference in this proxy statement/prospectus, and with the information under the heading "Unaudited Pro Forma Condensed Combined Financial Information" beginning on page 38.

	Solutia Common Stock		Eastman Common Stock	
		Pro		Pro
	Historical	Forma	Historical	Forma
		Equivalent		Combined
<b>Income from Continuing Operations Per Share</b>				
Basic				
Year Ended December 31, 2011	\$ 2.19	\$ 0.58	\$ 4.34	\$ 4.84(1)
Three Months Ended March 31, 2012	\$ 0.44	\$ 0.17	\$ 1.15	\$ 1.43
Diluted				
Year Ended December 31, 2011	\$ 2.16	\$ 0.57	\$ 4.24	\$ 4.74(1)
Three Months Ended March 31, 2012	\$ 0.43	\$ 0.17	\$ 1.13	\$ 1.40
<b>Cash Dividends Declared Per Share</b>				
Year Ended December 31, 2011	\$ 0.0375	\$ 0.12	\$ 0.990	\$ 0.990
Three Months Ended March 31, 2012	\$	\$ 0.03	\$ 0.260	\$ 0.260
<b>Book Value Per Share</b>				
March 31, 2012	\$ 8.29	\$ 2.14	\$ 14.69	\$ 17.81

- (1) For a discussion of certain nonrecurring items excluded from pro forma combined income from continuing operations per share, see Note 4 of the notes to the accompanying Unaudited Pro Forma Condensed Consolidated Financial Statements.

**Table of Contents****COMPARATIVE MARKET VALUE OF COMMON STOCK**

Eastman common stock and Solutia common stock are listed for trading on the New York Stock Exchange under the symbols EMN and SOA, respectively. The following table shows the closing prices per share of Eastman common stock and Solutia common stock as reported on January 26, 2012, the final trading day prior to the public announcement of the merger, and on May , 2012, the latest practicable date prior to the date of this proxy statement/prospectus. This table also shows the implied value of the merger consideration for each share of Solutia common stock, which was calculated by multiplying the closing price of Eastman common stock on the relevant date by the exchange ratio of the stock portion of the merger consideration of 0.12 shares of Eastman common stock for each share of Solutia common stock and adding the per share cash consideration of \$22.00, without interest. These computations do not include any potential benefit to Solutia stockholders from receiving any amount of cash as a component of merger consideration.

	<b>Closing Price of Eastman Common Stock</b>	<b>Closing Price of Solutia Common Stock</b>	<b>Implied Value of Merger Consideration</b>
As of January 26, 2012	\$ 47.12	\$ 19.51	\$ 27.65
As of May , 2012	\$	\$	\$

The market price of Eastman common stock and Solutia common stock will fluctuate prior to the Solutia special meeting and before the merger is completed, which will affect the implied value of the merger consideration paid to Solutia stockholders. You should obtain current market quotations for the shares before making any decisions with respect to the merger.

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**SOLUTIA SPECIAL MEETING**

**Proxy Statement/Prospectus**

This proxy statement/prospectus is being furnished to Solutia stockholders in connection with the solicitation of proxies by the Solutia board of directors in connection with the special meeting of Solutia stockholders.

This proxy statement/prospectus and the enclosed proxy card(s) are first being sent to Solutia stockholders on or about \_\_\_\_\_, 2012.

**Date, Time and Place of the Solutia Special Meeting**

The Solutia special meeting is to be held at 10:00 a.m., local time, on \_\_\_\_\_, 2012, at \_\_\_\_\_.

**Purpose of the Solutia Special Meeting**

At the Solutia special meeting, holders of Solutia common stock as of the record date will be asked to:

- Proposal 1. consider and vote upon the adoption of the merger agreement;
- Proposal 2. consider and vote, on a non-binding, advisory basis, to approve compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger; and
- Proposal 3. consider and vote upon the approval of the adjournment of the Solutia special meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the Solutia special meeting.

**Record Date and Voting**

Only holders of record of Solutia common stock at the close of business on May 4, 2012, which is the record date, will be entitled to notice of and to vote at the Solutia special meeting with regard to Proposals 1-3 described above. On the record date there were 122,837,608 shares of Solutia common stock outstanding and entitled to vote at the Solutia special meeting, held by approximately 3,334 holders of record. Each share of Solutia common stock issued and outstanding on the record date is entitled to one vote on each proposal to be voted upon at the Solutia special meeting.

The quorum requirement for holding the Solutia special meeting and transacting business at the Solutia special meeting is a majority of the outstanding shares of Solutia common stock as of the record date that are present or represented at the Solutia special meeting (other than with respect to Proposal 3, the proposal related to adjournments, for which a quorum is not required). The shares may be present in person or represented by proxy at the Solutia special meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum.

If your proxy card is properly executed and received by Solutia in time to be voted at the Solutia special meeting, the shares of Solutia common stock represented by your proxy (including those given electronically via the Internet or by telephone) will be voted in accordance with the instructions that you mark on your proxy card. Executed but unvoted proxies will be voted in accordance with the recommendations of the Solutia board of directors.

**Vote Required**

**Adoption of merger agreement** (Proposal 1). The affirmative vote of the holders of a majority of the outstanding shares of Solutia common stock entitled to vote at the Solutia special meeting is required to adopt the merger agreement. The required vote of Solutia stockholders on the merger agreement is based upon the number of outstanding shares of Solutia common stock entitled to vote at the Solutia special meeting, and not the number

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of shares that are actually voted. Brokers, banks and other nominees do not have discretionary authority to vote on this Proposal. The failure to submit a proxy card or to vote electronically via the Internet, by telephone or in person at the Solutia special meeting of any Solutia stockholder or the abstention from voting by any Solutia stockholder, or the failure of any Solutia stockholder who holds shares in street name through a broker, bank or other nominee to give voting instructions to such broker, bank or other nominee (a broker non-vote), will have the same effect as a vote against the adoption of the merger agreement by the Solutia stockholder.

**Advisory vote on golden parachute compensation** (Proposal 2). The affirmative vote of a majority of the votes cast by the holders of Solutia common stock at the Solutia special meeting is required to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger. The required vote of holders of Solutia common stock to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger is based on the number of shares that are actually voted, not on the number of outstanding shares of Solutia common stock. While the Solutia board of directors intends to consider the vote resulting from this proposal, the vote is advisory, and therefore not binding on Solutia or on Eastman, or the board of directors or the compensation committees of Eastman or Solutia. Brokers, banks and other nominees do not have discretionary authority to vote on this proposal. The failure to submit a proxy card or to vote electronically via the Internet, by telephone or in person at the special meeting of Solutia stockholders or the abstention from voting by holders of Solutia common stock, or a broker non-vote, will have no effect on this proposal.

**Approval of the adjournment of the Solutia special meeting** (Proposal 3). The affirmative vote of a majority of the votes cast by holders of Solutia common stock at the Solutia special meeting is required to approve the proposal to adjourn the Solutia special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Solutia special meeting to adopt the merger agreement. The required vote of holders of Solutia common stock to approve the proposal to adjourn the special meeting of Solutia stockholders, if necessary, to solicit additional proxies is based on the number of shares that are actually voted, not on the number of outstanding shares of Solutia common stock. Brokers, banks and other nominees do not have discretionary authority to vote on this proposal. The failure to submit a proxy card or to vote electronically via the Internet, by telephone or in person at the special meeting of Solutia stockholders or the abstention from voting by holders of Solutia common stock, or a broker non-vote, will have no effect on this proposal. In accordance with the Solutia Bylaws, a vote to approve the proposal to adjourn the Solutia special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Solutia special meeting to adopt the merger agreement may be taken in the absence of a quorum. Solutia does not intend to call a vote on this proposal if Proposal 1 has been approved at the Solutia special meeting.

**Recommendation of the Solutia Board of Directors**

The Solutia board of directors recommends votes:

1. **FOR** the adoption of the merger agreement (Proposal 1);
2. **FOR** the approval, on a non-binding, advisory basis, of the compensation that may be paid or become payable to Solutia's named executive officers that is based on or otherwise relates to the merger (Proposal 2); and
3. **FOR** the approval of the adjournment of the Solutia special meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the Solutia special meeting (Proposal 3).

Solutia stockholders should carefully read this proxy statement/prospectus in its entirety for more detailed information concerning the merger agreement and the merger. In particular, Solutia stockholders are directed to the merger agreement, which is attached as *Annex A* hereto.



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### **Voting Electronically or by Telephone**

If your shares of Solutia common stock are registered directly in your name with Solutia's transfer agent, you are considered, with respect to those shares, the stockholder of record, and these proxy materials are being sent to you directly by Solutia. As a stockholder of record, you have the right to grant your voting proxy directly to the persons named as proxy holders, Jeffrey N. Quinn, Solutia's Chairman of the Board, President and Chief Executive Officer, and Paul J. Berra, III, Solutia's Senior Vice President, Legal and Governmental Affairs and

General Counsel, or to vote in person at the Solutia special meeting. A proxy card has been enclosed for you to use. You may also vote on electronically via the Internet or by telephone.

If your shares of Solutia common stock are held by a broker, bank or other nominee, you are considered the beneficial owner of the shares held in street name and these proxy materials are being forwarded to you by your broker, bank or other nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote your shares and are also invited to attend the Solutia special meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the Solutia special meeting. Your broker, bank or other nominee has enclosed a voting instruction card for you to use in directing your broker, bank or other nominee as to how to vote your shares. You may also vote electronically via the Internet or by telephone.

Whether or not you plan to attend the Solutia special meeting, your vote is important, and Solutia encourages you to vote promptly. You can ensure your shares of Solutia common stock are represented at the Solutia special meeting by promptly submitting your proxy electronically via the Internet or by telephone or marking, signing, dating and returning the appropriate proxy card in the envelope provided. Each valid proxy received in time will be voted at the Solutia special meeting according to the choice specified, if any. A proxy may be revoked at any time before the proxy is voted, as outlined below.

### **Vote of Solutia's Directors and Executive Officers**

As of the record date, Solutia directors and executive officers, and their affiliates, as a group, owned and were entitled to vote 1,073,375 shares of Solutia common stock, or approximately 0.8% of the total outstanding shares of Solutia common stock. Solutia currently expects that its directors and executive officers will vote their shares in favor of Proposals 1, 2 and 3, but none of Solutia's directors or executive officers have entered into any agreement obligating them to do so.

### **Revocability of Proxies**

You may revoke a proxy or change your voting instructions at any time prior to the vote at the Solutia special meeting. You may enter a new vote electronically via the Internet or by telephone or by mailing a new proxy card or new voting instruction card bearing a later date (which will automatically revoke your earlier voting instructions) or by attending the Solutia special meeting and voting in person. Your attendance at the Solutia special meeting in person will not cause your previously granted proxy to be revoked unless you specifically so request. You may deliver written notice of revocation of a proxy to Solutia's Corporate Secretary at any time before the Solutia special meeting by sending such revocation to the Corporate Secretary, 575 Maryville Centre Drive, St. Louis, Missouri 63141, in time for the Corporate Secretary to receive it before the Solutia special meeting.

### **Inspector of Election**

A representative of Broadridge Financial Solutions, Inc. will tabulate the vote and act as the inspector of election at the Solutia special meeting.

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### **Attending the Solutia Special Meeting**

You are entitled to attend the Solutia special meeting only if you are a stockholder of record of Solutia or you hold your shares of Solutia beneficially in the name of a broker, bank or other nominee as of the record date, or you hold a valid proxy for the Solutia special meeting.

If you are a stockholder of record of Solutia and wish to attend the Solutia special meeting, please so indicate on the appropriate proxy card or as prompted by the Internet or telephone voting system. Your name will be verified against the list of stockholders of record prior to your being admitted to the Solutia special meeting.

If a broker, bank or other nominee is the record owner of your shares of Solutia common stock, you will need to have proof that you are the beneficial owner as of the record date to be admitted to the Solutia special meeting. A recent statement or letter from your broker, bank or other nominee confirming your ownership as of the record date, or presentation of a valid proxy from a broker, bank or other nominee that is the record owner of your shares, would be acceptable proof of your beneficial ownership.

You should be prepared to present photo identification for admittance. If you do not provide photo identification or comply with the other procedures outlined above upon request, you may not be admitted to the Solutia special meeting.

### **Voting Procedures**

You may vote your shares of Solutia common stock by proxy electronically via the Internet, by telephone, by completing and sending in the appropriate paper proxy card or in person at the Solutia special meeting.

Whether you vote your proxy electronically via the Internet, by telephone, by mail or in person, Solutia will treat your proxy the same way. The individuals appointed as proxyholders will be Jeffrey N. Quinn, Solutia's Chairman of the Board, President and Chief Executive Officer, and Paul J. Berra, III, Solutia's Senior Vice President, Legal and Governmental Affairs and General Counsel. The shares of Solutia common stock represented by valid proxies that are received in time for the Solutia special meeting will be voted as specified in such proxies. Valid proxies include all properly executed, written paper proxy cards received pursuant to this solicitation that are not later revoked. Executed but unvoted proxies will be voted in accordance with the recommendations of the Solutia board of directors.

Executed proxies submitted without direction pursuant to this solicitation will be voted **FOR** each of the proposals in accordance with the recommendation of the Solutia board of directors as disclosed in this proxy statement/prospectus.

### **Proxy Solicitations**

Solutia is soliciting proxies for the Solutia special meeting from Solutia stockholders. Solutia will reimburse brokers, banks, institutions and others holding common stock of Solutia as nominees for their expenses in sending proxy solicitation material to the beneficial owners of such common stock of Solutia and obtaining their proxies.

**Stockholders should not send stock certificates or other evidence of shares in book-entry form with their proxies. A letter of transmittal and instructions for the surrender of Solutia stock certificates will be mailed to Solutia stockholders shortly after the completion of the merger, if approved and completed.**

Solutia has engaged MacKenzie Partners, Inc., or MacKenzie Partners, to assist in the solicitation of proxies for the Solutia special meeting and will pay MacKenzie Partners a fee of approximately \$25,000, plus reimbursement of reasonable out-of-pocket expenses. The address of MacKenzie Partners is 105 Madison Avenue, New York, New York 10016. If you need assistance in completing your proxy card or have questions regarding the Solutia special meeting, please contact MacKenzie Partners at proxy@mackenziepartners.com (e-mail), call toll-free: (800) 322-2885 or call collect: (212) 929-5500.

**Table of Contents****Householding**

Some brokers, banks and other nominees may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of this proxy statement/prospectus may have been sent to multiple stockholders in your household. Solutia will promptly deliver a separate copy of either or both documents to you if you write or call Solutia at the following address or phone number: Mackenzie Partners, proxy@mackenziepartners.com (email), (800) 322-2885 (toll-free) or (212) 929-5500 (collect).

**Results of the Solutia Special Meeting**

The preliminary voting results will be announced at the Solutia special meeting. In addition, within four business days following the Solutia special meeting, Solutia intends to file the final voting results with the SEC on a Current Report on Form 8-K. If the final voting results have not been certified within that four-business-day period, Solutia will report the preliminary voting results on a Current Report on Form 8-K at that time and will file an amendment to the Current Report on Form 8-K to report the final voting results within four days of the date that the final results are certified.

**BENEFICIAL STOCK OWNERSHIP OF SOLUTIA'S DIRECTORS, EXECUTIVE OFFICERS  
AND PERSONS OWNING MORE THAN 5% OF THE OUTSTANDING SHARES OF  
SOLUTIA COMMON STOCK**

The following table shows the amount of Solutia common stock beneficially owned as of May 9, 2012 (unless otherwise indicated) by each person known by Solutia to own beneficially more than 5% of the outstanding shares of Solutia common stock, by each of Solutia's directors and named executive officers and by all directors and executive officers of Solutia as a group. Unless otherwise indicated, each person has sole investment and voting power over the securities listed in the table. The business address for each of Solutia's directors and executive officers listed below is c/o Solutia Inc., 575 Maryville Centre Drive, St. Louis, Missouri 63141.

Name Name and Address of Beneficial Owner	Number of Shares of Solutia Common Stock Beneficially Owned	Percent of Class(1)
Invesco Ltd. (2)  1555 Peachtree Street NE  Atlanta, Georgia 30309	9,553,767	7.8%
FMR LLC (3)  82 Devonshire Street  Boston, Massachusetts 02109	8,216,866	6.7%
The Vanguard Group, Inc. (4)  100 Vanguard Blvd.  Malvern, Pennsylvania 19355	6,141,290	5.0%
<b>Executive Officers and Directors</b>		
Jeffry N. Quinn (5)(6)(7)(8)	1,171,092	*
James M. Sullivan (5)(6)(7)	359,120	*
D. Michael Donnelly (6)(7)	50,702	*
Robert T. DeBolt (6)(7)	55,252	*
Paul J. Berra, III (6)(7)	60,890	*
Robert K. deVeer, Jr. (9)	2,900	*

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James P. Heffernan (9)	19,019	*
Edgar G. Hotard (9)	6,443	*
W. Thomas Jagodinski (9)	11,169	*
William T. Monahan (9)	44,789	*
Robert A. Peiser (9)	22,635	*
William C. Rusnack (9)	6,037	*
Gregory C. Smith (9)	22,266	*
All executive officers and directors (20 persons)(10)	2,149,725	1.75%

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\* Less than 1%.

- (1) Based on shares of Solutia common stock outstanding on May 9, 2012.
- (2) As reported in a Schedule 13G filed February 14, 2012, as of December 31, 2011, Invesco Ltd. is deemed to beneficially own and has sole voting and dispositive power as to 9,553,767 shares of Solutia common stock. This includes 7,092,342 shares beneficially owned by Invesco Canada Ltd. in its capacity as an investment advisor, 2,394,658 shares beneficially owned by Invesco Advisers, Inc. in its capacity as an investment advisor, 60,289 shares beneficially owned by Invesco PowerShares Capital Management in its capacity as an investment advisor, 6,012 shares beneficially owned by Invesco Investment Advisers, LLC in its capacity as an investment advisor and 463 shares beneficially owned by Invesco PowerShares Capital Management Ireland Ltd. in its capacity as an investment advisor. Each of these entities is a subsidiary of Invesco Ltd., and the address of each of these entities is 1555 Peachtree Street N.E., Atlanta, Georgia 30309.
- (3) As reported in an amended Schedule 13G filed February 14, 2012, as of December 31, 2011, FMR LLC is deemed to beneficially own and has sole voting power as to 680,280 shares of Solutia common stock and sole dispositive power as to 8,216,866 shares. This includes 7,536,586 shares beneficially owned by Fidelity Management & Research Company ( Fidelity ) in its capacity as an investment advisor. Fidelity is a wholly owned subsidiary of FMR LLC. Edward C. Johnson, III and members of his family own approximately 49% of the voting power of FMR LLC and have certain other rights to influence the management of this entity. The address of FMR LLC and Fidelity is 82 Devonshire Street, Boston, Massachusetts 02109. In addition, 680,280 shares are beneficially owned by Pyramis Global Advisors Trust Company ( PGATC ), an indirect wholly owned subsidiary of FMR LLC. This entity holds the shares as a result of serving as investment advisor to institutional accounts. The address of PGATC is 900 Salem Street, Smithfield, Rhode Island, 02917.
- (4) As reported in a Schedule 13G filed February 8, 2012, as of December 31, 2011, The Vanguard Group, Inc. is deemed to beneficially own 6,141,290 shares of Solutia common stock, has sole dispositive power as to 6,055,053 shares and has sole voting and shared dispositive power as to 86,237 shares.
- (5) The number of shares of Solutia common stock shown for Messrs. Quinn and Sullivan include 1,716 and 87 shares deliverable upon the exercise of warrants, respectively.
- (6) The number of shares of Solutia common stock shown for Messrs. Quinn, Sullivan, Donnelly, DeBolt and Berra include 164,563, 51,399, 22,339, 29,370 and 25,965 shares, respectively, of time vested restricted stock issued pursuant to the applicable Solutia Equity Plan that have not vested.
- (7) The number of shares of Solutia common stock shown for Messrs. Quinn, Sullivan, Donnelly, DeBolt and Berra include exercisable options to purchase 603,408, 198,559, 13,702, 8,329 and 13,307 shares, respectively.
- (8) The number of shares of Solutia common stock shown for Mr. Quinn include 139,202 shares and 858 shares deliverable upon the exercise of warrants held in trust for the benefit of Mr. Quinn. Also, the number of shares shown for Mr. Quinn includes 138,791 shares and 858 shares deliverable upon the exercise of warrants held in trust for the benefit of Mr. Quinn's wife.
- (9) The number of shares of Solutia common stock shown for Messrs. deVeer, Hotard, Jagodinski, Monahan, Peiser and Smith include 2,900 shares each and for Mr. Rusnack, 6,037 shares, of time vested restricted stock (restricted stock units for Mr. Monahan) issued pursuant to the applicable Solutia Equity Plan that have not vested. The number of shares of Solutia common stock shown for Mr. Heffernan include 1,044 shares of time vested restricted stock units and 1,856 shares of time vested restricted stock issued pursuant to the applicable Solutia Equity Plan that have not vested.
- (10) The number of shares of Solutia common stock shown for all directors and executive officers as a group, including the named executive officers, includes 381,279 shares of unvested restricted stock, 3,944 shares of unvested restricted stock units, 1,802 shares deliverable upon the exercise of warrants and exercisable options to purchase 1,054,052 shares.

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**PROPOSALS SUBMITTED TO SOLUTIA STOCKHOLDERS**

**Adoption of the Agreement and Plan of Merger**

(Item 1 on the Solutia Proxy Card)

This proxy statement/prospectus is being furnished to Solutia stockholders as part of the solicitation of proxies by the Solutia board of directors for use at the Solutia special meeting to consider and vote on the proposal to adopt the merger agreement. **IF SOLUTIA STOCKHOLDERS FAIL TO ADOPT THE MERGER AGREEMENT, THE MERGER CANNOT BE COMPLETED.** Holders of Solutia common stock should read this proxy statement/prospectus carefully and in its entirety, including the annexes, for more detailed information concerning the merger agreement and the merger. A copy of the merger agreement is attached to this proxy statement/prospectus as *Annex A*.

After careful consideration, the Solutia board of directors unanimously approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and declared that the merger agreement, the merger and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of Solutia and its stockholders. The Solutia board of directors has directed that the merger agreement be submitted to Solutia stockholders for adoption at the Solutia special meeting.

The affirmative vote of the holders of a majority of the outstanding shares of Solutia common stock entitled to vote at the Solutia special meeting is required to adopt the merger agreement.

**The Solutia board of directors recommends that its stockholders vote FOR the adoption of the merger agreement.**

**Non-Binding Advisory Vote on Golden Parachute Compensation**

(Item 2 on the Solutia Proxy Card)

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act ) and Rule 14a-21(c) under the Exchange Act require Solutia to provide its stockholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to the named executive officers of Solutia that is based on or otherwise relates to the merger (also known as golden parachute compensation).

Accordingly, Solutia is requesting that holders of Solutia common stock approve the following resolution:

RESOLVED, that the stockholders of Solutia Inc. approve, on a non-binding advisory basis, the compensation that may be paid or become payable to its named executive officers that is based on or otherwise relates to the merger, as disclosed in the proxy statement/prospectus relating to the Solutia special meeting in the table entitled Golden Parachute Compensation, including the related narrative discussion, as disclosed under the heading Payments to Solutia Named Executive Officers Contingent Upon the Merger, and the agreements or understandings pursuant to which such compensation may be paid or become payable.

Approval of this proposal is not a condition to completion of the merger. As this is an advisory vote, the result will not be binding on Solutia or on Eastman, or the board of directors or the compensation committees of Eastman or Solutia. Accordingly, such compensation, including amounts that Solutia is contractually obligated to pay, could still be payable regardless of the outcome of this advisory vote, subject only to the conditions applicable thereto.

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**The Solutia board of directors recommends that holders of Solutia common stock vote FOR the approval, on a non-binding, advisory basis, of the compensation that may be paid or become payable to its named executive officers that is based on or otherwise relates to the merger, as disclosed pursuant to the compensation disclosure rules of the SEC.**

### **Adjournment Proposal**

(Item 3 on the Solutia Proxy Card)

The Solutia special meeting may be adjourned to another time or place, if necessary or appropriate, to permit, among other things, further solicitation of proxies if necessary to obtain additional votes in favor of the adoption of the merger agreement.

If, at the Solutia special meeting, the number of shares of Solutia common stock present or represented and voting in favor of the adoption of the merger agreement is insufficient to approve such proposal, Solutia intends to move to adjourn the Solutia special meeting in order to solicit additional proxies for the adoption of the merger agreement. In accordance with the Solutia Bylaws, a vote to approve the proposal to adjourn the Solutia special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Solutia special meeting to adopt the merger agreement may be taken in the absence of a quorum. Solutia does not intend to call a vote on this proposal if Proposal 1 (the vote on the adoption of the merger agreement) has been approved at the Solutia special meeting.

In this proposal, Solutia is asking its stockholders to authorize the holder of any proxy solicited by the Solutia board of directors to vote in favor of granting discretionary authority to proxy holders, and each of them individually, to adjourn the Solutia special meeting to another time and place for the purpose of soliciting additional proxies. If Solutia stockholders approve this adjournment proposal, Solutia could adjourn the Solutia special meeting and any adjourned session of the Solutia special meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from Solutia stockholders who have previously voted.

**The Solutia board of directors recommends that holders of Solutia common stock vote FOR the approval of the adjournment of the Solutia special meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the Solutia special meeting.**

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### **THE MERGER**

*This section of the proxy statement/prospectus describes the material aspects of the proposed merger. This section may not contain all of the information that is important to you. You should carefully read this entire proxy statement/prospectus and the documents incorporated herein by reference, including the full text of the merger agreement, which is attached as Annex A, for a more complete understanding of the merger. In addition, important business and financial information about each of Eastman and Solutia is incorporated into this proxy statement/prospectus by reference and is included in the Annexes hereto. See *Where You Can Find More Information* beginning on page 177.*

#### **Effect of the Merger**

Upon completion of the merger, Merger Sub, a wholly owned subsidiary of Eastman, will merge with and into Solutia. Solutia will be the surviving corporation in the merger and will become an indirect wholly owned subsidiary of Eastman.

#### ***Treatment of Solutia Common Stock***

At the effective time of the merger, each share of Solutia common stock issued and outstanding immediately prior to the effective time of the merger (other than shares owned by Solutia as treasury stock and shares held by holders properly exercising appraisal rights under the DGCL) will be cancelled and converted automatically into the right to receive, in accordance with the terms of the merger agreement, (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock. Each share of Solutia common stock owned by Solutia as treasury stock will be cancelled without consideration.

#### ***Treatment of Solutia Options***

At the effective time of the merger, each outstanding option to acquire shares of Solutia common stock issued under any Solutia Equity Plan, whether or not then vested or exercisable, will be cancelled and terminated in exchange for the right to receive, in cash, the amount by which the cash value of the merger consideration (using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two trading days prior to the merger) exceeds the exercise price for such option.

#### ***Treatment of Solutia Restricted Stock***

At the effective time of the merger, restrictions on any restricted shares of Solutia common stock issued under any Solutia Equity Plan will lapse and such shares will be fully vested, and the holder thereof will be entitled to receive, for each such restricted share of Solutia common stock, the merger consideration.

#### ***Treatment of Solutia Restricted Stock Unit Awards***

At the effective time of the merger, each restricted stock unit issued under any Solutia Equity Plan will be converted into a vested right to receive, in cash, the value of the merger consideration (using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two trading days prior to the merger).

#### ***Treatment of Performance Share Awards and Performance Share Unit Awards***

At the effective time of the merger, restrictions on any performance share award or performance share unit award granted under any Solutia Equity Plan will lapse and such performance share award or performance share unit award will become vested based on no greater than the performance results for the applicable performance period according to the relevant award provisions, and the holder thereof will be entitled to receive, in the case of each performance share award in the form of restricted stock, the merger consideration and, in the case of each performance share unit award in the form of restricted stock units, the cash value of the merger consideration (using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two trading days prior to the merger).



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### ***Treatment of Solutia Warrants***

At the effective time of the merger, each warrant issued under the Warrant Agreement, dated February 28, 2008, between Solutia and the warrant agent named therein, whether or not then vested or exercisable, will be converted into a warrant to acquire, upon exercise, on substantially the same terms and conditions as were applicable to such warrant immediately prior to the effective time of the merger, the merger consideration.

### ***Treatment of Rights Under Solutia Rights Agreement***

The Solutia Rights Agreement provides that it, and the rights issued thereunder, will terminate immediately prior to the effective time of the merger. As a result, no consideration will be paid, or is payable, to holders of any such rights.

### ***Other Effects***

The rights pertaining to Eastman common stock will be different from the rights pertaining to Solutia common stock, because the Eastman Charter and the Eastman Bylaws in effect immediately after the completion of the merger will be different from the Solutia Charter and the Solutia Bylaws, respectively. A further description of the rights pertaining to Eastman common stock and the Eastman Charter and the Eastman Bylaws is set forth under [Comparison of Rights of Holders of Eastman Common Stock and Solutia Common Stock](#) beginning on page 164.

### **Financing for the Merger**

On January 26, 2012, in connection with its entry into the merger agreement, Eastman entered into an agreement with Citigroup Global Markets Inc. ( [Citi](#) ) and Barclays Bank PLC (the [commitment](#) ), which contained commitments for a \$3.5 billion senior unsecured bridge term loan facility and set out the principal terms of a senior unsecured term loan facility for up to \$1.25 billion, with any commitments in respect of the term loan facility reducing on a dollar-for-dollar basis commitments under the bridge term loan facility.

Thereafter, on February 29, 2012, Eastman entered into a Five-Year Senior Term Loan Credit Agreement (the [Term Loan Agreement](#) ) with the initial lenders named therein, Citibank, N.A., as administrative agent, Citi and Barclays Capital Inc. ( [Barclays](#) ), as joint lead arrangers, and Barclays, as syndication agent. Upon entry into the Term Loan Agreement, the parties' commitments relating to a term loan facility under the commitment were replaced and terminated. The terms of the Term Loan Agreement were substantially in accordance with the terms set forth in the commitment for the term loan facility.

The Term Loan Agreement provides for a \$1.2 billion term loan facility, the proceeds of which are expected to be used by Eastman to finance, in part, the cash portion of the consideration to be paid by Eastman in the merger and to pay a portion of the related fees and expenses, which may include the repayment of certain outstanding borrowings of Solutia.

Funding under the Term Loan Agreement is subject to customary conditions for financings of this type. In addition, funding is also subject to the closing of the merger.

Borrowings under the Term Loan Agreement will be unsecured, and will bear interest at a variable base rate or a variable Eurodollar rate based on the London Interbank Offered Rate ( [LIBOR](#) ), at Eastman's election. Interest on base rate loans will be equal to the highest of: (1) the Federal Funds Rate plus 0.5%; (2) the agent's daily prime rate; and (3) 1.0% per annum plus the Eurodollar rate (described below) plus, in each case, an applicable margin that may range from 12.5 basis points to 125 basis points, depending on Eastman's unsecured credit rating. Interest on Eurodollar rate loans will be determined by reference to LIBOR plus an applicable margin that may range from 112.5 basis points to 225 basis points, depending on Eastman's unsecured credit rating.

Borrowings under the Term Loan Agreement will amortize in quarterly installments from the date of borrowing as follows: (1) 10% annually in the first year after the date of borrowing; (2) 15% annually in the second year after the date of borrowing; (3) 20% annually in the third year after the date of borrowing; (4) 25%

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annually in the fourth year after the date of borrowing; and (5) 30% annually in the fifth year after the date of borrowing. Borrowings outstanding under the Term Loan Agreement will be due and payable five years from the date of closing of the merger.

The Term Loan Agreement contains customary events of default, representations, warranties and covenants, including a financial covenant that requires Eastman to comply with a leverage ratio specified therein. Also in connection therewith, Eastman has agreed to pay the lenders thereunder customary fees, including a commitment fee based upon the undrawn portion of commitments under the Term Loan Agreement.

Also, on February 29, 2012, Eastman entered into a Senior Bridge Term Loan Credit Agreement (the Bridge Loan Agreement ) with the initial lenders named therein, Citibank N.A., as administrative agent, Citi and Barclays, as joint lead arrangers, Barclays, as syndication agent, and Bank of America, N.A., JPMorgan Chase Bank, N.A., RBS Securities Inc. and Wells Fargo Bank, National Association, as co-arrangers. The Bridge Loan Agreement was also entered into pursuant to the terms of the commitment, and the terms contained in the Bridge Loan Agreement were substantially in accordance with the terms set forth in the commitment therefor. Upon entry into the Bridge Loan Agreement, the parties commitments relating to a bridge loan facility under the commitment were terminated.

The Bridge Loan Agreement provides for a \$2.3 billion bridge loan facility, any proceeds of which may be used by Eastman to finance, in part, the cash portion of the consideration to be paid by Eastman in the merger, and to pay a portion of the related fees and expenses, which may include the repayment of certain outstanding borrowings of Solutia. Depending upon market conditions, Eastman may offer new debt securities prior to or following the completion of the merger. The commitments of the lenders under the Bridge Loan Agreement are to be reduced on a dollar-for-dollar basis by any proceeds Eastman receives from any offering of its debt securities that it may undertake.

Borrowing under the Bridge Loan Agreement is subject to customary conditions for financings of this type. In addition, funding is also subject to the closing of the merger. Any borrowings outstanding under the Bridge Loan Agreement would be due and payable on the date that is 364 days from the date of closing of the Merger.

Any borrowings by Eastman under the Bridge Loan Agreement will be unsecured, and will bear interest at a variable base rate or a variable Eurodollar rate based on LIBOR, at Eastman's election. Interest on base rate loans will be equal to the highest of: (1) the Federal Funds Rate plus 0.5%; (2) the agent's daily prime rate; and (3) 1.0% per annum plus the Eurodollar rate (described below) plus, in each case, an applicable margin described in the Bridge Loan Agreement that may range from 25 basis points to 275 basis points, depending on Eastman's unsecured credit rating and the number of days from the closing date of the merger. Interest on Eurodollar rate loans will be determined by reference to LIBOR plus an applicable margin described in the Bridge Loan Agreement that may range from 125 basis points to 375 basis points, depending on Eastman's unsecured credit rating and the number of days from the closing date of the merger.

In connection with entering into the Bridge Loan Agreement, Eastman has agreed to pay the lenders thereunder customary fees, including: (1) a commitment fee based upon the undrawn portion of commitments under the Bridge Loan Agreement; (2) a duration fee equal to a specified percentage of the aggregate principal amount of the outstanding borrowings under the Bridge Loan Agreement, if any; and (3) a funding fee based upon the aggregate amount of the outstanding borrowings under the Bridge Loan Agreement, if any.

The Bridge Loan Agreement contains customary events of default, representations, warranties and covenants, including a financial covenant that requires Eastman to comply with a leverage ratio specified in the Bridge Loan Agreement.

As discussed in footnote 4(o) to the unaudited pro forma condensed combined financial statements and for purposes thereof, Eastman has assumed it will finance the cash portion of the merger consideration with the proceeds from an offering of debt securities and borrowings under the Term Loan Agreement, and that it will not borrow under the Bridge Loan Agreement.

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Some of the potential lenders under each of the Term Loan Agreement and the Bridge Loan Agreement (and their respective subsidiaries or affiliates) have in the past provided, and may in the future provide, investment banking, underwriting, lending, commercial banking, trust and other advisory services to Eastman and its subsidiaries and affiliates. These parties have received, and may in the future receive, customary compensation from Eastman and its subsidiaries and affiliates for such services.

### **Background of the Merger**

The senior management and boards of directors of each of Solutia and Eastman actively monitor and assess developments in the chemical industry and are generally aware of the business activities of other major chemical companies, including each other's activities.

In addition, on an ongoing basis, the board of directors and senior management of Solutia evaluate options for achieving Solutia's long-term strategic goals and enhancing stockholder value. These options have included periodic assessments of potential business combinations with other chemical companies.

On February 28, 2008, Solutia consummated its reorganization under the protection of the bankruptcy code and emerged from bankruptcy. Continuing through its bankruptcy proceedings, Solutia regularly evaluated potential transactions as a means of realizing the greatest value of Solutia. For example, leading up to the consummation of its reorganization, it solicited interest in and considered several transactions as a method to reorganize under the bankruptcy code, including the possible sale of the company (in whole or by its component parts) through a formal sale process under the supervision of the bankruptcy court. After exploring all options to maximize the value of the bankruptcy estate, the Solutia board of directors concluded that emergence from bankruptcy as a reorganized, stand-alone company was in the best interests of Solutia stakeholders.

Continuing through its bankruptcy proceedings (as a key element of its reorganization strategy) and during the period following its emergence from bankruptcy, Solutia made several changes to its asset portfolio to enhance the value of Solutia. These changes included making strategic investments in its core businesses, exiting certain unprofitable businesses and facilities and divesting non-core assets. As a result of these changes, Solutia transformed its operations into a pure-play performance materials and specialty chemicals company, with a portfolio of high-value, high-potential products with world-leading market positions. For example, during its bankruptcy, Solutia (through its joint venture with FMC Corporation, Astaris LLC) sold substantially all of the assets of Astaris LLC to Israel Chemicals Limited in 2005, acquired all of the shares of its Quimica joint venture that it did not already own from Vitro S.A. de C.V. in 2006 to enhance its Saflex business, acquired all of the shares of its Flexsys joint venture that it did not already own from Akzo Nobel N.V. in 2007 and divested its Dequest water treatment phosphonates business to Thermphos Trading GmbH in 2007. During this period, Solutia also closed several plants and plant lines for its businesses and invested in alternative plant lines. In addition, during its bankruptcy proceedings, Solutia significantly restructured its nylon business, which was capital intensive and subject to high raw material price volatility, and later sold its nylon business in 2009 following a sale process for the business that began shortly after its emergence from bankruptcy. As a result of these changes and culminating in the sale of the nylon business, Solutia had oriented its businesses towards higher margin specialty chemical operations.

Following this transformation of Solutia's asset portfolio, the board of directors and senior management of Solutia continued to regularly evaluate transactions that could achieve Solutia's long-term strategic goals and enhance stockholder value. As a result of these efforts, Solutia acquired Etimex Solar GmbH and Novomatrix Pte. Ltd. in 2010 and Southwall Technologies Inc. in 2011, and made several other strategic investments in its facilities and technology in the preceding several years. The Solutia board of directors and senior management evaluated several other significant potential acquisitions and business combination transactions during Solutia's bankruptcy period and continuing through late 2011. However, given the capital structure and leverage of Solutia and trading prices of Solutia common stock following Solutia's emergence from bankruptcy protection, most of the other potential acquisition opportunities that were known to Solutia and that could reasonably be completed by Solutia would not add value to Solutia by a material amount, would not be logical complements to Solutia's

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existing portfolio of assets in the specialty chemicals industry, would result in a significant amount of additional leverage being incurred by Solutia (which would have exposed Solutia to significant risk as a result of the existing leverage of the company) and/or would result in significant dilution to Solutia stockholders, and thus these other acquisitions were not completed.

In addition, following Solutia's emergence from bankruptcy protection, the board of directors and senior management of Solutia, acting regularly through Jeffrey N. Quinn, Chairman of the Board, President and Chief Executive Officer of Solutia, and in regular consultation with the other members of the Solutia board of directors, continued to evaluate and pursue multiple paths to enhance stockholder value, including through improvements to the stand-alone operations of the company, possible acquisitions to increase the size and scope of the operations of the company and a possible sale of Solutia or significant business combination with another specialty chemical company. In particular, the Solutia board of directors sought to increase the size and scope of Solutia when reasonably possible because it believed that a larger company would be a stronger, more competitive and more valuable company to Solutia stockholders, investors and possible acquirors of the company over the long term. In connection with these activities, Solutia has received and considered indications of interest for the possible acquisition of the company or other strategic business combinations involving the company. In particular, in the Fall of 2009, it received an indication of interest from a foreign chemical company, which potentially would have partnered with a private equity firm, which private equity firm we refer to as Party A, about a potential acquisition of Solutia. While the foreign chemical company entered into a confidentiality and standstill agreement with Solutia and engaged in some further discussions regarding this acquisition, the foreign chemical company ultimately did not make a definitive proposal to acquire Solutia. In addition, in the Summer and early Fall of 2010, a U.S.-based chemical company, which we refer to as Party B, and another foreign chemical company each separately informed Solutia that it was interested in partnering with another company to acquire Solutia and would divide up Solutia's businesses between itself and its acquisition partner through the transaction. Neither Party B nor the other foreign chemical company received any confidential information, executed a confidentiality or standstill agreement with Solutia or submitted any definitive indications of interest during these discussions prior to the beginning of 2012. Several private equity firms also have expressed an interest in the possible acquisition of Solutia from time to time. Mr. Quinn engaged in discussions with those private equity firms that had existing portfolio companies or assets in the chemical or specialty chemical industries and he believed could grow those portfolio companies by an acquisition of Solutia and realize strategic benefits of the combination and therefore could share incremental value to Solutia stockholders by virtue of these benefits. In particular, Party A and another private equity firm that we refer to as Party C periodically expressed an interest in acquiring Solutia in 2011, although neither Party A nor Party C received any confidential information, executed a confidentiality or standstill agreement with Solutia or submitted any definitive indications of interest during or following these discussions prior to the beginning of 2012. In addition, in the Spring of 2010, a third private equity firm expressed an interest in acquiring Solutia (either directly or through one of its portfolio companies in the specialty chemical industry), entered into a confidentiality and standstill agreement with Solutia and reviewed certain nonpublic information. Following further consideration of transaction alternatives, this private equity firm ultimately determined that it was interested in acquiring only a minority of the equity of Solutia and indicated, on a preliminary basis, that it would be prepared to offer to pay approximately \$17.00 per share for that minority position. The Solutia board of directors considered this indication of interest in June 2010 and determined that it was not in the best interests of Solutia.

As a result of these transactions, discussions and its periodic review of potentially available transactions and acquisitions through Solutia's bankruptcy proceedings and since that time, Solutia believes it is generally aware of the opportunities for strategic transactions and acquisitions involving companies in the chemical industry generally and Solutia in particular.

Eastman and Solutia have from time to time discussed or been involved in discussions related to Eastman acquiring some or all of Solutia. For example, in the late 1990s, prior to and shortly following Solutia's spin-off from Monsanto Company, Eastman, Monsanto Company (prior to its spin-off of Solutia) and Solutia (following the spin-off) discussed a possible business combination between Solutia and Eastman, including a possible merger. In addition, Eastman was considered by Party B as a potential party with whom Party B could discuss a possible joint

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acquisition of Solutia in the Summer and early Fall of 2010 (with Party B's expectation that Eastman would obtain some of Solutia's businesses following a possible joint acquisition), although no formal discussions took place between executives of Solutia and Eastman related to this proposed joint acquisition.

On March 5, 2009, the closing price of Solutia common stock reached its all-time low (since Solutia's emergence from bankruptcy protection) of \$1.18 per share.

In June 2010, at a meeting of the American Chemistry Council in Colorado Springs, Colorado, Mr. Quinn and Nadim Qureshi, presently Senior Vice President of Corporate Development-Emerging Markets & President of Photovoltaics of Solutia and at the time Senior Vice President, Corporate Strategy and Development of Solutia, met with James P. Rogers, currently the Chairman and Chief Executive Officer and at that time President and Chief Executive Officer of Eastman, and Mark J. Costa, Executive Vice President, Specialty Polymers, Coatings and Adhesives, and Chief Marketing Officer of Eastman, to introduce themselves to each other and to discuss their respective companies, a customary practice at such meetings. During this meeting, Messrs. Quinn, Qureshi, Rogers and Costa discussed in general terms the possibility of a transaction between Solutia and Eastman but did not discuss any specific terms or proposals related to a transaction.

On April 29, 2011, the closing price of Solutia common stock reached its all-time high (prior to the announcement of the merger) of \$26.35 per share.

In mid-July 2011, Mr. Rogers contacted Mr. Quinn to schedule a further meeting between them. Mr. Rogers referred to their prior meeting at the American Chemistry Council meetings over a year earlier and asked to revisit the discussions they had previously held.

On August 4, 2011, the finance committee of the Eastman board of directors, which consists of all of the members of the Eastman board of directors other than Mr. Rogers (the Eastman finance committee) and the Eastman board of directors each held a regular meeting. At the respective meetings, each received an update from Eastman's management on Eastman's review of possible opportunities for inorganic growth, including the possible consideration of the acquisition of Solutia, and Mr. Rogers was authorized to contact Mr. Quinn. References in this Background of the Merger section to the Eastman board of directors (or any committee thereof), in the context of considering, evaluating, obtaining information about, or being involved in any discussions or deliberations regarding, Solutia or the merger exclude Brett D. Begemann, a member of the Eastman board of directors and an Executive Vice President of Monsanto Company (of which Solutia was a part prior to its spin-off in 1997), who recused himself from consideration, evaluation, receipt of information about or involvement in any discussions or deliberations regarding Solutia or the merger.

On August 11, 2011, Messrs. Quinn and Rogers had a dinner meeting in New York City. During this dinner meeting, Mr. Rogers expressed Eastman's preliminary interest in acquiring Solutia. Mr. Rogers explained that the Eastman board of directors had undertaken a review of opportunities for inorganic growth, including through mergers and acquisitions, during the Summer of 2011 and that Eastman had identified Solutia as a possible acquisition candidate. Mr. Rogers explained that he did not think it was best to make a specific proposal at the present time (noting the significant overall recent market volatility and its impact on market valuations on both a specific and overall basis). However, Mr. Rogers inquired about whether Mr. Quinn thought the Solutia board of directors would be receptive to receiving a proposal to acquire Solutia in the near future and any impediments to Eastman making a proposal, including whether Mr. Quinn thought there would be any possible social issues (such as a lack of continuation of employment for Solutia's senior management team serving corporate functions after completion of any transaction) that would make any transaction unacceptable to the Solutia board of directors. Mr. Quinn responded that he would be willing to consider, together with the Solutia board of directors, a proposal for the acquisition of Solutia by Eastman if the proposal would be in the best interests of Solutia stockholders. Following this dinner meeting, Mr. Quinn informed the Solutia board of directors about this discussion. Mr. Rogers provided a similar update to the Eastman board of directors.

On October 5 and 6, 2011, the Eastman board of directors held a regular meeting at which it received a further update from Eastman's management on its continued consideration of a possible acquisition of Solutia.

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On October 6, 2011, Mr. Quinn had a lunch meeting in New York City with representatives of Citi, one of Eastman's financial advisors. During the lunch meeting, the representatives of Citi inquired about whether Solutia would be receptive to continuing to discuss an acquisition of Solutia by Eastman as had been discussed at the August 11 dinner meeting. The representatives noted that Eastman remained interested in acquiring Solutia. Mr. Quinn responded that he would be willing to consider, together with the Solutia board of directors, a proposal for the acquisition of Solutia by Eastman if the proposal would be in the best interests of Solutia stockholders.

In mid-October 2011, Mr. Rogers contacted Mr. Quinn to schedule a further meeting to continue to discuss recent developments related to their companies. Following this discussion, Mr. Quinn consulted with representatives of Deutsche Bank about the possible acquisition of Solutia by Eastman. Solutia had retained Deutsche Bank on prior unrelated transactions and began to consult with Deutsche Bank in mid-October 2011 regarding the potential transaction with Eastman as Solutia's financial advisor, although the fee arrangement with Deutsche Bank was not approved by the Solutia board of directors until December 22, 2011 and the engagement letter with Deutsche Bank was not executed until early January 2012.

Also in mid-October 2011, members of Eastman's management met with representatives of Barclays and Citi in Kingsport, Tennessee to discuss Eastman's possible acquisition of Solutia. Each of Barclays and Citi had previously provided certain financial advisory services (on unrelated matters) to Eastman, although Eastman did not formally engage either firm relating to their respective service in connection with the merger until December 2011 and January 2012, respectively.

During the week of October 17, 2011, the Solutia board of directors held a regular meeting, which was held at Solutia's facilities in China. On October 19, 2011, as part of these board meetings, Mr. Quinn informed the Solutia board of directors that Mr. Rogers had invited him to meet and, based on those discussions, Mr. Quinn predicted that Mr. Rogers could be preparing to submit an indication of interest on behalf of Eastman to acquire Solutia in the near future.

On October 25, 2011, Messrs. Quinn and Rogers had a dinner meeting in Cincinnati, Ohio. At the meeting, Mr. Rogers explained that Eastman had a continuing interest in an acquisition of Solutia and wanted to make a more definitive proposal for the acquisition at the present time. Based on publicly available information and subject to customary qualifications, Mr. Rogers indicated that Eastman would be interested in acquiring Solutia for \$23.00 per share. The value of such proposal represented a premium of approximately 46% to the closing price per share of Solutia common stock of \$15.80 on October 24, 2011, the previous trading day. Mr. Rogers also noted that he believed that Eastman had a strong senior management team across all of its corporate functions and that he expected that the Eastman senior management team would continue in those positions after the transaction with Solutia was completed rather than having the transaction result in a combination of the companies' senior management teams. As a result, Mr. Rogers said he expected that there would not be a management position available that would be satisfactory to Mr. Quinn at Eastman or Solutia following the completion of the transaction. Representatives of Eastman and Solutia did not engage in any other discussions about retention of Solutia's senior management following the completion of the transaction prior to the execution of the merger agreement. Mr. Quinn responded that he would discuss the indication of interest with the Solutia board of directors and respond to Mr. Rogers. Following this dinner meeting, Mr. Quinn informed the Solutia board of directors about this discussion. In addition, Mr. Quinn consulted with representatives of each of Deutsche Bank and Moelis about the possible acquisition of Solutia by Eastman. Solutia had retained Moelis on prior unrelated transactions and began to consult with Moelis in late October 2011 regarding the potential transaction with Eastman as Solutia's financial advisor, although the fee arrangement with Moelis was not approved by the Solutia board of directors until December 22, 2011 and the engagement letter with Moelis was not executed until early January 2012.

Solutia retained Deutsche Bank and Moelis as co-lead financial advisors to Solutia on the same economic terms, and Solutia did not divide financial advisory responsibilities between them in any formal way. Solutia management selected Deutsche Bank and Moelis because it had familiarity with both financial advisors and

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believed that they would be well-qualified to assist Solutia in evaluating the transaction. In particular, Solutia believed that both Deutsche Bank and Moelis had excellent knowledge of Solutia and the chemical sector and high-quality mergers and acquisitions advisory experience and expertise. In addition, between Deutsche Bank and Moelis, Solutia believed it would have access to a full-service financial institution that could be able to facilitate obtaining financing for a transaction if necessary and an independent financial advisory services firm, respectively, and also believed a party to a transaction such as the merger frequently retains more than one financial advisor. The decision to retain both Deutsche Bank and Moelis was not related to any concerns about any prior relationship of Deutsche Bank with either Solutia or Eastman and the timing of contacting one advisor before the other was primarily a matter of convenience.

On November 1, 2011, the Solutia board of directors held a special meeting by teleconference. A representative of Kirkland & Ellis LLP ( Kirkland & Ellis ), Solutia's legal counsel, attended the meeting. At the meeting, Mr. Quinn provided an update to the Solutia board of directors regarding his discussion with Mr. Rogers and Eastman's indication of interest. After discussion, the Solutia board of directors determined that Mr. Quinn should respond to Eastman by stating that Solutia was not for sale and that the Solutia board of directors was not interested in engaging in discussions concerning the transaction proposed by Eastman at the indicated price level.

On November 2, 2011, Mr. Quinn contacted Mr. Rogers and informed him that Solutia was not for sale and that the Solutia board of directors was not interested in engaging in the transaction proposed by Eastman at the price level indicated. Mr. Rogers expressed his disappointment with the response to Eastman's indication of interest but expressed his belief that Eastman would continue to be interested in acquiring Solutia.

On November 8, 2011, Mr. Quinn had a meeting in New York City with a representative of Citi. During the meeting, the representative of Citi conveyed Eastman's disappointment with the response to Eastman's indication of interest and Eastman's desire to continue to pursue an acquisition of Solutia by Eastman if Solutia was willing to discuss the possible acquisition. Mr. Quinn responded that he was willing to consider, together with the Solutia board of directors, a proposal for the acquisition of Solutia by Eastman if the proposal would be in the best interests of Solutia stockholders.

On or about November 18, 2011, Mr. Rogers contacted Mr. Quinn to continue to discuss an acquisition of Solutia by Eastman. Mr. Rogers explained that Eastman remained focused on and interested in the possible acquisition, was willing to consider increasing its proposed price, was working to better understand what price it was prepared to pay and would be back in touch shortly with a revised indication of interest, which he expected to put in a letter to be shared with the Solutia board of directors. During their conversation, Mr. Rogers explained that, based on the current trading price of Solutia common stock, Eastman was considering purchasing shares of Solutia common stock on the open market. Mr. Quinn contacted Mr. Rogers shortly thereafter and explained that he thought Eastman should not acquire shares of Solutia common stock on the open market, in part because doing so may impact the tone of discussions of a negotiated transaction. Eastman ultimately did not acquire any shares of Solutia common stock.

At its regularly scheduled meeting on November 30, 2011, the Eastman finance committee received a further update from Eastman's management on Eastman's consideration and valuation of Solutia in connection with a possible acquisition.

On December 2, 2011, Mr. Rogers contacted Mr. Quinn and told him that he expected to send a letter later in the day containing a proposal for Eastman to acquire Solutia. Later on December 2, 2011, Mr. Rogers sent a letter to Mr. Quinn in which Mr. Rogers proposed that Eastman would acquire Solutia for a price of \$25.75 per share, payable in a combination of cash and a shares of Eastman common stock (with the shares of Eastman common stock representing up to 20% of the total consideration). The value of such proposal represented a premium of approximately 60% to the closing price per share of Solutia common stock of \$16.13 on December 1, 2011, the previous trading day. This proposal was non-binding and subject to customary qualifications, including the need to conduct confirmatory due diligence and negotiate definitive documentation

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for the transaction. Mr. Rogers indicated that Eastman could complete its due diligence review and negotiate definitive documentation within four weeks. In the proposal, Mr. Rogers stated that Eastman expected Solutia would agree to negotiate exclusively with Eastman for a period of 30 days. Mr. Rogers also sent a proposed form of a confidentiality agreement to facilitate the sharing of due diligence information, which form of agreement did not include a standstill provision. In addition, in connection with the delivery of the letter, Curtis E. Espeland, Senior Vice President and Chief Financial Officer of Eastman, sent Mr. Quinn an initial information request list to facilitate Eastman's due diligence review of Solutia.

On December 5 and 6, 2011, the Solutia board of directors held a regular meeting at Solutia's headquarters in St. Louis, Missouri. On December 6, 2011, the Solutia board of directors discussed the December 2 letter from Eastman. Representatives of each of Deutsche Bank, Moelis and Kirkland & Ellis attended this portion of the regular meeting. At the meeting, representatives of Kirkland & Ellis made a presentation on the fiduciary duties of the directors in the context of considering the proposal from Eastman, and they also provided a summary of Solutia's organizational documents and rights plan. Representatives of Deutsche Bank and Moelis made a presentation regarding their preliminary financial analyses of the proposal, background information on Eastman, alternatives available to Solutia (including continuing to operate as a stand-alone company, acquisitions, divestitures, strategic business combinations and a sale of the company) and other parties that may be interested in acquiring Solutia. During the meeting, the Solutia board of directors discussed Solutia's outlook as a stand-alone company, including its long-range plan, execution risks related to the long-range plan and risks related to the macroeconomic assumptions that had been used in preparing the long-range plan. The Solutia board of directors also discussed the proposal from Eastman, possible responses to the proposal, which third parties might also be interested in acquiring Solutia and whether at the present time to contact some of those third parties to get additional information about the alternatives available to Solutia. Following discussion, the Solutia board of directors determined that Solutia should respond to Eastman's proposal by informing Eastman that Solutia was not for sale and that the Solutia board of directors believed that Eastman's proposal for an acquisition at a price of \$25.75 per share was inadequate, however, the Solutia board of directors would be willing to continue discussions with Eastman and provide due diligence information to Eastman to see if Eastman could make a proposal at a price that may be attractive if Eastman executed a confidentiality agreement with a customary standstill provision. The Solutia board of directors decided to wait until it had additional information about Eastman's level of interest before determining whether to contact third parties.

On December 7, 2011, Mr. Quinn contacted Mr. Rogers and informed him that Solutia was not for sale and that the Solutia board of directors believed that Eastman's proposal of \$25.75 per share was inadequate but that the Solutia board of directors would be willing to continue discussions with Eastman and provide due diligence information to Eastman if Eastman executed a confidentiality agreement with a customary standstill provision. Later that day, Paul J. Berra, III, Senior Vice President, Legal and Governmental Affairs and General Counsel of Solutia, sent a proposed form of confidentiality and standstill agreement to Theresa K. Lee, Senior Vice President, Chief Legal and Administrative Officer of Eastman. The proposed form of confidentiality and standstill agreement did not provide for a period of exclusive negotiations for Eastman's benefit.

On December 8, 2011, Mr. Rogers contacted Mr. Quinn to discuss the proposed standstill provision, during which conversation he also inquired about the absence of an exclusivity period for Eastman's benefit in the proposed form of confidentiality and standstill agreement, as had been requested in its December 2 letter. During that conversation and in subsequent discussions between Solutia's and Eastman's respective advisors, the representatives of Solutia explained that Solutia would not agree to an exclusivity period. During the balance of December 8 and on the following day, representatives of Kirkland & Ellis, on behalf of Solutia, and Jones Day, Eastman's legal counsel, negotiated the terms of the confidentiality and standstill agreement.

On December 9, 2011, Solutia and Eastman executed the confidentiality and standstill agreement.

On December 12, 2011, the Solutia board of directors held a special meeting by teleconference. Representatives of each of Deutsche Bank, Moelis and Kirkland & Ellis attended the meeting. At the meeting,



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members of Solutia's senior management provided an update to the Solutia board of directors regarding their recent discussions with Eastman's senior management, the execution of the confidentiality and standstill agreement and the planned schedule for providing due diligence information to Eastman. In addition, the Solutia board of directors and its advisors discussed several factors related to whether the Solutia board of directors should contact third parties at the present time and if so what third parties to contact. These factors included the likelihood of interest from several possible parties, who were the most likely interested parties (and the reasons for possible conclusions about interest levels of parties), the risk of a leak of the discussions by contacting parties and how the risk of a leak increases as a greater number of parties are contacted and the likelihood that contacting third parties would create competitive pressures on Eastman, among other factors. Following discussion, the Solutia board of directors determined that it would wait to get additional information from Eastman about its level of interest before determining whether to contact other potentially interested parties and agreed to reconvene after a management presentation was made to Eastman.

On December 15, 2011, Solutia hosted an investor day in New York City at which it presented information to investors regarding its long-range plan while noting several of the challenges in executing Solutia's long-range plan.

On December 17 and 18, 2011, several members of the Solutia board of directors discussed whether it was advisable for the Solutia board of directors to retain its own financial advisor and special legal counsel to provide the Solutia board of directors with additional assistance in analyzing the proposal from Eastman and, if determined advisable by the Solutia board of directors, other potential transactions that may be available to Solutia and refining a process for considering the Eastman proposal and pursuing other possible proposals. These members of the Solutia board of directors thought it would be helpful to retain advisors with no prior advisory relationship with Solutia and who would receive fees that were not dependent on the outcome of the transaction. Following these discussions, on December 20, 2011, certain of these members of the Solutia board of directors contacted Perella Weinberg to discuss potentially retaining Perella Weinberg as the Solutia board of directors financial advisor, and Faegre & Benson LLP, which has since become Faegre Baker Daniels LLP ( Faegre ), to discuss potentially retaining Faegre as the Solutia board of directors special legal counsel.

On December 19 and 20, 2011, several members of Solutia's senior management (including Mr. Quinn, James M. Sullivan, Executive Vice President and Chief Financial Officer of Solutia, D. Michael Donnelly, Executive Vice President and Chief Operating Officer of Solutia, and Mr. Berra) gave a presentation in St. Louis, Missouri about Solutia and its businesses to several members of Eastman's senior management and representatives of Citi and Barclays, Eastman's financial advisors. In advance of this presentation, on December 15, 2011, representatives of Deutsche Bank and Moelis sent selected financial information related to Solutia (in particular summary data related to Solutia's long-range plan) to representatives of Eastman, Citi and Barclays.

Beginning shortly after this management presentation and continuing until just prior to the execution of the merger agreement on January 26, 2012, Solutia and its representatives and Eastman and its representatives held several in-person and telephonic conferences to discuss due diligence matters and Solutia established a virtual data room to disseminate documentation responsive to Eastman's due diligence requests, to which Eastman and its advisors were granted access on December 23, 2011.

On December 21, 2011, the Solutia board of directors held a special meeting by teleconference. Representatives of each of Deutsche Bank, Moelis and Kirkland & Ellis attended the meeting. At the meeting, the Solutia board of directors discussed the retention of Perella Weinberg and Faegre as the Solutia board of directors financial advisor and special legal counsel, respectively. The Solutia board of directors discussed the ownership by Perella Weinberg's asset management division of shares of Solutia common stock and Perella Weinberg's internal policies and procedures, including information barriers, regarding its asset management division. The Solutia board of directors concluded that the financial advisors providing financial advice would not be influenced by Perella Weinberg's holdings in Solutia common stock. The Solutia board of directors discussed the expected roles of Perella Weinberg and Faegre and approved the retention of these advisors, although the engagement letter with Perella Weinberg was not executed until January 2012. Members of Solutia's senior management and

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representatives of Deutsche Bank and Moelis also provided an update to the Solutia board of directors regarding the recent management presentations, the planned schedule for providing due diligence information and their view of the seriousness of Eastman's interest in the transaction. As had been discussed at its December 12 meeting, the Solutia board of directors discussed whether it should contact at the present time third parties that might be interested in acquiring Solutia. In particular the Solutia board of directors discussed balancing the potential benefits of contacting potentially interested third parties at the present time (including both creating competitive pressure on Eastman to increase its proposed price and gaining additional information through feedback from potentially interested third parties) against the potential risks of doing so (including both the possibility that doing so would create momentum towards a sale of Solutia before the Solutia board of directors had determined whether a sale at the present time was in the best interests of Solutia and its stockholders and the risk of a leak of information limiting the Solutia board of directors' negotiating leverage and alternatives to seek to enhance stockholder value). Following discussion, the Solutia board of directors determined that it would discuss this matter with Perella Weinberg before deciding whether to contact third parties.

On December 22, 2011, the Solutia board of directors held a special meeting by teleconference. Representatives of each of Perella Weinberg, Kirkland & Ellis and Faegre attended the meeting. At the meeting, representatives of Perella Weinberg presented their initial observations with respect to the decisions facing the Solutia board of directors regarding the possible acquisition of Solutia by Eastman, and in particular whether it was advisable at the present time to contact third parties that may be interested in acquiring Solutia. Following discussion, the Solutia board of directors determined that it would have Perella Weinberg complete its preliminary financial analyses of Solutia and the proposal before deciding whether to contact third parties. In the meantime, the Solutia board of directors expressed an interest in Solutia's senior management managing the interaction with Eastman to provide additional time for Perella Weinberg to complete its preliminary financial analyses over the upcoming holidays.

During the last week of December 2011 and the first week of January 2012, Eastman and its advisors continued to conduct its due diligence review of Solutia and Solutia participated in a series of due diligence calls with members of Solutia's management.

On January 3, 2012, the Solutia board of directors held a special meeting by teleconference. Representatives of each of Deutsche Bank, Moelis, Perella Weinberg, Kirkland & Ellis and Faegre attended the meeting. At the meeting, representatives of Perella Weinberg provided an update on the analyses being undertaken by Perella Weinberg and its preliminary conclusions. Representatives of Deutsche Bank and Moelis provided an update on Solutia's assistance with Eastman's due diligence review process, with Solutia's emphasis being on helping Eastman understand the value proposition presented by the acquisition of Solutia, including synergies and growth opportunities in Asia. The representatives of Deutsche Bank and Moelis expressed their view that Eastman was fully engaged in the review process and was proceeding in a manner that is typical of a sincere and interested buyer. They also reminded the Solutia board of directors that they had continued to inform Eastman's financial advisors that Solutia was expecting Eastman to meaningfully improve its December 2 proposal. Following this update, the Solutia board of directors discussed whether it should contact at the present time third parties that might be interested in acquiring Solutia. The representatives of each of Deutsche Bank, Moelis and Perella Weinberg recommended contacting at the present time potentially interested parties. The Solutia board of directors discussed alternatives about when to contact potentially interested parties, how many parties to contact, which parties to contact, whether to sequence the contacts and the message to be conveyed to the parties. During the discussion about contacting potentially interested parties, the directors considered whether doing so would create a conflict of interest for Solutia's senior management and as a result whether a committee of independent directors should be formed to evaluate the transaction or whether other special board procedures should be implemented. Mr. Quinn confirmed that in no event would the Solutia management team have any discussions about continued employment or roll-over of Solutia equity with any party to be contacted prior to the board's approval of the discussion of these topics, and the board concluded that no special procedures were necessary at the present time. There were no circumstances thereafter that caused the Solutia board of directors to reconsider whether special procedures should be implemented. Following discussion, the Solutia board of directors

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authorized Solutia's senior management, Deutsche Bank and Moelis to contact six potentially interested parties, which were determined by the Solutia board of directors following consultation with Solutia's senior management and financial advisors to be the most likely interested parties based on such parties' expressions of prior interest in acquiring either Solutia or other companies in the specialty chemicals industry, experience in specialty chemicals companies, ability to fund or finance a potential transaction and ability to execute a transaction that would be more favorable to Solutia stockholders than a transaction with Eastman. The six parties were comprised of four companies with operations in the chemical industry (Party B and three other parties that we refer to as Party D, Party E and Party F) and two private equity firms (Party A and Party C).

Beginning on January 4, 2012, members of Solutia's senior management and representatives of Deutsche Bank and Moelis contacted the six potentially interested parties. These initial contacts were completed by January 9, 2012. Each of these six parties was told that the Solutia board of directors would be interested in understanding if the party was interested in acquiring Solutia. Each of the parties was invited to submit a non-binding proposal for the acquisition of Solutia, if possible by January 20, 2012. Parties that were interested would receive due diligence materials and were invited to meet with senior management of Solutia and make follow-up inquiries of Solutia upon execution of a confidentiality and standstill agreement. Party A, Party B and Party C expressed preliminary interest in evaluating the opportunity, received and executed a confidentiality and standstill agreement and received due diligence information about Solutia. Party D and Party E each initially expressed preliminary interest in evaluating the opportunity but wanted to consult internally and review the opportunity first on the basis of publicly available information. After this initial review, each of Party D and Party E ultimately declined the opportunity to submit an indication of interest or receive a confidentiality and standstill agreement. Party F initially expressed preliminary interest in evaluating the opportunity and received a confidentiality and standstill agreement; however, following further consideration, it did not execute a confidentiality and standstill agreement or receive any due diligence information and, on January 20, 2012, it indicated that it was interested only in acquiring the Technical Specialties division of Solutia and did not provide any indicative price. Further information on the feedback provided by each of the parties is noted below.

On January 7, 2012, Mr. Rogers contacted Mr. Quinn to discuss the status of Eastman's due diligence review of Solutia. Mr. Rogers informed Mr. Quinn that Eastman was impressed with Solutia and was working to get to a revised view on the value of the company. Mr. Rogers noted though that Eastman had observed some challenges to certain of Solutia's businesses and the speed at which the businesses could grow. Mr. Rogers said that he expected to provide a revised proposal to acquire Solutia later in the week with an expectation that Eastman would want to sign a definitive agreement quickly thereafter (as early as January 22, 2012) and identified the remaining confirmatory due diligence items outstanding.

On January 10, 2012, the Solutia board of directors held a special meeting by teleconference. Representatives of each of Deutsche Bank, Moelis, Perella Weinberg, Kirkland & Ellis and Faegre attended the meeting. At the meeting, Mr. Quinn updated the Solutia board of directors regarding his recent discussion with Mr. Rogers. Representatives of Perella Weinberg made a presentation regarding their preliminary financial analyses of Solutia and the proposal. Perella Weinberg expressed its view, among other observations, that there were risks associated with the underlying macroeconomic and operating assumptions in Solutia's long-range plan and as a result the long-range plan appeared to be an optimistic case of the possible future business performance of Solutia. The Solutia board of directors also discussed the assumptions in Solutia's long-range plan. Following the presentation by Perella Weinberg, members of Solutia's senior management and representatives of Deutsche Bank and Moelis provided an update on the status of the outreach to the six potentially interested parties. In particular they noted the preliminary interest expressed by several of the parties at the present time.

Later on January 10, 2012, Mr. Rogers contacted Mr. Quinn to provide a more definitive proposal to acquire Solutia based on the results of Eastman's due diligence review and the feedback on price that had been provided by Solutia, Deutsche Bank and Moelis. Mr. Rogers stated that, despite the feedback that had been provided, specifically, that Solutia would expect a meaningful improvement to the value of Eastman's proposal, Eastman was unwilling to

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increase the value of its proposal to acquire Solutia for a price of \$25.75 per share (which Mr. Rogers said would consist of a combination of \$20.50 of cash and 0.129 shares of Eastman common stock). The value of such proposal represented a premium of approximately 48% to the closing price per share of Solutia common stock of \$17.35 on January 9, 2012, the previous trading day. Mr. Rogers noted that this value had become more definitive since Eastman's December 2 letter based on Eastman's due diligence review and the proposal was subject only to Eastman conducting certain site visits, receiving a few remaining segment financial materials, and negotiation of a merger agreement. Mr. Rogers explained that Eastman viewed Solutia's long-range plan as overly optimistic (particularly on its macroeconomic assumptions) and that the rate of return from the acquisition was lower than Eastman was expecting (even if it was accretive), both of which supported a lower price per share. He also noted that the Eastman board of directors had recently met and considered its alternatives, including pursuing alternate transactions or completing the merger at a lower price than was currently offered, and that, as a result, the current proposal was the best price the Eastman board of directors would authorize. Mr. Rogers also stated that the proposal was being made at the current price on the expectation that a final agreement with that price could be reached by January 26, 2012, the scheduled date of Eastman's fourth quarter earnings announcement, and that the price could decline in the future. Mr. Rogers stated that he would like feedback on the proposal by later that week. Mr. Quinn expressed disappointment with the lack of increase in the price proposed by Eastman and explained that several of Solutia's directors would likely not support this price. However, he said he would share the proposal with the Solutia board of directors and provide feedback based on the direction provided by the Solutia board.

On January 11, 2012, Solutia and Party B executed a confidentiality and standstill agreement and thereafter Party B received due diligence materials related to Solutia. It indicated that it would submit an indication of interest within the coming weeks and would inquire further of Solutia if it required additional information.

Also on or about January 11, 2012, Party E contacted Mr. Quinn and declined to submit an indication of interest.

On January 12, 2012, the Solutia board of directors held a special meeting by teleconference. Representatives of each of Deutsche Bank, Moelis, Perella Weinberg, Kirkland & Ellis and Faegre attended the meeting. At the meeting, Mr. Quinn updated the Solutia board of directors regarding his recent discussion with Mr. Rogers. He also provided an update on the status of the discussions with the six potentially interested parties that had been contacted, noting that Party E recently had declined to participate. The Solutia board of directors discussed with its advisors potential responses to the Eastman proposal, giving consideration to the proposed price, possible higher prices that Eastman could propose, risks of continued operation of the business as a stand-alone company and other factors. The Solutia board of directors also discussed negotiation tactics, including whether it was best to reject the price or provide guidance in response and whether Eastman would increase its proposed price and bid against itself if no guidance was provided or cease discussions altogether if it got what it regarded as an unacceptable response. The members of Solutia board of directors agreed that they did not want the response to lead Eastman to cease negotiations but wanted additional time to receive feedback from the potentially interested parties that had been contacted. The Solutia board of directors tentatively determined to reject the proposal as inadequate without providing an acceptable price or price range in response but agreed that the Solutia board of directors should meet again before doing so to discuss in more detail what price range they would view as acceptable for purposes of providing guidance to Eastman.

Also on January 12, 2012, each of Party A and Party C executed a confidentiality and standstill agreement with Solutia and thereafter each of Party A and Party C received due diligence materials related to Solutia. Each of Party A and Party C indicated that it would submit an indication of interest within the coming weeks and would inquire further of Solutia if it required additional information.

On January 13, 2012, Mr. Quinn provided an update to Mr. Rogers that the Solutia board of directors was continuing to evaluate Eastman's proposal and would not be able to provide feedback by the end of the week as Mr. Rogers had requested.

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On January 14, 2012, the Solutia board of directors held a special meeting by teleconference. Representatives of each of Kirkland & Ellis and Faegre attended the meeting. At the meeting, the Solutia board of directors continued to discuss potential responses to Eastman's most recent proposal. In particular, the Solutia board of directors discussed Solutia's recent business performance, the execution risks of continued operation of the business as a stand-alone company and the directors' views on Solutia's stand-alone prospects and value, and their view that the future successful execution of Solutia's long-range plan would require that Solutia attract and retain high-quality, fully-engaged management across all businesses and corporate functions. They also discussed the status of feedback from the potentially interested parties that had been contacted, noting that three parties (Party A, Party B and Party C) had executed confidentiality and standstill agreements, had received information about Solutia and were expected to provide an indication of interest within the coming weeks but that another party (Party D) appeared to be declining to participate as it had not returned calls within the preceding several days. The Solutia board of directors determined to reject Eastman's proposal to acquire Solutia at a price of \$25.75 per share as inadequate without providing an acceptable price or price range in response but agreed that Solutia's senior management, Deutsche Bank and Moelis could make clear that the Solutia board of directors was open to continuing the dialogue about the acquisition with Eastman which would give the Solutia board of directors additional time to receive feedback from the four potentially interested parties that had been contacted and had not yet declined to participate.

On January 15, 2012, Mr. Quinn informed Mr. Rogers that the Solutia board of directors had rejected Eastman's proposal to acquire Solutia at a price of \$25.75 per share and was not providing further feedback on an acceptable price or range of prices in response. Mr. Quinn explained that the Solutia board of directors was disappointed that Eastman had not increased the price of its proposal since its December 2 proposal. However, he indicated that Solutia would be prepared to continue to engage in discussions related to the acquisition. In response, Mr. Rogers stated that he was disappointed that Solutia was not providing any feedback to Eastman on an acceptable price and that Eastman may cease to pursue the acquisition. Messrs. Quinn and Rogers spoke on a few other occasions later on January 15 and on January 16, 2012 about Solutia's response to Eastman's most recent proposal. During these other conversations, they agreed that it would be productive for Deutsche Bank and Moelis, as financial advisors to Solutia, and Barclays and Citi, as financial advisors to Eastman, to meet to discuss their respective views on the values that should be attributed to Solutia. Mr. Rogers also said that he expected to send a letter in the next few days regarding the negotiations and the possible acquisition.

On January 16, 2012, representatives of Deutsche Bank, Moelis, Citi and Barclays met to discuss the proposed acquisition and discussed their respective views on the values that should be attributed to Solutia. The representatives of Deutsche Bank and Moelis explained that the Solutia board of directors expected that Eastman would propose a higher price than had been proposed and explained why they believed a higher price was justified. The representatives of Citi and Barclays explained that Eastman might be willing to propose a higher price but would not be willing to do so without guidance about a price that would be acceptable to Solutia and that a materially higher price would not be warranted.

Also on January 16, 2012, representatives of Party F provided comments to Solutia and its advisors on the draft confidentiality and standstill agreement that had been provided by Solutia. In the course of providing this feedback, Party F noted that it was only interested in considering the acquisition of Solutia, and would only execute the confidentiality and standstill agreement, in each case if Party F was expressly permitted to partner with Party C at the present time for the acquisition. In part because Party C was already evaluating a transaction to acquire Solutia without Party F, Solutia concluded that allowing Party F and Party C to partner at the present time might distract Party C from its ongoing evaluation of the transaction and would not increase the number of potential indications of interest that could be received as a result of the process of contacting potentially interested parties. In addition, Solutia concluded that it could allow Party F to partner with Party C or another party, or could facilitate partnerships of any other parties that would be interested in acquiring some but not all of the company, at a later time if it was prudent to do so at that time. As a result, over the course of the next several days, Solutia informed Party F that it would not be permitted to partner with another party at the present time.

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In addition, on January 16, 2012, members of Eastman's management communicated with the Eastman board of directors to update the board on the status of pricing discussions with Solutia's management in connection with the merger and Eastman's plans to further refine its purchase price to complete the merger while remaining within a price range supported by the Eastman board of directors.

On January 18, 2012, Mr. Rogers contacted Mr. Quinn. He said that he expected to send a letter later in the day proposing a path forward for negotiations on determining an acceptable price per share for Solutia. He also said that he believed it was appropriate to eliminate impediments to reaching an agreement on terms other than price. As a result, among other scheduling items, he proposed scheduling meetings for Solutia to conduct a due diligence review of Eastman and informed Solutia that Eastman's advisors would send a proposed form of merger agreement showing the other terms on which Eastman would be prepared to complete the merger. Eastman's senior management and its financial advisors continued to work to analyze and interpret the impact of the merger on Eastman's credit ratings. Following consultation with representatives of Deutsche Bank, Moelis, Perella Weinberg, Kirkland & Ellis and Faegre and other directors, Mr. Quinn responded to Mr. Rogers on the following day that these meetings could be scheduled.

Later that evening on January 18, 2012, Mr. Rogers sent Mr. Quinn a letter regarding possible future negotiations. In the letter, Mr. Rogers said Eastman was disappointed by the Solutia board of directors' rejection of Eastman's proposal but still believed, based on the work done to date, that there was the potential for Eastman to make some modest movement of its proposed price. The letter stated, however, that Eastman could only do this in response to some indication of an acceptable value from Solutia. The letter also made reference to the other actions he had proposed to Mr. Quinn during their conversation earlier in the day described above.

On January 19, 2012, representatives of Eastman sent to representatives of Solutia an initial draft of a merger agreement for the possible transaction.

The initial draft merger agreement provided that, in the event Eastman was unable to obtain the financing for the merger contemplated by its financing commitments or alternative financing, Solutia would not be entitled to pursue specific performance as a remedy to seek to force Eastman to complete the merger. Instead, in that event, Solutia would be entitled to a reverse termination fee that could become payable by Eastman equal to 4% of the equity value of the merger and would have no further remedies against Eastman, including damage claims. Eastman could also delay the closing for marketing periods of uncertain duration for its financing until Solutia provided additional information. In addition, the draft merger agreement provided that Solutia and Eastman would use their commercially reasonable efforts to obtain antitrust approvals, but Eastman's obligations to seek the approvals was limited to \$2 million in expenditures. The draft merger agreement included customary, mutual closing conditions that neither party would be required to complete the merger if a material adverse effect had occurred on the other party, but the definition of material adverse effect in the draft merger agreement was very broad (including specific reference to prospects) and had few exceptions to the definition for events that would not constitute a material adverse effect. The effect of the foregoing provisions (if accepted) was to lower the certainty that Eastman would be required to complete the acquisition if adverse developments regarding Eastman's financing, antitrust approvals or Solutia's business occurred. The draft merger agreement also provided for a termination fee that could become payable by Solutia equal to 4% of the implied equity value of Solutia and provided Eastman with a matching period of 6 business days in the event a superior offer was made for Solutia, with an additional matching period of 6 business days each time such a superior offer was made.

On January 20, 2012, Party D contacted Mr. Quinn and declined to submit an indication of interest. In addition, on January 20, 2012, Party F sent a letter to Solutia in which Party F indicated that it was interested only in acquiring the Technical Specialties division of Solutia and did not provide any indicative price.

During the course of the next several days, Messrs. Rogers and Quinn spoke about how to facilitate further negotiation of the price of Eastman's proposal and the resulting merger consideration. Mr. Quinn indicated that

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he would discuss a response further with the Solutia board of directors on January 23, 2012 and could likely respond after that meeting. In anticipation of additional negotiations of price, Mr. Rogers informed Mr. Quinn that he would seek additional authority from the Eastman board of directors for increases to the price to be paid in the acquisition. Mr. Rogers informed Mr. Quinn that he would meet with the Eastman board of directors on January 22, 2012 and that he continued to believe it was important to reach and announce a final agreement quickly if they were going to reach an agreement at all. During these discussions, Mr. Quinn also noted that he believed that any merger agreement that would be acceptable to Solutia would need to provide a high degree of certainty of closing and that the reverse termination fee approach of the initial draft of the merger agreement would not be acceptable.

On January 22 and 23, 2012, several members of Eastman's senior management (including Mr. Espeland) and its advisors provided due diligence information and gave a presentation about Eastman and its businesses to Solutia's senior management (including Messrs. Sullivan, Donnelly and Berra) and advisors.

Also on January 22, 2012, the Eastman board of directors held a special meeting attended by, among others, representatives of Barclays, Citi and Jones Day. Members of Eastman's management provided various updates on the timing and status of negotiations with Solutia on the acquisition, including the current status of the pricing terms thereof and a potential range of values, and legal, financial and business due diligence. Management and Eastman's advisors also provided the Eastman board of directors with updated information on Solutia's business and integration matters, and Eastman's discussions with its advisors and other third parties relating to the impact of the merger on Eastman's credit ratings. Representatives of Barclays and Citi gave presentations related to financial analyses and valuation that each firm was undertaking. Mr. Rogers advised the Eastman board of directors that he would provide updates on any significant developments in the negotiating process.

By the morning of January 23, 2012, each of the six potentially interested parties that had been contacted had each provided its respective feedback. As previously noted, only Party A, Party B and Party C executed confidentiality and standstill agreements and received due diligence information about Solutia. These parties had considered this information and Solutia had offered to have follow-up discussions with Solutia's senior management, Deutsche Bank and Moelis to assess the opportunity during mid-January 2012, although none of these parties requested and there were no follow-up discussions or negotiations with these parties. The other three parties had declined to pursue the opportunity at various times during the preceding two weeks as noted above. Despite previously expressing strong interest in the opportunity, Party B provided its feedback on or about January 18, 2012 that after consideration of the due diligence information and opportunity, it was declining to pursue the opportunity. Consequently, none of the four companies that had been contacted through this outreach and that had operations in the chemical industry elected to submit an indication of interest. Party C had provided a preliminary, non-binding, oral indication of interest on January 20, 2012 that it expected to be able to propose to pay up to \$27.00 per share; however, this price was subject to its assumption that it could find a partner to purchase Solutia's Technical Specialties division at a high single digit multiple and assume all legacy liabilities of Solutia and that the sale of the Technical Specialties division would not result in any incurrence of tax liabilities. Party C stated that it believed it could be in a position to enter into an agreement to acquire Solutia in approximately four to five weeks. Party A had provided a preliminary, non-binding, oral indication of interest on January 23, 2012 that it expected to be able to propose to pay between \$26.00 per share and \$28.00 per share, although it expressed more confidence in its ability to propose a price at the lower end of the range because the higher end of the range would require findings of upside opportunities that it had not seen to date. Party A stated that it believed it could be in a position to enter into an agreement to acquire Solutia in approximately three weeks but that it would likely require that Solutia would negotiate exclusivity with Party A during this period and/or agree to reimburse Party A for its expenses in evaluating the acquisition.

On the afternoon of January 23, 2012, the Solutia board of directors held a special meeting at the offices of Kirkland & Ellis in New York City. Representatives of each of Deutsche Bank, Moelis, Perella Weinberg and Kirkland & Ellis attended the meeting. At the meeting, the Solutia board of directors received an update on the most recent financial results of Solutia's operations. The Solutia board of directors also received presentations

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from two consulting firms that had been asked to consider Solutia's long-range plan, the impact of macroeconomic factors on the achievability of the plan and possible unseen risks and opportunities available to Solutia. The first consultant identified several macroeconomic risks (including market and country-specific growth, regulatory uncertainty and currency risk) to the execution of Solutia's long-range plan. The second consultant stated that in its view the long-range plan was based on optimistic macroeconomic assumptions and that there was more downside risk in the long-range plan than upside potential. See *Presentations by Solutia's Consultants* beginning on page 117. Representatives of Deutsche Bank and Moelis provided an update on the recent events related to the conversations between Solutia and its advisors and Eastman and its advisors and the results of the outreach to the six potentially interested parties noted in the preceding paragraph. The financial advisors and the Solutia board of directors discussed the assumptions on which Party A and Party C had based their indications of interest and assessed the likelihood that either indication of interest would result in a proposal that was more favorable to the Solutia stockholders than a proposal that Eastman would likely make. For additional information on the considerations of the Solutia board of directors related to the indications of interest from Party A and Party C, see *Recommendation of the Solutia Board of Directors and Solutia's Reasons for the Merger - Lack of More Favorable Transaction Alternatives* beginning on page 91. The Solutia board of directors discussed with its advisors potential responses to the January 18 letter from Eastman. In particular, the Solutia board of directors discussed the most recent price proposed by Eastman and the stand-alone prospects for Solutia and considered various negotiation strategies, including whether to provide additional guidance on price in response now that the Solutia board of directors had the benefit of additional information from the results of the outreach to third parties and the possible effects of Eastman's stated desire to reach an agreement quickly. The Solutia board of directors and its financial advisors also discussed the results of due diligence by Solutia's management team and advisors with respect to Eastman and whether to propose price protection for the stock portion of the consideration proposed by Eastman. Representatives of Kirkland & Ellis also reminded the Solutia board of directors about prior discussions of the fiduciary duties of the directors in connection in the context of considering a proposal to sell Solutia and also discussed several of the open terms in the initial draft merger agreement. Following discussion, the Solutia board of directors authorized a response to Eastman's proposal to acquire Solutia with a proposed price between \$28.00 and \$28.50 per share, with the specific number and formulation of such proposed price in that range to be as determined by Mr. Quinn following further consideration with the financial advisors. In response to the receipt of the indications of interest from Party A and Party C, representatives of Solutia responded to each party that Solutia would respond to them as Solutia determined to be appropriate.

Later on the evening of January 23, 2012, Mr. Quinn contacted Mr. Rogers and stated that the Solutia board of directors was prepared to approve the acquisition of Solutia for merger consideration of approximately \$28.50 per share, payable in a combination of \$20.50 of cash and 0.175 shares of Eastman common stock. Mr. Quinn also stated that Solutia would try to reach final agreement on the acquisition on the timeline proposed by Eastman if Eastman agreed to this price. Mr. Quinn said that there was a meeting of the Solutia board of directors scheduled for the following morning at which he would discuss Eastman's response to this proposal if available by then. Based on the discussions of the Solutia board of directors at the meeting, Solutia did not respond to Party A or Party C relating to their respective indications of interest prior to the execution of the merger agreement.

On the morning of January 24, 2012, Mr. Rogers contacted Mr. Quinn and proposed that Eastman would acquire Solutia for a price of \$26.85 per share, payable in a combination of \$22.00 of cash and 0.105 shares of Eastman common stock. Mr. Rogers noted that, with this revised proposal, Eastman was near the end of its flexibility regarding the price negotiations and that the Eastman board of directors would not support a price much higher than the proposed price.

Later in the morning on January 24, 2012, the Solutia board of directors held a special meeting at the offices of Kirkland & Ellis in New York City. Representatives of each of Deutsche Bank, Moelis, Perella Weinberg, Kirkland & Ellis and Faegre attended the meeting. At the meeting, the Solutia board of directors received an update on the discussions of price between Messrs. Quinn and Rogers since the most recent board meeting. The Solutia board of directors discussed with its advisors potential responses to the most recent proposal from



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Eastman. They also discussed whether it was appropriate to request price protection provisions (such as a collar arrangement) for the stock portion of the merger consideration. The Solutia board of directors also reviewed the open terms in the initial draft merger agreement. Following discussion, the Solutia board of directors authorized a response to Eastman's proposal to acquire Solutia with a proposed price of \$27.50 per share and not to propose a price protection arrangement for the stock portion of the merger consideration.

Later that morning, Mr. Quinn contacted Mr. Rogers and stated that the Solutia board of directors would approve the acquisition of Solutia for merger consideration of approximately \$27.50 per share. During subsequent conversations that morning and early that afternoon, Messrs. Quinn and Rogers agreed in principle, subject to approval of the boards of directors, to an amount of merger consideration equal to \$22.00 per share in cash and 0.12 shares of Eastman common stock for each share of Solutia common stock, which was equal to approximately \$27.50 per share when agreed to in principle and \$27.65 per share as of the close of business on January 26, 2012 based on the then current market prices of Eastman common stock.

Later that afternoon, representatives of Kirkland & Ellis sent to representatives of Jones Day a revised draft of the merger agreement for the possible acquisition. The revised draft of the merger agreement increased the deal certainty of the acquisition for Solutia relative to the initial draft of the merger agreement that had been provided. In particular, it required Eastman to be responsible for obtaining its financing without limiting Solutia's remedies to a reverse termination fee (which remedies of Solutia would include the right to seek to require Eastman to perform its obligation to complete the merger and to pursue damages in excess of the amount of the previously-contemplated reverse termination fee), required Eastman to take all actions to obtain antitrust approvals and included a more limited definition of a material adverse effect. It also included a termination fee that could become payable by Solutia equal to 2% of the implied equity value of Solutia and provided Eastman with a matching period of two business days in the event a superior offer was made for Solutia (and a single one business day matching period for the first subsequent increased offer). The revised draft agreement also provided for greater flexibility for Solutia to operate its business in the ordinary course prior to the closing of the merger, including for material operating contracts and compensation awards, and placed greater limitations on Eastman regarding equity issuances and large transactions that could affect the value of the stock portion of the merger consideration prior to the closing.

Later on January 24, 2012, Eastman's management provided a further update to the Eastman board of directors on the status of pricing discussions, indicating that the agreed upon terms were within the range originally discussed with the Eastman board of directors, and also provided an update on timing considerations.

On January 25, 2012, representatives of Solutia (including Mr. Berra), together with representatives of Kirkland & Ellis, met with representatives of Eastman, together with representatives of Jones Day, to discuss the terms of the drafts of the merger agreement. During the course of this meeting, the parties discussed the financing of the merger, the contract provision related to a delay in the closing of the merger based on a potential delay in obtaining the financing, the standard for obtaining regulatory approvals, the terms of the material adverse effect definition, the size of the termination fee that could become payable by Solutia, Eastman's matching rights, the restrictions on the operation of each party's business prior to the closing of the merger including restrictions on Solutia's ability to continue to pay quarterly dividends, the compensation to be paid to Solutia employees based on upcoming annual compensation reviews and awards and entry into ordinary course commercial transactions and other terms. The parties reached agreement in principle on these terms at this meeting and through subsequent discussions later that day and early the following day, reflecting terms set forth in the merger agreement.

Later that evening and continuing until the evening of January 26, 2012 and culminating in the execution of the merger agreement on that evening, the parties and their respective counsel exchanged several drafts of the merger agreement and related definitive documentation and disclosure schedules and engaged in several negotiations of these documents. In addition, on January 25, 2012, Solutia received forms of the financing commitments to be entered into by Eastman in connection with the execution of the merger agreement and provided comments on those commitments through the execution of the merger agreement on January 26, 2012.

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On the evening of January 26, 2012 after the close of trading on the New York Stock Exchange, the Solutia board of directors held a special meeting by teleconference. Representatives of each of Deutsche Bank, Moelis, Perella Weinberg, Kirkland & Ellis and Faegre attended the meeting. At the meeting, the senior management of Solutia provided an update to the Solutia board of directors regarding the final negotiations of the terms of the merger, in particular the negotiations of the merger consideration. Representatives of Kirkland & Ellis made a presentation of the terms the merger agreement, focusing on the treatment of financing and antitrust risk, the definition of material adverse effect, the other conditions to closing (including the receipt of stockholder approval), the non-solicitation covenants and rights of the Solutia board of directors to change its recommendation and if applicable accept a superior proposal, the termination fee and other provisions relating to alternative proposals. Representatives of each of Deutsche Bank and Moelis and then representatives of Perella Weinberg each presented their respective financial analyses of the merger consideration and rendered their respective oral opinions (each subsequently confirmed in writing) that as of the date of the opinion and based on and subject to the assumptions, qualifications and limitations on the scope of review undertaken by each financial advisor as discussed in each opinion, the merger consideration was fair, from a financial point of view, to the Solutia stockholders. See

Opinions of Financial Advisors beginning on page 95. The Solutia board of directors and its advisors also discussed the principal reasons for the merger, referring in part to prior discussions of these topics at prior meetings. The Solutia board of directors and its advisors discussed Solutia's prospects as a stand-alone company and the absence of any alternative transactions that were known to the Solutia board of directors or its advisors that would be reasonably likely to result in a value to Solutia stockholders in excess of the merger consideration (including as a result of the outreach to the six potentially interested parties that had previously been contacted). Deutsche Bank and Moelis noted that they had discussed with two other companies with chemical operations a possible acquisition involving Solutia earlier that week, both of whom had not been among the parties contacted by Solutia in early January 2012. Both of these two other companies responded to Deutsche Bank and Moelis that they were not interested in acquiring Solutia. Mr. Quinn noted that, during a discussion earlier that week, Party B indicated it was not interested in acquiring Solutia at a price level equal to what Eastman was proposing. See Recommendation of the Solutia Board of Directors and Solutia's Reasons for the Merger beginning on page 89 for additional information related to the factors considered by the Solutia board of directors in approving the merger and the transaction contemplated by the merger agreement and recommending that Solutia stockholders vote

FOR the proposal to adopt the merger agreement. Following discussion, the Solutia board of directors unanimously determined that the terms of the merger and the other transactions contemplated by the merger agreement were advisable, fair to and in the best interests of Solutia and its stockholders, approved the merger agreement, the merger and the other transactions contemplated by the merger agreement, recommended that Solutia stockholders vote FOR the proposal to adopt the merger agreement and authorized Solutia's management to execute the merger agreement on the terms described to the Solutia board of directors. In addition, the Solutia board of directors approved an amendment to the Solutia Rights Agreement to render the Solutia Rights Agreement inapplicable to the merger agreement and the transactions contemplated thereby.

Also in the evening on January 26, 2012, the Eastman board of directors held a special meeting by teleconference. Representatives of each of Barclays, Citi, and Jones Day attended the meeting. At the meeting, Mr. Rogers updated the Eastman board of directors on the status of the agreement with Solutia, including the agreed upon pricing terms for the merger, due diligence developments, the terms and conditions of the financing commitments to be entered into by Eastman and Eastman's management's expectations for the credit ratings of Eastman after the merger if completed. Thereafter, representatives of Jones Day made a presentation describing the material terms of the merger agreement, including the structure of the acquisition, the non-solicitation provisions (including provisions relating to alternative acquisition proposals), and the financing provisions contained therein. Other members of Eastman's management provided the Eastman board of directors with an overview of the financing plans and commitments received in connection with the merger, and representatives of each of Barclays and Citi updated the Eastman board of directors with their evaluations of the transaction. Following discussion, the Eastman board of directors, having determined that the merger and the transactions contemplated by the merger agreement were advisable and in the best interests of Eastman and its stockholders, approved and adopted the merger agreement.

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Following the conclusion of the meeting of the Solutia board of directors and the Eastman board of directors on the evening of January 26, 2012, Solutia and Eastman executed the merger agreement.

In the early morning of January 27, 2012, Solutia and Eastman issued a joint press release announcing the execution of the merger agreement and thereafter Eastman held its quarterly conference call with analysts to discuss its fourth quarter and full year 2011 financial results and the merger.

### **Recommendation of the Solutia Board of Directors and Solutia's Reasons for the Merger**

**After careful consideration, the Solutia board of directors unanimously approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and declared that the merger agreement, the merger and the other transactions contemplated by the merger are advisable, fair to and in the best interests of Solutia and its stockholders. The Solutia board of directors unanimously recommends that Solutia stockholders vote FOR the proposal to adopt the merger agreement.**

In determining that the merger and the other transactions contemplated by the merger agreement are advisable, fair to and in the best interests of Solutia and its stockholders, the Solutia board of directors consulted with Solutia's senior management, Solutia's financial and legal advisors and the Solutia board of directors' financial (whose fees were not contingent on the outcome of any transaction or the conclusions in any opinion) and legal advisors and considered a number of factors, including the following material factors:

*Merger Consideration.* The Solutia board of directors considered a number of factors related to the merger consideration and the financial terms of the merger agreement. In particular, the Solutia board of directors considered the following:

*Implied Value; Historical Trading Prices.* The Solutia board of directors concluded that the merger consideration to be received by Solutia stockholders, including the implied value of the merger consideration of \$27.65 per share as of the close of trading on January 26, 2012, represented an attractive valuation for Solutia. This implied value of the merger consideration represented a premium of approximately 42% to the closing price per share of Solutia common stock of \$19.51 on January 26, 2012, the last trading day prior to the Solutia board of directors' approval of the merger, and premiums of approximately 52.8% and 70.7%, respectively, to the one-month and six-month trailing average closing prices of Solutia common stock as of the close of trading on January 26, 2012.

*Significant Portion of Merger Consideration in Cash.* The Solutia board of directors considered that most of the merger consideration will be paid in cash, giving Solutia stockholders an opportunity to realize certain value for a significant portion of their investment immediately upon the completion of the merger.

*Participation in Potential Upside Through Stock Portion of Merger Consideration.* The Solutia board of directors considered that a portion of the merger consideration will be paid in shares of Eastman common stock and, as a result, Solutia stockholders would have the opportunity to participate in any future earnings or growth of the combined company and future appreciation in the value of Eastman common stock following the merger should they decide to retain the Eastman common stock payable in the merger. The Solutia board of directors considered information relating to Eastman, Eastman's strategic rationale for the merger and the prospects of the combined company following the merger. In this regard, the Solutia board of directors noted that the combined company would have strong market positions in its products and a strong, diversified product portfolio. Further, the Solutia board of directors considered Eastman's estimates regarding the significant potential cost savings, revenue synergies and other benefits obtainable from the merger, which, while not independently prepared by Solutia, the Solutia board of directors believed were consistent with the types and amounts of cost savings, revenue synergies and other benefits that had been obtained in similar transactions. In addition, the Solutia board of directors believed that Eastman would be expected to maintain an investment grade rating after the merger. The Solutia board of

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directors also considered that the lack of a price protection provision (such as a collar) would permit Solutia stockholders to benefit fully from an increase in the trading price of Eastman common stock during the pendency of the merger.

*Extensive Negotiations with Eastman.* The Solutia board of directors considered the benefits that Solutia and its advisors were able to obtain as a result of extensive negotiations with Eastman, including a significant increase in Eastman's proposal from the time of its initial proposal to the end of the negotiations. The Solutia board of directors concluded that the merger consideration provided for in the merger agreement reflected the best value that Eastman would be willing to provide at the present time.

*Financial Condition and Stand-Alone Prospects of Solutia.* The Solutia board of directors considered Solutia's business, financial condition and the results of operations, as well as Solutia's long-range plan and the company's prospects as a stand-alone company. In particular, the Solutia board of directors considered the following:

*Market and Execution Risks.* While the Solutia board of directors remained supportive of Solutia's long-range plan and optimistic about Solutia's prospects on a stand-alone basis, it also considered the significant risks associated with going forward as an independent company. The Solutia board of directors considered the potential market and execution risks associated with Solutia's long-range plan. The Solutia board of directors was also aware that the future successful execution of Solutia's long-range plan would require that the company attract and retain high-quality, fully-engaged management across all businesses and corporate functions. In light of these risks, the Solutia board of directors considered the related risk that, if Solutia did not enter into the merger agreement with Eastman, the trading value of shares of Solutia common stock could be significantly lower than the merger consideration. The Solutia board of directors considered that the ability of Solutia stockholders to realize values higher than merger consideration on the sale of Solutia common stock during the next several years would likely require both the achievement of the projected results of operations of Solutia's long-range plan (despite the execution risks) and that the market reevaluate the trading multiple of Solutia common stock relative to its earnings to a trading multiple so that the Solutia common stock would trade in line with its peer specialty chemical companies. The Solutia board of directors concluded that the merger consideration will enable Solutia stockholders to realize a substantial portion of Solutia's potential future value without the market or execution risks associated with continued operation as a stand-alone company.

*Exposure to Macroeconomic Factors.* The Solutia board of directors considered that Solutia's operating performance had been and would continue to be subject to extensive impact from macroeconomic factors and that there were risks associated with the macroeconomic assumptions that had been used in preparing Solutia's long-range plan. Solutia's board considered that many of its products were sold to or intended for customers in industries that had product demand dependent on macroeconomic business performance, such as automotive, commercial aviation, architectural/home building, energy consumption and other industrial end use industries. Consequently, Solutia's board recognized that demand for Solutia's products was very dependent on macroeconomic business performance. In addition, execution of the long-range plan was subject to the effects of global macroeconomic changes, particularly growth in Asia and Europe. As a result of these factors, the Solutia board of directors considered that Solutia had heightened exposure to certain macroeconomic risks by virtue of its business model and lines of business as compared to the exposure of some other companies and business models. The Solutia board of directors also considered that the macroeconomic assumptions on which Solutia's long-range plan had been originally created were more optimistic than most third party projections for growth rates for their respective underlying markets (with the assumptions being about 10% higher than current third party projections). In connection with these considerations, the Solutia board of directors also considered presentations from two consultants regarding macroeconomic factors, Solutia's long-range plan, the impact of macroeconomic factors on the achievability of the plan

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and possible unseen risks and opportunities available to Solutia. See *Presentations by Solutia's Consultants* beginning on page 117 for additional information about these presentations. As a result of these macroeconomic factors, the Solutia board of directors observed that there may be more downside risk in the long-range plan than upside potential.

*Uncertainty of Forecasts.* The Solutia board of directors was aware of the inherent uncertainty of attaining management's internal financial projections, including those set forth in the section entitled *Certain Unaudited Solutia Forecasts* beginning on page 121, and that as a result Solutia's actual financial results in future periods could differ materially from management's forecasted results, including those set forth in the long-range plan.

*Lack of Other Acquisition Opportunities.* The Solutia board of directors considered that the stand-alone company would need to grow organically given the limited number of acquisition opportunities known to Solutia that could be reasonably completed by Solutia and that would have added value to Solutia by a material amount. In particular, the Solutia board of directors concluded that most of the acquisition opportunities that were known to Solutia and that could reasonably be completed by Solutia would not add value to Solutia in a material amount, would not be logical complements to Solutia's existing portfolio of assets in the specialty chemicals industry, would result in a significant amount of additional leverage being incurred by Solutia (which would have exposed Solutia to significant risk as a result of the existing leverage of the company) and/or would result in significant dilution to Solutia stockholders.

*Opinions of Financial Advisors.* The Solutia board of directors considered the opinions of each of Deutsche Bank and Moelis as financial advisors to Solutia and Perella Weinberg as financial advisor to the Solutia board of directors, that, as of the date of the opinions and based on and subject to the assumptions, qualifications and limitations on the scope of review undertaken by each financial advisor as discussed in each opinion, the merger consideration was fair, from a financial point of view, to the holders of the shares of Solutia common stock and their respective related presentations of financial analyses of the merger consideration. The Deutsche Bank, Moelis and Perella Weinberg opinions and the related financial analyses are more fully described in the subsection entitled *Opinions of Financial Advisors* beginning on page 95. The full text of the fairness opinions are attached to this proxy statement/prospectus as *Annex B*, *Annex C* and *Annex D*, respectively.

*Lack of More Favorable Transaction Alternatives.* The Solutia board of directors considered that it was not aware of any alternative transactions that would be reasonably likely to result in a value to Solutia stockholders in excess of the merger consideration. In particular the Solutia board of directors considered that it believed it was generally aware of the opportunities for strategic transactions and acquisitions involving companies in the chemical industry generally and Solutia in particular based on its recent activities. It also considered the results of its outreach to six potentially interested parties, who were determined by the Solutia board of directors to be the most likely interested parties and were contacted to determine whether they would be interested in acquiring Solutia. As a result of that outreach, all of the companies that were contacted that had operations in the chemical industry (including two additional companies that were not included in the initial six parties but had been contacted prior to approving the merger agreement) had declined to provide an indication of interest to acquire Solutia. While Party A and Party C, two private equity firms that were contacted by Solutia, provided preliminary, non-binding oral indications of interest, the Solutia board of directors did not believe that either firm would propose to acquire Solutia at a price that was reasonably likely to be higher than the merger consideration based on the statements made by the private equity firms and the assumptions on which their preliminary, non-binding oral indications of interest were based. Furthermore, these two private equity firms indicated that they would not be in a position to make definitive proposals for several weeks, at which point the Solutia board of directors believed that Eastman would have ceased to pursue the acquisition. See *Background of the Merger* beginning on page 73 for more information on these prior transactions and discussions. Based on these alternatives,

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the Solutia board of directors concluded that the merger consideration provided for in the merger agreement was the highest value that was reasonably available to Solutia at the present time and that there was no assurance that a more favorable opportunity to sell Solutia would arise later.

*Terms of the Merger Agreement.* The Solutia board of directors reviewed and considered the terms of the merger agreement, including the parties' respective representations, warranties and covenants, the conditions to their respective obligations to complete the merger and their ability to terminate the agreement. See The Merger Agreement beginning on page 143 for a detailed discussion of the terms and conditions of the merger agreement. In particular, the Solutia board of directors considered the following:

*Conditions to the Completion of the Merger; Likelihood of Closing.* The Solutia board of directors considered the reasonable likelihood of the completion of the merger, including Eastman's obligations to complete the merger, the absence of significant required regulatory approvals (other than antitrust approvals), Eastman's obligations to take all actions to obtain all antitrust approvals and the likelihood that the merger will be approved by requisite regulatory authorities and holders of Solutia common stock.

*Terms of Eastman's Financing; Absence of Financing Condition or Limitations of Remedies.* The Solutia board of directors considered that Eastman's obligations pursuant to the merger agreement are not subject to any financing condition and that Eastman would make representations and warranties in the merger agreement about its ability to have funds available to complete the transactions contemplated by the merger agreement and would be required to use its reasonable best efforts to obtain the proceeds of its financing for the merger. The Solutia board of directors also considered the terms of the financing commitments Eastman was obtaining in connection with the merger. For additional information on Eastman's financing, see Financing for the Merger beginning on page 71. The Solutia board of directors also considered Eastman's financial strength and ability to complete its proposed financing or alternative financing to be able to complete the merger and that, if Eastman was unable to complete its proposed financing or alternative financing, Solutia's remedies against Eastman would not be limited to a reverse termination fee (which remedies of Solutia would include the right to seek to require Eastman to perform its obligation to close the merger and to pursue damages in excess of the amount of the previously-contemplated reverse termination fee).

*Ability to Respond to Certain Unsolicited Acquisition Proposals.* The Solutia board of directors considered the provisions in the merger agreement that provide for the ability of the Solutia board of directors to enter into discussions or negotiations with a person that has made an unsolicited acquisition proposal that the Solutia board of directors reasonably determines in good faith (after consultation with its financial advisors and outside counsel) constitutes, or could reasonably be expected to lead to, a superior proposal and/or furnish to any such person non-public information relating to Solutia pursuant to a confidentiality agreement, subject to certain restrictions imposed by the merger agreement.

*Ability to Change Recommendation.* The Solutia board of directors considered the provisions in the merger agreement that provide for the ability of the Solutia board of directors to withdraw or modify the recommendation of the Solutia board of directors to Solutia stockholders that they adopt the merger agreement (including following the receipt of an alternative acquisition proposal that the Solutia board of directors determines in good faith constitutes a superior proposal), subject to certain restrictions imposed by the merger agreement, including that the Solutia board of directors shall have reasonably determined in good faith (after consulting with outside legal counsel) that the failure to take such action would be inconsistent with its fiduciary duties under applicable law.

*Ability to Terminate Merger Agreement to Accept a Superior Proposal.* The Solutia board of directors considered the provisions in the merger agreement that provide for the ability of the

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Solutia board of directors to terminate the merger agreement to accept a superior proposal, subject to certain restrictions imposed by the merger agreement, including that Solutia would have to pay Eastman a termination fee concurrently with such termination.

*Termination Fee.* The Solutia board of directors considered that, in its view, the \$102 million termination fee (which was equal to 2.99% of the equity value of the merger based on the closing price per share of Eastman common stock of \$47.12 on January 26, 2012) that could become payable pursuant to the merger agreement was comparable to termination fees in transactions of a similar size, was reasonable, would not likely deter alternative acquisition proposals and would not likely be required to be paid unless the Solutia board of directors entered into an agreement providing for a transaction that would be more favorable to the Solutia stockholders than the transactions contemplated by the merger agreement.

*Appraisal Rights.* The Solutia board of directors considered the availability of appraisal rights for holders of Solutia common stock who properly exercise their rights under the DGCL, which would give these stockholders the ability to seek and be paid a judicially determined appraisal of the fair value of their shares of common stock at the completion of the merger agreement.

*Due Diligence.* The Solutia board of directors considered the scope of the due diligence investigation of Eastman conducted by Solutia's senior management and outside advisors and evaluated the results thereof and information available to it related to Eastman. The Solutia board of directors also identified and considered a number of countervailing factors and risks to Solutia and its stockholders relating to the merger and the merger agreement, including the following:

*Lack of Direct Ongoing Participation in Solutia's Potential Upside.* The Solutia board of directors considered that Solutia stockholders would not have the opportunity to continue participating in Solutia's potentially significant upside as a stand-alone company, but would rather only participate in Solutia's upside indirectly as a part of the combined company if they retained the stock portion of the merger consideration following the effective time of the merger. The Solutia board of directors was optimistic about Solutia's prospects as a stand-alone company and its long-range plan, but the judgment of the Solutia board of directors was that the premium reflected in the merger consideration enabled Solutia stockholders to realize a substantial portion of Solutia's potential future value without the market or execution risks associated with continued operation as a stand-alone company.

*Smaller Ongoing Equity Participation in the Combined Company by Solutia Stockholders.* The Solutia board of directors considered that, because Solutia stockholders will be receiving primarily cash for their stock, they will receive only limited compensation for any increase in the value of Solutia or Eastman either during the pre-closing period or following the closing.

*Fixed Stock Portion of Merger Consideration; Possibility of Adverse Effects on Eastman's Business.* The Solutia board of directors considered that because the stock portion of the merger consideration is a fixed exchange ratio of shares of Eastman common stock to Solutia common stock, Solutia stockholders could be adversely affected by a decrease in the trading price of Eastman common stock during the pendency of the merger. The Solutia board of directors considered the fact that the merger agreement does not provide Solutia with a price-based termination right or other similar price protection (such as a collar) with respect to the trading price of Eastman common stock during the pendency of the merger. The Solutia board of directors also considered that the definition of a material adverse effect in the merger agreement had been limited by Solutia and was reciprocal, and therefore adverse developments related to Eastman during the pendency of the merger would be less likely to give Solutia a right to not close the merger. The Solutia board of directors determined that this structure was appropriate and the risk acceptable given that a substantial portion of the merger consideration will be paid in a fixed cash amount, reducing the impact of any decline in the trading price of Eastman common stock on the value of the merger consideration, and that the lack of a collar provision would also permit Solutia stockholders to benefit fully from an increase in the trading price of Eastman common stock during the pendency of the merger.

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*Potential Inability to Complete the Merger.* The Solutia board of directors considered the possibility that the merger may not be completed and the potential adverse consequences to Solutia if the merger is not completed, including the potential loss of customers, partners and employees, reduction of value offered by others to Solutia in a future business combination, and erosion of customer, supplier, partner and employee confidence in Solutia. The Solutia board of directors considered that such risks were mitigated by certain terms in the merger agreement, including the absence of significant required regulatory approvals (other than antitrust approvals), Eastman's obligations to take all actions to obtain all antitrust approvals, the absence of any financing condition to Eastman's obligations to complete the merger and that Solutia's remedies against Eastman would not be limited to a reverse termination fee (which remedies of Solutia would include the right to seek to require Eastman to perform its obligation to close the merger and to pursue damages in excess of the amount of the previously-contemplated reverse termination fee).

*Eastman Business Risks.* The Solutia board of directors considered that Solutia stockholders would be subject to the execution risks associated with the combined company if they retained the stock portion of the merger consideration following the effective time of the merger. These execution risks were different in part from the execution risks related only to Solutia's business. In this regard, the Solutia board of directors considered that there were risks associated with successful implementation of the combined company's long term business plan and strategy, the combined company realizing the anticipated benefits of the merger on the timeline expected or at all and integration of Solutia's businesses with Eastman's business operations in an efficient manner. The Solutia board of directors considered that the failure of any of these activities to be completed successfully may decrease the actual benefits of the merger and that Solutia stockholders would not fully realize these benefits to the extent that they expected to retain the shares of Eastman common stock received as a portion of the merger consideration following the completion of the merger.

*Termination Fee; Alternative Acquisition Proposals.* The Solutia board of directors considered the risk that, although Solutia has the right under certain limited circumstances to enter into discussions or negotiations with a person that has made an unsolicited acquisition proposal and/or furnish to any such person non-public information relating to Solutia pursuant to a confidentiality agreement, withdraw or modify the recommendation of the Solutia board of directors to Solutia stockholders that they adopt the merger agreement or terminate the merger agreement, in each case subject to certain restrictions imposed by the merger agreement, the provisions of the merger agreement may have the effect of discouraging such acquisition proposals and making it less likely that the transactions related to such proposals would be negotiated or pursued, even if potentially more favorable to Solutia stockholders than the merger. In addition, the Solutia board of directors considered the provisions of the merger agreement that, under specified circumstances related to the presence of an alternative acquisition proposal or actions that may constitute a change of the recommendation of the Solutia board of directors, would require Solutia to pay Eastman a fee of \$102 million. As part of these considerations, the Solutia board of directors also considered the results of its outreach to six potentially interested parties, who were determined by the Solutia board of directors to be the most likely interested parties and were contacted to determine whether they would be interested in acquiring Solutia, and that as a result of this outreach and its other information the Solutia board of directors was not aware of any alternative acquisition transactions that would be reasonably likely to result in a value to Solutia stockholders in excess of the merger consideration. See *The Merger Agreement Termination* beginning on page 152 for further information regarding these provisions of the merger agreement and the termination fee.

*Interim Operating Covenants.* The Solutia board of directors considered the limitations imposed by the merger agreement on the conduct of Solutia's business during the pendency of the merger and the fact that these covenants may limit Solutia's ability to pursue business opportunities that may arise or take other actions it would otherwise take with respect to the operations of Solutia during the pendency of the merger.



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*Taxability.* The merger is expected to be a taxable transaction for U.S. federal income tax purposes, and the receipt of Eastman common stock and cash in exchange for Solutia common stock in the merger will therefore generally be taxable to Solutia common stockholders for U.S. federal income tax purposes. See *Material U.S. Federal Income Tax Consequences* beginning on page 137.

*Interests of Solutia's Directors and Executive Officers.* The Solutia board of directors considered the potential additional or different interests of Solutia's directors and executive officers, as described in the section entitled *Interests of Certain Persons in the Merger* beginning on page 123.

*Diversion of Management.* The Solutia board of directors considered the possible diversion of management's time and attention from Solutia's ongoing business due to the substantial time and effort necessary to complete the merger and plan for and implement the integration of the operations of Solutia and Eastman.

*Other Risks.* The Solutia board of directors considered the types and nature of the risks described under the section entitled *Risk Factors* beginning on page 25.

The Solutia board of directors concluded that the potentially negative factors associated with the merger were outweighed by the potential benefits that it expected Solutia stockholders would receive as a result of the merger, including the belief of the Solutia board of directors that the merger would maximize the immediate value of the Solutia common stock and eliminate the risks and uncertainty affecting the future prospects of Solutia as a stand-alone company.

The preceding discussion of the information and factors considered by the Solutia board of directors is not intended to be exhaustive but includes the material factors considered by the Solutia board of directors. In view of the complexity and wide variety of factors considered by the Solutia board of directors in connection with its evaluation of the merger, the Solutia board of directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the different factors that it considered in reaching its decision. In addition, in considering the factors described above, individual members of the Solutia board of directors may have given different weight to different factors. The Solutia board of directors considered this information as a whole and overall considered the information and factors to be favorable to, and in support of, its determinations and recommendations.

This explanation of Solutia's reasons for the merger and other information presented in this section is forward-looking in nature and, therefore, should be read in light of the section entitled *Cautionary Statement Regarding Forward-Looking Statements* beginning on page 31.

## **Opinions of Financial Advisors**

### ***Deutsche Bank***

At the January 26, 2012 meeting of the Solutia board of directors, Deutsche Bank delivered its oral opinion to the Solutia board of directors, subsequently confirmed in writing as of the same date, to the effect that, as of the date of such opinion, and based upon and subject to the assumptions, limitations, qualifications and conditions described in Deutsche Bank's opinion, the merger consideration of (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock per share to be received in the merger by holders of Solutia common stock (other than in respect of shares owned by Solutia as treasury stock and shares held by Solutia stockholders properly exercising appraisal rights under the DGCL) was fair, from a financial point of view, to such holders.

**The full text of Deutsche Bank's written opinion, dated January 26, 2012, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Deutsche Bank in connection with the opinion, is included in this proxy statement/prospectus as *Annex B***

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and is incorporated herein by reference. The summary of Deutsche Bank's opinion set forth in this proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion. Deutsche Bank's opinion was addressed to, and for the use and benefit of, the Solutia board of directors in connection with and for purposes of its evaluation of the merger. Deutsche Bank's opinion does not constitute a recommendation as to how any holder of Solutia common stock should vote with respect to the merger. Deutsche Bank's opinion was limited to the fairness, from a financial point of view, of the consideration to be paid in respect of each share of Solutia common stock and does not address any other aspect of the merger or the merger agreement. Deutsche Bank was not asked to, and Deutsche Bank's opinion did not, address the fairness of the merger, or any consideration received in connection therewith, to the holders of any other class of securities, creditors or other constituencies of Solutia nor did it address the fairness of the contemplated benefits of the merger. Deutsche Bank expressed no opinion as to the underlying business decision of Solutia to engage in the merger or the relative merits of the merger as compared to any alternative transactions or business strategies. Also, Deutsche Bank did not express any view or opinion as to the fairness, financial or otherwise, of the amount, nature or any other aspect of any compensation payable to or to be received by any of the officers, directors or employees of Solutia, or any class of such persons, in connection with the merger relative to the merger consideration.

In connection with Deutsche Bank's role as financial advisor to Solutia, and in arriving at its opinion, Deutsche Bank:

reviewed certain publicly available financial and other information concerning Solutia;

reviewed certain internal analyses, financial forecasts and other information relating to Solutia prepared by management of Solutia;

held discussions with certain senior officers and other representatives and advisors of Solutia regarding the businesses and prospects of Solutia;

reviewed certain internal analyses and other limited information relating to Eastman, including relating to the business and prospects of Eastman, prepared by management of Eastman;

reviewed the potential pro forma impact of the merger on Eastman;

reviewed the reported prices and trading activity for Solutia common stock and Eastman common stock;

to the extent publicly available, compared certain financial and stock market information for Solutia and Eastman with similar information for certain other companies it considered relevant whose securities are publicly traded;

to the extent publicly available, reviewed the financial terms of certain recent business combinations which Deutsche Bank deemed relevant;

reviewed the merger agreement and certain related documents; and

performed such other studies and analyses and considered such other factors as it deemed appropriate.

Deutsche Bank did not assume responsibility for independent verification of, and did not independently verify, any information, whether publicly available or furnished to it, concerning Solutia or Eastman, including, without limitation, any financial information considered in connection with the rendering of its opinion. Accordingly, for purposes of its opinion, Deutsche Bank, with Solutia's knowledge and permission, assumed and relied upon the accuracy and completeness of all such information. Deutsche Bank did not conduct a physical inspection of any of

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the properties or assets, and did not prepare, obtain or review any independent evaluation or appraisal of any of the assets or liabilities (including any contingent, derivative or off-balance-sheet assets or liabilities), of Solutia or Eastman or any of their respective subsidiaries, nor did Deutsche Bank evaluate the solvency or fair value of Solutia or Eastman under any state, federal or foreign law relating to bankruptcy, insolvency or similar matters. With respect to the financial forecasts made available to Deutsche Bank and used

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in its analyses, Deutsche Bank assumed with Solutia's permission that such forecasts had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of Solutia as to the matters covered thereby. In rendering its opinion, Deutsche Bank expressed no view as to the reasonableness of such forecasts and projections or the assumptions on which they are based. Deutsche Bank's opinion was necessarily based upon economic, market and other conditions as in effect on, and the information made available to it as of, the date of the opinion. Deutsche Bank expressly disclaimed any undertaking or obligation to advise any person of any change in any fact or matter affecting its opinion of which it becomes aware after the date of its opinion.

For purposes of rendering its opinion, Deutsche Bank assumed with Solutia's permission that, in all respects material to its analysis, the merger would be consummated in accordance with the terms of the merger agreement, without any material waiver, modification or amendment of any term, condition or agreement. Deutsche Bank also assumed that all material governmental, regulatory or other approvals and consents required in connection with the completion of the merger would be obtained and that in connection with obtaining any necessary governmental, regulatory or other approvals and consents, no restrictions, terms or conditions would be imposed that would be material to its analysis. Deutsche Bank is not a legal, regulatory, tax or accounting expert and relied on the assessments made by Solutia and its advisors with respect to such issues. Representatives of Solutia informed Deutsche Bank, and Deutsche Bank further assumed, that the final terms of the merger agreement would not differ materially from the terms set forth in the drafts Deutsche Bank reviewed.

Deutsche Bank's opinion was approved and authorized for issuance by a Deutsche Bank fairness opinion review committee and was addressed to, and was for the use and benefit of, the Solutia board of directors in connection with and for the purposes of its evaluation of the merger and was not a recommendation to the stockholders of Solutia to approve the merger. Deutsche Bank's opinion was limited to the fairness, from a financial point of view of the merger consideration to be paid with respect to each share of Solutia common stock to the holders of Solutia common stock. Deutsche Bank was not asked to, and its opinion did not, address the fairness of the merger, or any consideration received in connection therewith, to the holders of any other class of securities, creditors or other constituencies of Solutia, nor did it address the fairness of the contemplated benefits of the merger. Deutsche Bank expressed no opinion as to the merits of the underlying decision by Solutia to engage in the merger. In addition, Deutsche Bank did not express any view or opinion as to the fairness, financial or otherwise, of the amount or nature of any compensation payable to or to be received by any of Solutia's officers, directors, or employees, or any class of such persons, in connection with the merger relative to the merger consideration to be received by the holders of Solutia common stock. Deutsche Bank expressed no opinion as to what the value of Eastman common stock would be when issued pursuant to the merger agreement. Its opinion did not in any manner address the prices at which Solutia common stock, Eastman common stock or other securities of Solutia or Eastman, respectively, would trade following the announcement or completion of the merger.

Deutsche Bank was not requested to consider, and its opinion did not address, the relative merits of the merger as compared to any alternative business strategies.

Deutsche Bank has acted as Solutia's financial advisor for many years, and Solutia selected Deutsche Bank to continue as its financial advisor in connection with the merger based on Deutsche Bank's qualifications, expertise, reputation and experience in mergers and acquisitions. Pursuant to an engagement letter between Solutia and Deutsche Bank, dated January 4, 2012, as it may be amended from time to time, Solutia has agreed to pay Deutsche Bank fees, which are currently estimated to be between approximately \$11.6 million and approximately \$14.3 million, depending on the consideration paid to Solutia stockholders at closing, for its services as financial advisor to Solutia, of which \$2.0 million became payable upon the delivery of Deutsche Bank's opinion (or would have become payable upon Deutsche Bank advising Solutia that it was unable to render an opinion), and the remainder of which is contingent upon completion of the merger. Solutia has also agreed to reimburse Deutsche Bank for reasonable fees and disbursements of Deutsche Bank's counsel and all of Deutsche Bank's reasonable travel and other out-of-pocket expenses incurred in connection with the merger or

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otherwise arising out of the retention of Deutsche Bank under the engagement letter. Solutia has also agreed to indemnify Deutsche Bank and certain related persons to the fullest extent lawful against certain liabilities, including certain liabilities under the federal securities laws arising out of its engagement or the merger.

Deutsche Bank is an internationally recognized investment banking firm experienced in providing advice in connection with mergers and acquisitions and related transactions. Deutsche Bank is an affiliate of Deutsche Bank AG, which, together with its affiliates, is referred to as the DB Group. One or more members of the DB Group have, from time to time, provided investment banking, commercial banking (including extension of credit) and other financial services to Solutia or its affiliates for which they have received, and in the future may receive, compensation, including (1) having served as the sole lead arranger for Solutia's \$700 million senior secured term loan, (2) having served as a financial advisor on Solutia's acquisition of Etimex Solar GmbH, (3) having served as a joint bookrunner for Solutia's \$300 million senior notes offering and (4) having served as an administrative agent under Solutia's \$1.15 billion senior secured credit facilities. As a consequence of the merger, certain indebtedness of Solutia which has been extended or arranged in part by one or more members of the DB Group will be repaid. The aggregate amount of all fees paid by Solutia to Deutsche Bank in the past two years, excluding the fees expected to be received for its services as financial advisor to Solutia in connection with the merger and Deutsche Bank's opinion, is approximately \$10.3 million. In addition, one or more members of the DB Group have, from time to time, provided investment banking, commercial banking (including extension of credit) and other financial services to Eastman or its affiliates for which they have received, and in the future may receive, compensation, including in the last two years having served as, among other things, (1) lender under Eastman's \$750 million 5-year revolving credit facility, (2) a dealer manager in Eastman's cash tender offer for certain of its outstanding debt securities in 2010, and (3) a co-manager in Eastman's 2010 offering of certain debt securities. In the last two years, DB Group has received aggregate fees from Eastman in an amount of approximately \$1.1 million. The DB Group may also provide investment and commercial banking services to Eastman and Solutia in the future, for which Deutsche Bank would expect the DB Group to receive compensation. In the ordinary course of business, members of the DB Group may actively trade in the securities and other instruments and obligations of Eastman and Solutia for their own accounts and for the accounts of their customers. Accordingly, the DB Group may at any time hold a long or short position in such securities, instruments and obligations.

***Moelis***

At the January 26, 2012 meeting of the Solutia board of directors, Moelis delivered its oral opinion to the Solutia board of directors, subsequently confirmed in writing as of the same date, to the effect that, as of the date of such opinion, and based upon and subject to the conditions and limitations set forth in Moelis' written opinion, the merger consideration of (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock per share to be received in the merger by holders of Solutia common stock (other than in respect of shares owned by Solutia as treasury stock and shares held by Solutia stockholders properly exercising appraisal rights under the DGCL) was fair, from a financial point of view, to such holders.

**The full text of Moelis' written opinion, dated January 26, 2012, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached to this proxy statement/prospectus as Annex C and is incorporated into this proxy statement/prospectus by reference. Holders of Solutia common stock are urged to read Moelis' written opinion and this section carefully and in their entirety. The following summary describes the material analyses underlying Moelis' opinion, but does not purport to be a complete description of the analyses performed by Moelis in connection with its opinion. Moelis' opinion was addressed to, and for the use and benefit of, the Solutia board of directors in connection with and for purposes of its evaluation of the merger. Moelis' opinion is limited solely to the fairness, from a financial point of view, of the merger consideration pursuant to the merger agreement to the holders of Solutia common stock as of the date of the opinion and does not address Solutia's underlying business decision to effect the merger or the relative merits of the merger as compared to any alternative business strategies or transactions that might be available to Solutia. Moelis was not asked to, and Moelis' opinion did not, address the fairness of the merger, or any consideration received in connection therewith, to the holders of any other class of**

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securities, creditors or other constituencies of Solutia nor did it address the fairness of the contemplated benefits of the merger. Moelis opinion does not constitute a recommendation to any stockholder of Solutia as to how such stockholder should vote with respect to the merger or any other matter. Moelis opinion was approved by a Moelis fairness opinion committee. Also, Moelis did not express any view or opinion as to the fairness, financial or otherwise, of the amount, nature or any other aspect of any compensation payable to or to be received by any of the officers, directors or employees of Solutia, or any class of such persons, in connection with the merger relative to the merger consideration.

In arriving at its opinion, Moelis, among other things:

reviewed certain publicly available business and financial information relating to Solutia and Eastman that Moelis deemed relevant;

reviewed certain internal information relating to the business, including financial forecasts, earnings, cash flow, assets, liabilities and prospects, of Solutia furnished to Moelis by Solutia;

reviewed certain internal information relating to the business, including financial forecasts, of Eastman furnished to Moelis by Eastman;

conducted discussions with members of senior management and representatives of Solutia and Eastman concerning the matters described in the foregoing bullets, as well as the business and prospects of Solutia generally;

reviewed publicly available financial and stock market data for Solutia and Eastman and compared them with those of certain other companies in lines of business that Moelis deemed relevant;

compared the proposed financial terms of the merger with the financial terms of certain other transactions that Moelis deemed relevant;

considered certain potential pro forma effects of the merger;

reviewed a draft of the merger agreement, dated January 26, 2012;

participated in certain discussions and negotiations among representatives of Solutia and Eastman and their financial and legal advisors; and

conducted such other financial studies and analyses and took into account such other information as Moelis deemed appropriate. In connection with its review, Moelis did not assume any responsibility for independent verification of any of the information supplied to, discussed with, or reviewed by Moelis for the purpose of its opinion and has, with the consent of the Solutia board of directors, relied on such information being complete and accurate in all material respects. In addition, at the direction of the Solutia board of directors, Moelis did not make any independent evaluation or appraisal of any of the assets or liabilities (contingent, derivative, off-balance-sheet, or otherwise) of Solutia or Eastman, nor was Moelis furnished with any such evaluation or appraisal. With respect to the forecasted financial information, Moelis assumed, at the direction of the Solutia board of directors, that such information was reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of Solutia or Eastman as to the future performance of their respective companies.

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Moelis' opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Moelis as of the date of Moelis' opinion. Moelis assumed, with the consent of the Solutia board of directors, that all governmental, regulatory or other consents and approvals necessary for the completion of the merger will be obtained without the imposition of any delay, limitation, restriction, divestiture or condition that would have an adverse effect on Solutia or Eastman or on the expected benefits of the merger.

At the direction of the Solutia board of directors, Moelis was not asked to, nor did it, offer any opinion as to the material terms of merger agreement (other than the merger consideration) or the form of the merger. It

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expressed no opinion as to what the value of Eastman common stock would be when issued pursuant to the merger agreement or the prices at which Eastman common stock or Solutia common stock would trade in the future. In rendering its opinion, Moelis assumed, with the consent of the Solutia board of directors, that the final executed form of the merger agreement would not differ in any material respect from the draft that Moelis examined, and that Eastman and Solutia would comply with all the material terms of the merger agreement.

Pursuant to an engagement letter between Solutia and Moelis, dated January 4, 2012, as it may be amended from time to time, Solutia has agreed to pay Moelis fees, which are currently estimated to be between approximately \$11.6 million and approximately \$14.3 million, depending on the consideration paid to Solutia stockholders at closing, for its services as financial advisor to Solutia, of which \$2.0 million became payable upon the delivery of Moelis' opinion (or would have become payable upon Moelis advising Solutia that it was unable to render an opinion), and the remainder of which is contingent upon completion of the merger. In addition, Solutia has agreed to indemnify Moelis for certain liabilities arising out of its engagement. In the past, Moelis provided investment banking and other services to Solutia and received compensation for the rendering of such services, including in the past two years (1) having served as a financial advisor on Solutia's acquisition of Southwall Technologies Inc., and (2) having served as a financial advisor on Solutia's sale of its ownership interest in Ascend Performance Materials Holdings Inc. to S.K. Capital Partners II, L.P. The aggregate amount of all fees paid by Solutia to Moelis in the past two years, excluding the fees expected to be received for its services as financial advisor to Solutia in connection with the merger and Moelis' opinion, is approximately \$1.7 million. Moelis has not provided any investment banking or other services to, or received any compensation from, Eastman. Neither Moelis nor any of its affiliates has an ownership interest in Eastman.

The Solutia board of directors selected Moelis as its financial advisor in connection with the merger because Moelis has substantial experience in similar transactions. Moelis is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, strategic transactions, corporate restructurings, and valuations for corporate and other purposes.

***Summary of Material Financial Analyses Contained in Joint Presentation***

Deutsche Bank and Moelis, collectively referred to as Solutia's financial advisors, made a joint presentation to the Solutia board of directors on January 26, 2012 of the financial analyses that were used in connection with rendering their respective opinions described above. Solutia's financial advisors worked cooperatively in developing these analyses, and these analyses represent the joint work product of Solutia's financial advisors. The following is a summary of the material financial analyses contained in the joint presentation, however, this summary does not purport to be a complete description of the financial analyses performed by Solutia's financial advisors, nor does the order in which the analyses are described represent the relative importance or weight given to the analyses by Solutia's financial advisors. Some of the summaries of the financial analyses include information presented in tabular format. The tables alone do not constitute a complete description of the analyses. Considering the data described below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the analysis of Solutia's financial advisors. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before January 26, 2012, and is not necessarily indicative of current market conditions.

***Transaction Overview***

Based on the consideration pursuant to the merger agreement of \$27.63 per share of Solutia common stock as of January 25, 2012, Solutia's financial advisors noted that the implied equity value of Solutia as of January 25, 2012 was approximately \$3.4 billion, and the implied enterprise value of Solutia based upon the implied equity value and selected balance sheet information as of December 31, 2011, was \$4.6 billion.

In rendering their opinions, Solutia's financial advisors also reviewed and considered implied offer premiums that the per share merger consideration represented over the historical trading prices of Solutia common stock, noting that the per share merger consideration of \$27.63 represented an implied premium of:

40% over the closing price of Solutia common stock on January 25, 2012;

62% over the 30-trading-day volume weighted average price of Solutia common stock, or VWAP, as of January 25, 2012;



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68% over the 60-trading-day VWAP as of January 25, 2012;

77% over the 90-trading-day VWAP as of January 25, 2012;

40% over the one year VWAP as of January 25, 2012;

5% over the 52-week high closing price of Solutia common stock on April 29, 2011; and

2% over the 52-week high intraday trading price of Solutia common stock on May 2, 2011.

*Analysis of Selected Public Companies*

Solutia's financial advisors reviewed and compared certain financial information and commonly used valuation measurements for Solutia with corresponding financial information and valuation measurements for the following selected public companies:

Albemarle Corporation;

Cabot Corporation;

Celanese Corporation;

Cytec Industries Inc.;

Eastman;

FMC Corporation;

Huntsman Corporation; and

Rockwood Holdings, Inc.

These public companies were selected on the basis of the professional judgment and experience of Solutia's financial advisors, taking into account, among other factors, the size of Solutia and the selected companies, the geographic regions in which Solutia and the selected companies operate, the industry in which Solutia and the selected companies operate and the product offerings of Solutia and the selected companies.

Although none of the selected companies is directly comparable to Solutia, the companies included were chosen because they are U.S.-listed publicly traded companies with operations that, for purposes of analysis, may be considered similar to certain operations of Solutia. Accordingly, the analysis of publicly traded comparable companies was not simply mathematical. Rather, it involved complex considerations and qualitative judgments, reflected in the opinions of Solutia's financial advisors, concerning differences in financial and operating characteristics of the selected companies and other factors that could affect the public trading value of such companies.

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Based on the closing prices of Solutia common stock and the closing prices of the common stock of the other selected companies on January 25, 2012, information contained in the most recent public filings of the selected companies and analyst consensus estimates of earnings before interest, taxes, depreciation and amortization, or EBITDA, for Solutia and the selected companies, Solutia's financial advisors derived and compared, with respect to Solutia and each of the selected public companies, the total enterprise value, or TEV, as a multiple of estimated EBITDA for 2012, which is referred to below as TEV/2012E EBITDA.

This analysis indicated the following:

### Selected Companies Valuation Multiples

Multiple	High	Mean	Median	Low	Solutia
TEV/2012E EBITDA	8.6x	6.5x	6.1x	5.0x	6.6x

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Using Solutia's management forecasts for 2012E EBITDA, and based on the foregoing and qualitative judgment, Solutia's financial advisors determined an estimated TEV/2012E EBITDA reference range of 6.0x to 7.5x, resulting in a range of implied values per share of Solutia common stock (rounded to the nearest \$0.50) of \$17.50 to \$24.50, compared to the per share merger consideration of \$27.63. The reference range of 6.0x to 7.5x was selected on the basis of the professional judgment and experience of Solutia's financial advisors.

The EBITDA multiples observed for each company are as follows:

<b>Company</b>	<b>TEV / 2012E EBITDA</b>
Albemarle Corporation	8.6x
Cabot Corporation	5.3x
Celanese Corporation	7.0x
Cytec Industries Inc.	6.2x
Eastman	5.6x
FMC Corporation	8.5x
Huntsman Corporation	5.0x
Rockwood Holdings, Inc.	6.0x
<i>Consolidated Sum-of-the-Parts</i>	

In addition to the analysis of selected public companies described above, Solutia's financial advisors reviewed and compared certain financial information and commonly used valuation measurements for Solutia's three primary business segments with corresponding financial information and valuation measurements for selected public companies, according to the table below:

<b>Solutia Business Segment:</b>	<b>Technical Specialties</b>	<b>Advanced Interlayers</b>	<b>Performance Films</b>
<b>Selected Companies:</b>	Cabot Corporation	Albemarle Corporation	3M Company
	Chemtura Corporation	Celanese Corporation	H.B. Fuller Company
	Fuchs Petrolub AG	Cytec Industries Inc.	RPM International Inc.
	Kraton Performance Polymers, Inc.	Eastman	Sika AG
	LANXESS AG	E. I. du Pont de Nemours and Company	The Valspar Corporation
	NewMarket Corporation	FMC Corporation	
	PolyOne Corporation	Hexcel Corporation	
		Rockwood Holdings, Inc.	
		STR Holdings, Inc.	
		Victrex PLC	

Although none of the selected companies is directly comparable to Solutia or any of its business segments, the companies included were chosen because they are publicly traded companies with operations that, for purposes of analysis, may be considered similar to certain operations of Solutia's business segments. Accordingly, the analysis of publicly traded comparable companies was not simply mathematical. Rather, it involved complex considerations and qualitative judgments, reflected in the opinions of Solutia's financial advisors, concerning differences in financial and operating characteristics of the selected companies and other factors that could affect the public trading value of such companies.

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Based on the closing prices of Solutia common stock and the closing prices of the common stock of the other selected companies on January 25, 2012, information contained in the most recent public filings of the selected companies and analyst consensus estimates of EBITDA for the selected companies, Solutia's financial advisors derived and compared, with respect to each of the selected public companies, the total enterprise value, or TEV, as a multiple of estimated EBITDA for 2012, which is referred to below as TEV/2012E EBITDA.

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Solutia's financial advisors believed that the TEV/2012E EBITDA multiple was the most appropriate multiple, given the variations in capital structures and tax positions between Solutia and the selected companies. In the view of Solutia's financial advisors and general market practice, in this instance, TEV to one-year forward EBITDA was the most prevalent metric governing the valuation of Solutia and the selected companies.

This analysis indicated the following:

**Selected Companies TEV/2012E EBITDA Multiples**

<b>Solutia Business Segment</b>	<b>High</b>	<b>Mean</b>	<b>Median</b>	<b>Low</b>
Technical Specialties	8.2x	6.4x	6.2x	5.2x
Advanced Interlayers	9.7x	7.4x	7.4x	5.6x
Performance Films	9.0x	8.6x	8.7x	8.2x

The company-by-company multiples for the selected companies are as follows:

<b>Company</b>	<b>TEV/2012E EBITDA</b>
<u>Technical Specialties</u>	
Cabot Corporation	5.3x
Chemtura Corporation	5.4x
Fuchs Petrolub AG	8.1x
Kraton Performance Polymers, Inc.	6.3x
LANXESS AG	5.2x
NewMarket Corporation	8.2x
PolyOne Corporation	6.2x
<u>Advanced Interlayers</u>	
Albemarle Corporation	8.6x
Celanese Corporation	7.0x
Cytec Industries Inc.	6.2x
Eastman	5.6x
E. I. du Pont de Nemours and Company	7.8x
FMC Corporation	8.5x
Hexcel Corporation	9.7x
Rockwood Holdings, Inc.	6.0x
STR Holdings, Inc.	5.8x
Victrex PLC	9.0x
<u>Performance Films</u>	
3M Company	8.2x
H.B. Fuller Company	8.3x
RPM International Inc.	8.7x
Sika AG	9.0x
The Valspar Corporation	8.8x

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Solutia's financial advisors determined certain reference ranges for each of Solutia's business segments, based on the foregoing and qualitative judgment. Applying the reference ranges indicated in the table below to Solutia's management forecasts for 2012E EBITDA by business segment resulted in a range of implied values per share of Solutia common stock (rounded to the nearest \$0.50) of \$20.50 to \$27.50, compared to the per share merger consideration of \$27.63.

Solutia Business Segment	Reference Range (TEV/2012E EBITDA)	
	Technical Specialties`	6.0x
Advanced Interlayers	7.5x	9.0x
Performance Films	7.5x	9.0x

*Selected Transactions Analysis*

Solutia's financial advisors reviewed the financial terms, to the extent publicly available, of 20 merger and acquisition transactions announced since April 2004 involving companies in the performance materials and specialty chemicals industries, or the selected transactions. Solutia's financial advisors further identified a sub-group of the selected transactions, or the core selected transactions, which transactions were selected because they involved diversified specialty chemical targets. These included key recent significant transactions in the specialty chemicals sector, that, for the purposes of analysis, may be considered most closely comparable to the proposed merger. Although none of the selected transactions is directly comparable to the proposed merger, the companies that participated in the selected transactions are such that, for purposes of analysis, the selected transactions may be considered similar to the proposed merger.

The type of consideration and transaction values for each of the selected transactions is as follows:

Date	Bidder	Target	Consideration	Total Enterprise Value (\$ billion)
<b>Core Selected Transactions</b>				
July 2011	Lonza Group Ltd	Arch Chemicals, Inc.	Cash	1.4
May 2011	Ashland Inc.	International Specialty Products Inc.	Cash	3.2
April 2011	Solvay S.A.	Rhodia S.A.	Cash	7.3
March 2011	Berkshire Hathaway Inc.	The Lubrizol Corporation	Cash	9.6
July 2008	Ashland Inc.	Hercules Inc.	Cash and Stock	3.4
April 2004	The Lubrizol Corporation	Noveon International, Inc.	Cash	1.8
<b>Other Selected Transactions</b>				
October 2011	American Securities LLC	Unifrax I LLC	Cash	0.9
July 2011	Ecolab Inc.	Nalco Holding Company	Cash or Stock	8.1
June 2010	BASF SE	Cognis Holding GmbH	Cash	3.2
September 2008	BASF SE	Ciba Holding AG	Cash	5.0
July 2008	The Dow Chemical Company	Rohm and Haas Company	Cash	18.9

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<b>Date</b>	<b>Bidder</b>	<b>Target</b>	<b>Consideration</b>	<b>Total Enterprise Value (\$ billion)</b>
August 2007	Akzo Nobel N.V.	Imperial Chemical Industries PLC	Cash	10.7
May 2007	Saudi Basic Industries Corporation	GE Plastics business of General Electric Company	Cash	11.6
September 2006	Court Square Capital Partners II, L.P. / Weston Presidio V, L.P. / Management	MacDermid Incorporated	Cash	1.3
September 2006	Apollo Management L.P.	GE Advanced Materials business of General Electric Company	Cash and Stock	3.8
February 2006	BASF SE	Construction Chemicals business of Degussa AG	Cash	3.2
March 2005	Texas Pacific Group	British Vita PLC	Cash	1.3
March 2005	Crompton Corp.	Great Lakes Chemical Corporation	Stock	1.8
February 2005	Cytec Industries Inc.	Surface Specialties business of UCB SA	Cash	1.8
July 2004	Apollo Management	Borden Chemical Inc.	Cash	1.1

Using Solutia's management forecasts for estimated 2011 EBITDA, and based on the foregoing and qualitative judgment, Solutia's financial advisors determined an estimated TEV/LTM EBITDA reference range of 8.0x to 9.5x, resulting in a range of implied values per share of Solutia common stock (rounded to the nearest \$0.50) of \$24.50 to \$30.50, compared to the per share merger consideration of \$27.63.

With respect to each selected transaction and based on publicly available information, Solutia's financial advisors calculated the multiples of the target's total enterprise value to its EBITDA for the twelve-month period prior to announcement of the applicable transaction, which is referred to below as TEV / LTM EBITDA.

This analysis indicated the following:

**Selected Transactions TEV/LTM EBITDA Multiples**

	<b>High</b>	<b>Mean</b>	<b>Median</b>	<b>Low</b>
Core Selected Transactions	9.2x	8.3x	8.7x	6.9x
Other Selected Transactions	12.4x	9.3x	9.3x	6.1x
All Transactions	12.4x	9.0x	9.0x	6.1x

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Using Solutia's management forecasts for estimated 2011 EBITDA, and based on the foregoing and qualitative judgment, Solutia's financial advisors determined an estimated TEV/LTM EBITDA reference range of 8.0x to 9.5x, resulting in a range of implied values per share of Solutia common stock (rounded to the nearest \$0.50) of \$24.50 to \$30.50, compared to the per share merger consideration of \$27.63.

*Discounted Cash Flow Analysis*

Solutia's financial advisors performed an illustrative discounted cash flow analysis for Solutia based on management estimates of free cash flows for the years 2012 through 2016. Solutia's financial advisors calculated the discounted cash flow value for Solutia as of December 31, 2011 as the sum of the net present value of (1) the estimated future unlevered free cash flows that Solutia is expected to generate for the years 2012 through 2016, plus (2) the value of Solutia at the end of such period, or the terminal value. The terminal value was calculated using terminal EBITDA multiples ranging from 6.5x to 8.0x. Solutia's financial advisors applied discount rates ranging from 10.5% to 11.5% derived from a calculation of Solutia's weighted average cost of capital to discount the future cash flows and terminal value. Solutia's financial advisors then calculated the estimated equity values per share of Solutia common stock by deducting estimated net debt as of December 31, 2011 from the sum of the present values of the period cash flows and terminal value. The multiples considered in selecting the terminal value multiples of 6.5x to 8.0x were derived using Solutia's financial advisors' judgment of the long-term trading multiples of comparable companies.

The key cost of debt and cost of equity inputs used to calculate Solutia's weighted average cost of capital are as follows:

<b>Input</b>	<b>Using Median Unlevered Beta of Comparable Companies</b>	<b>Using Solutia's Unlevered Beta</b>
<b>Cost of Debt</b>		
Pre-tax Cost of Debt	5.7%	5.7%
Assumed normalized tax rate for Solutia	25.0%	25.0%
Target Debt to Total Capitalization	25.0%	25.0%
<b>Cost of Equity</b>		
10-year U.S. Treasury yield per Bloomberg as of January 25, 2012	2.0%	2.0%
Median unlevered beta for comparable companies and unlevered beta for Solutia	1.19	1.18
Beta levered	1.49	1.47
Market risk premium, from the Ibbotson SBBIClassic Yearbook 2011	6.7%	6.7%
Size premium, based on mid-cap companies with market capitalizations between \$1.8 billion and \$6.8 billion, from the Ibbotson SBBIClassic Yearbook 2011	1.2%	1.2%
Target Equity to Total Capitalization	75.0%	75.0%



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Solutia's financial advisors then calculated the estimated equity values per share of Solutia common stock by deducting estimated net debt as of December 31, 2011 from the sum of the present values of the period cash flows and terminal value. This analysis resulted in a range of implied values per share of Solutia common stock (rounded to the nearest \$0.50) of \$26.00 to \$33.00, compared to the per share merger consideration of \$27.63.

*Pro Forma Combination Analysis*

Solutia's financial advisors prepared an illustrative pro forma analysis for the financial impact of the proposed merger using both Solutia management estimates and research consensus estimates for Solutia and consensus estimates for Eastman. Based on such analysis on a pro forma basis as if the transaction had been completed on December 31, 2011, Solutia's financial advisors determined that the proposed transaction would be accretive to Eastman's earnings per share in 2012, excluding acquisition-related costs and charges.

*Wall Street Research Share Price Targets*

The range of broker price targets for Solutia stock reviewed by Solutia's financial advisors was as follows:

<b>Broker</b>	<b>Date</b>	<b>Current Price Target</b>
Sidoti	January 25, 2012	\$31.00
Jefferies	January 20, 2012	\$22.00
Macquarie	December 10, 2011	\$22.00
Deutsche Bank	September 14, 2011	\$22.00
KeyBanc	January 17, 2012	\$22.00
Wells Fargo	December 15, 2011	\$20.00
Lazard	December 13, 2011	\$21.00
Alembic	October 26, 2011	\$20.00
Piper Jaffray	December 16, 2011	\$18.00
Median Target Solutia Price		\$22.00
January 25, 2012 Solutia		\$19.69

Price  
*General*

The preparation of a fairness opinion is a complex analytical process involving the application of subjective business and financial judgment in determining the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, is not readily susceptible to summary description. Deutsche Bank and Moelis believe that their analyses must be considered as a whole and that considering any portion of such analyses and of the factors considered without considering all analyses and factors could create a misleading view of the process underlying their opinions. In arriving at their fairness determinations, Deutsche Bank and Moelis did not assign specific weights to any particular analyses.

In conducting their analyses and arriving at their opinions, Deutsche Bank and Moelis utilized a variety of generally accepted valuation methods. The analyses were prepared solely for the purpose of enabling Deutsche Bank and Moelis to provide their opinions to the Solutia board of directors as to the fairness, from a financial point of view, of the merger consideration to be paid with respect to each share of Solutia common stock to the holders of such stock as of the date of their respective opinions.

No company or transaction used in the analyses described above for purposes of comparison is directly comparable to Solutia or Eastman or the merger, respectively. In addition, such analyses do not purport to be appraisals, nor do they necessarily reflect the prices at which businesses or securities actually may be sold, which are inherently subject to uncertainty. As described above, in connection with their analyses, each of Deutsche Bank and Moelis made, and were provided by the management of Solutia with, numerous assumptions with

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respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Deutsche Bank, Moelis, Solutia or Eastman. Analyses based upon estimates or forecasts of future results are not necessarily indicative of actual past or future values or results, which may be significantly more or less favorable than suggested by such analyses. Because the analyses described above are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of Solutia, Eastman or their respective advisors, neither Deutsche Bank nor Moelis assumes responsibility if future results or actual values are materially different from these forecasts or assumptions.

The terms of the transaction, including the merger consideration, were determined through arm's-length negotiations between Solutia and Eastman and were approved by the Solutia board of directors. Although both Deutsche Bank and Moelis provided advice to the Solutia board of directors during the course of these negotiations, the decision to enter into the merger was solely that of the Solutia board of directors. Solutia's financial advisors did not recommend any amount of merger consideration paid to Solutia or its board of directors, or that any specific amount or type of consideration constituted the only appropriate consideration for the merger. As described above under "Recommendation of the Solutia Board of Directors and Solutia's Reasons for the Merger" beginning on page 89, the opinions and presentation of Deutsche Bank and Moelis to the Solutia board of directors were only one of a number of factors taken into consideration by the Solutia board of directors in making its determination to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement.

***Perella Weinberg***

Pursuant to an engagement letter dated December 30, 2011, the Solutia board of directors retained Perella Weinberg to act as a financial advisor to the Solutia board of directors in connection with the proposed merger. The Solutia board of directors selected Perella Weinberg based on Perella Weinberg's qualifications, expertise, reputation and experience and its knowledge of the industries in which Solutia conducts its business. Perella Weinberg, as part of its investment banking business, is continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, leveraged buyouts and other transactions as well as for corporate and other purposes.

On January 26, 2012, Perella Weinberg rendered its oral opinion, subsequently confirmed in writing, to the Solutia board of directors to the effect that, as of such date, and based upon and subject to the various assumptions, qualifications and limitations set forth in the opinion, the merger consideration of (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock, to be received per share by holders of Solutia common stock (other than in respect of shares owned by Solutia as treasury stock and shares held by holders properly exercising appraisal rights under the DGCL) pursuant to the merger agreement was fair from a financial point of view to such holders.

**The full text of Perella Weinberg's written opinion, dated January 26, 2012, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken by Perella Weinberg, is attached as Annex D hereto. The opinion does not address the underlying business decision of Solutia to enter into the merger or the relative merits of the merger as compared with any other strategic alternative which may be available to Solutia. The opinion was not intended to be and does not constitute a recommendation to any holder of Solutia common stock as to how such holder should act with respect to the proposed merger or any other matter. The opinion does not in any manner address the prices at which the Solutia common stock or Eastman common stock will trade at any time. In addition, Perella Weinberg expressed no opinion as to the fairness of the merger to, or any consideration received in connection with the merger by, the holders of any other class of securities, creditors or other constituencies of Solutia. Perella Weinberg provided its opinion only for the information and assistance of the Solutia board of directors in its capacity as such and in connection with, and for the purposes of its evaluation of, the merger. This summary is qualified in its entirety by reference to the full text of the opinion.**

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In arriving at its opinion, Perella Weinberg, among other things:

reviewed certain publicly available financial statements and other business and financial information with respect to Solutia and Eastman, including research analyst reports;

reviewed certain internal financial statements, analyses and forecasts and other financial data relating to the business of Solutia prepared by Solutia's management (the Solutia Forecast Information );

reviewed certain publicly available forecasts prepared by Wall Street analysts relating to Eastman (the Eastman Public Forecasts );

discussed the past and current business, operations, financial condition and prospects of Solutia and Eastman, including information relating to certain strategic, financial and operational benefits anticipated from the merger, with senior executives of Solutia and Eastman;

reviewed the pro forma impact of, among other things, the merger on the future financial performance of Eastman, including the potential impact on Eastman's estimated earnings per share;

compared the financial performance of Solutia and Eastman with that of certain publicly traded companies which it believed to be generally relevant;

compared the financial terms of the merger with the publicly available financial terms of certain transactions which it believed to be generally relevant;

reviewed the historical trading prices for the shares of Solutia common stock and Eastman common stock, and compared such prices with those of securities of certain publicly traded companies which it believed to be generally relevant;

reviewed a draft dated January 26, 2012 of the merger agreement; and

conducted such other financial studies, analyses and investigations, and considered such other factors, as it deemed appropriate.

In arriving at its opinion, Perella Weinberg assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information supplied or otherwise made available to it (including information that was available from generally recognized public sources) for purposes of its opinion and further assumed, with the consent of the Solutia board of directors, that information furnished by Solutia for purposes of its analysis did not contain any material omissions or misstatements of material fact. With respect to the Solutia Forecast Information, Perella Weinberg was advised by the management of Solutia and assumed, with the consent of the Solutia board of directors, that the Solutia Forecast Information had been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of management of Solutia as to the future financial performance of Solutia and the other matters covered thereby, and Perella Weinberg expressed no view as to the assumptions on which they were based. With respect to the Eastman Public Forecasts, Perella Weinberg assumed, with the consent of the Solutia board of directors, that such forecasts were a reasonable basis upon which to evaluate the future financial performance of Eastman and to use in performing its analyses.

In arriving at its opinion, Perella Weinberg did not make any independent valuation or appraisal of the assets or liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities) of Solutia or Eastman, nor was it furnished with any such valuations or appraisals. In addition, Perella Weinberg did not evaluate the solvency of any party to the merger agreement, including under any state or federal

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laws relating to bankruptcy, insolvency or similar matters. In arriving at its opinion, Perella Weinberg assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the merger agreement were true and correct, that the merger would be consummated in accordance with the terms set forth in the merger agreement, without material modification (including, without limitation, modification to the mix of merger consideration or the form or structure of the transaction) or amendment, without waiver of any of its covenants or conditions, or delay, and that the final executed merger agreement would not differ in any respect

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material to its analysis from the draft merger agreement reviewed by it. Furthermore, Perella Weinberg assumed that in connection with the receipt of all the necessary approvals of the proposed merger, no delays, limitations, conditions or restrictions would be imposed that could have an adverse effect on Solutia, Eastman or the contemplated benefits expected to be derived in the proposed merger. Perella Weinberg relied as to all legal matters relevant to rendering its opinion upon the advice of counsel.

Perella Weinberg's opinion addressed only the fairness from a financial point of view, as of the date thereof, of the merger consideration to be received per share by the holders of Solutia common stock pursuant to the merger agreement. Perella Weinberg was not asked to, nor did it, offer any opinion as to any other term of the merger agreement or the form or structure of the merger or the likely timeframe in which the merger would be consummated. Perella Weinberg was not asked to, nor did it, participate in the negotiation of the merger agreement or the form or structure of the merger. In addition, Perella Weinberg expressed no opinion as to the fairness of the amount or nature of any compensation to be received by any officers, directors or employees of any parties to the merger, or any class of such persons, relative to the merger consideration. Perella Weinberg did not express any opinion as to any tax or other consequences that may result from the transactions contemplated by the merger agreement, nor did its opinion address any legal, tax, regulatory or accounting matters, as to which Perella Weinberg understood Solutia had received such advice as it deemed necessary from qualified professionals. Perella Weinberg's opinion did not address the underlying business decision of Solutia to enter into the merger or the relative merits of the merger as compared with any other strategic alternative which may have been available to Solutia. In arriving at its opinion, Perella Weinberg was not authorized to solicit and did not solicit interest from any third party with respect to any business combination or other extraordinary transaction involving Solutia.

Perella Weinberg's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, the date thereof. It should be understood that subsequent developments may affect Perella Weinberg's opinion and the assumptions used in preparing it, and Perella Weinberg does not have any obligation to update, revise or reaffirm its opinion. The issuance of Perella Weinberg's opinion was approved by a fairness opinion committee of Perella Weinberg.

### ***Summary of Material Financial Analyses***

The following is a brief summary of the material financial analyses performed by Perella Weinberg and reviewed by the Solutia board of directors in connection with Perella Weinberg's opinion relating to the merger and does not purport to be a complete description of the financial analyses performed by Perella Weinberg. The order of analyses described below does not represent the relative importance or weight given to those analyses by Perella Weinberg. Some of the summaries of the financial analyses include information presented in tabular format. In order to fully understand Perella Weinberg's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Perella Weinberg's financial analyses. For purposes of its analyses, Perella Weinberg assumed that the merger consideration had a value of \$27.65, based on the closing price per share on the New York Stock Exchange of Eastman common stock of \$47.12 on January 26, 2012.

### ***Analysis of Implied Premia and Multiples of Financial Results***

Perella Weinberg calculated the implied premium represented by the \$27.65 per share value of the merger consideration (calculated based on the closing price per share on the New York Stock Exchange of Eastman common stock on January 26, 2012) to be received by the holders of Solutia common stock pursuant to the merger agreement relative to the following:

the closing market price per share on the New York Stock Exchange of Solutia common stock on January 26, 2012, the last trading day prior the delivery of its opinion;

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the closing market price per share on the New York Stock Exchange of Solutia common stock on December 1, 2011, the last trading day prior to the date that Solutia first received a written proposal from Eastman;

the average closing market price per share on the New York Stock Exchange of Solutia common stock for the one-month period prior to January 26, 2012;

the average closing market price per share on the New York Stock Exchange of Solutia common stock for the two-month period prior to January 26, 2012;

the average closing market price per share on the New York Stock Exchange of Solutia common stock for the three-month period prior to January 26, 2012;

the average closing market price per share on the New York Stock Exchange of Solutia common stock for the six-month period prior to January 26, 2012;

the average closing market price per share on the New York Stock Exchange of Solutia common stock for the one-year period prior to January 26, 2012;

the highest closing market price per share on the New York Stock Exchange of Solutia common stock during the 52-week period prior to January 26, 2012; and

the lowest closing market price per share on the New York Stock Exchange of Solutia common stock during the 52-week period prior to January 26, 2012.

The results of these calculations are summarized in the following table:

<b>Metric</b>	<b>Reference Price Per Share</b>	<b>Implied Premium</b>
Stock Price as of January 26, 2012	\$ 19.51	41.7%
Stock Price on December 1, 2011	\$ 16.13	71.4%
1-Month Average	\$ 18.10	52.8%
2-Month Average	\$ 17.04	62.3%
3-Month Average	\$ 16.67	65.9%
6-Month Average	\$ 16.20	70.7%
1-Year Average	\$ 19.94	38.7%
52-Week High	\$ 26.35	5.0%
52-Week Low	\$ 11.91	132.2%

In the analysis of implied multiples, Perella Weinberg derived the implied enterprise value of Solutia based on the merger consideration of \$27.65 per share (calculated based on the closing price per share on the New York Stock Exchange of Eastman common stock on January 26, 2012). Using this price, Perella Weinberg calculated the enterprise value for Solutia as the aggregate value of Solutia's fully diluted equity (based on the total number of fully diluted outstanding shares of Solutia common stock), plus debt at book value and minority interest at book value, less cash and cash equivalents as provided by Solutia management as of December 31, 2011. Perella Weinberg also reviewed historical and estimated EBITDA for Solutia for certain periods described below. In the case of Solutia (but not of any of the other companies used by Perella Weinberg in its analysis), EBITDA also excluded stock based compensation expense so as to be consistent with Solutia's convention in its financial reporting. In addition, Perella Weinberg derived a pro forma EBITDA for Solutia for 2011, which is referred to as 2011A Pro Forma EBITDA, by adding \$12 million to 2011 EBITDA to account for the full-year impact of the acquisition of Southwall Technologies Inc., which was completed on November 28, 2011.

Perella Weinberg calculated the following multiples of historical and estimated financial results for Solutia:

enterprise value as a multiple of EBITDA for the 2011 calendar year, or  $EV / 2011A \text{ EBITDA}$  ;

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enterprise value as a multiple of Pro Forma EBITDA for the 2011 calendar year, or EV / 2011A PF EBITDA ;

enterprise value as a multiple of estimated EBITDA for the 2012 calendar year, based on the Solutia Forecast Information, or EV / 2012E EBITDA (LRP) ; and

enterprise value as a multiple of estimated EBITDA for the 2012 calendar year, based on the consensus of Wall Street research analysts as reported by Institutional Brokers Estimate System ( IBES ) on January 26, 2012, or EV / 2012E EBITDA (Consensus).

The results of these analyses are summarized in the following table:

<b>Financial Multiples</b>	<b>Implied Multiple</b>
EV / 2011A EBITDA	9.0x
EV / 2011A PF EBITDA	8.8x
EV / 2012E EBITDA (LRP)	8.2x
EV / 2012E EBITDA (Consensus)	8.4x

*Historical Stock Trading*

Perella Weinberg reviewed the historical trading price per share on the New York Stock Exchange of Solutia common stock for the 52-week trading period ending on January 26, 2012, the date Perella Weinberg rendered its oral opinion to the Solutia board of directors. Perella Weinberg noted that the range of closing market prices per share on the New York Stock Exchange of Solutia common stock during such period was \$11.91 to \$26.35. The historical stock trading analysis provided general reference points with respect to the trading prices of Solutia common stock, which enabled Perella Weinberg to compare the historical prices with the merger consideration, which, based on the Eastman common stock s closing price per share of \$47.12 on January 26, 2012, represented a value of \$27.65.

*Summary of Wall Street Research Share Price Targets*

Perella Weinberg summarized the share price targets for Solutia common stock published by several Wall Street research analysts. Perella Weinberg noted that the range of share price targets for Solutia common stock was \$18.00 per share to \$31.00 per share. Because it is the general convention of Wall Street equity research analysts to provide 12-month share price targets, Perella Weinberg discounted such research analyst price targets for shares of Solutia common stock by one year. Perella Weinberg performed such discounting using a cost of equity of 14.0%, which Perella Weinberg derived utilizing the Capital Asset Pricing Model, or CAPM. Perella Weinberg noted that the range of such share price targets, discounted one year using an assumed 14.0% cost of equity, was \$15.90 to \$27.38 per share.

*Selected Publicly Traded Companies Analysis*

Perella Weinberg reviewed and compared certain financial information for Solutia to corresponding financial information, ratios and public market multiples for the following publicly traded companies in the specialty chemicals industry, which, in the exercise of its professional judgment and based on its knowledge of such industries, Perella Weinberg determined to be relevant to its analysis. Although none of the following companies is identical to Solutia, Perella Weinberg selected these companies because they had publicly traded equity securities and were deemed to be comparable to Solutia in one or more respects including the nature of their business, size, financial performance and geographic profile. Perella Weinberg noted that the Premier Peers



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historically had traded at higher EV / EBITDA (i.e., enterprise value to EBITDA) multiples than the Diversified Peers due to the superior financial and operating profiles of the Premier Peers.

Premier Peers	Diversified Peers
FMC Corporation	Celanese Corporation
Albemarle Corporation	Eastman
	W.R. Grace & Company
	Rockwood
	Cytec Industries Incorporated
	Cabot Corporation

For each of the selected companies, Perella Weinberg calculated and compared financial information and various financial market multiples and ratios based on the closing price per share as of January 26, 2012, SEC filings for historical information and third-party research estimates from IBES per FactSet, which is a financial data and software company that provides financial data and analytics for use by investment professionals. For Solutia, Perella Weinberg made calculations based on the closing market price per share of Solutia common stock as of January 26, 2012, and the merger consideration of \$27.65 per share (calculated based on the closing market price per share on the New York Stock Exchange of Eastman common stock of \$47.12 on January 26, 2012), and utilized the Solutia Forecast Information and third-party research estimates from IBES per FactSet for forecasted information.

With respect to Solutia and each of the selected companies, Perella Weinberg reviewed enterprise value as a multiple of estimated EBITDA, referred to as EV / EBITDA, multiples for each of calendar years 2012 and 2013. The results of these analyses are summarized in the following table:

	EV / EBITDA			
	2012E		2013E	
<b>Premier Peers</b>				
Range	8.4x	8.5x	7.5x	8.1x
Median	8.4x		7.8x	
<b>Diversified Peers</b>				
Range	5.7x	6.5x	5.3x	6.1x
Median	6.2x		5.7x	
<b>Combined Peer Group</b>				
Range	5.7x	8.5x	5.3x	8.1x
Median	6.3x		5.7x	
<b>Solutia (At 1/26/12 Market Price)</b>				
IBES Consensus Forecasts	6.6x		6.0x	
Solutia Forecast Information (LRP)	6.4x		5.8x	
<b>Solutia (At \$27.65 Merger Consideration)</b>				
IBES Consensus Forecasts	8.4x		7.6x	
Solutia Forecast Information (LRP)	8.2x		7.4x	

Perella Weinberg noted that between July 2008 and January 2012, Solutia's EV / EBITDA multiple had been approximately 15% to 25% lower than the median EV / EBITDA multiple of the Premier Peers and approximately 5% to 10% higher than the median EV / EBITDA multiple of the Diversified Peers. In the exercise of its professional judgment, Perella Weinberg estimated a reference range of EV / EBITDA multiples for the Combined Peer Group of 6.0x to 7.5x, which, assuming the Solutia Forecast Information and IBES consensus forecasts for 2012E EBITDA, resulted in ranges of implied values per share of Solutia common stock of \$17.57 to \$24.48, and \$16.94 to \$23.70, respectively, compared to the merger consideration of \$27.65 per share (calculated based on the closing market price per share on the New York Stock Exchange of Eastman common stock of \$47.12 on January 26, 2012).

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Although the selected companies were used for comparison purposes, no business of any selected company was either identical or directly comparable to Solutia's business. Accordingly, Perella Weinberg's comparison of selected companies to Solutia and analysis of the results of such comparisons was not purely mathematical, but instead necessarily involved complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the relative values of the selected companies and Solutia.

### *Discounted Illustrative Future Stock Price Analysis*

Perella Weinberg performed an analysis of the net present value of the illustrative future price per share of Solutia common stock, which is designed to provide an indication of the present value of a theoretical future share price of Solutia common stock, where such theoretical future share price is derived from Solutia's estimated EBITDA and an assumed enterprise value to estimated EBITDA multiple. In particular, to derive a range of such future share prices, Perella Weinberg used financial information from the Solutia Forecast Information, including Solutia's estimated EBITDA, and a range of enterprise value to estimated EBITDA multiples. Perella Weinberg first calculated the implied value per share of Solutia common stock at the end of each of the calendar years from 2012 through 2015 by applying a range of enterprise value to next twelve months EBITDA multiples of 5.5x to 8.0x to the applicable estimates of EBITDA for each of the calendar years from 2013 to 2016 from the Solutia Forecast Information. The 5.5x to 8.0x multiple range was generally consistent with the enterprise value to next twelve months EBITDA multiples at which Solutia had traded at over the past several years, although Perella Weinberg noted that Solutia's enterprise value to next twelve months EBITDA multiple, based on research estimates from IBES, as of January 26, 2012, was 6.6x and that a valuation at the top end of the 5.5x to 8.0x multiple range would imply a meaningful increase from Solutia's current EV / EBITDA multiple. Perella Weinberg then discounted the implied share prices back to January 26, 2012 using an assumed illustrative cost of equity of 14.0%, which resulted in the following range of implied present values per share of Solutia common stock:

	Present Value of Implied Share Prices as of December 31,							
	2012		2013		2014		2015	
<b>Solutia LRP Forecasts</b>	\$ 16.77	\$28.18	\$ 16.48	27.18	\$ 17.71	\$28.53	\$ 18.88	\$29.53

The implied present value of future prices per share of Solutia common stock was reviewed for illustrative purposes only. The illustrative future prices per share of Solutia common stock should not be viewed as an accurate representation of what actual prices per share of Solutia common stock will be. Actual prices per share of Solutia common stock for any period may be greater or less than the illustrative future prices per share of Solutia common stock reviewed by Perella Weinberg, and the differences may be material. Future share prices are inherently uncertain, being based upon numerous factors or events that are not possible to predict.

### *Discounted Cash Flow Analysis*

Perella Weinberg conducted a discounted cash flow analysis for Solutia to calculate the present value as of January 26, 2012 of the estimated standalone unlevered free cash flows that Solutia could generate during the period commencing in the 2012 calendar year through the 2016 calendar year. Estimates of unlevered free cash flows used for this analysis utilized the Solutia Forecast Information. Perella Weinberg also calculated a range of terminal values using the Solutia Forecast Information and terminal year multiples of the last twelve months EBITDA ranging from 6.0x to 8.0x. Perella Weinberg derived such a range of terminal year multiples, in the exercise of its professional judgment, based on Solutia's and the Combined Peer Group's historical trading ranges from July 2008 to January 2012. Perella Weinberg used discount rates ranging from 11.0% to 12.0%, based on estimates of Solutia's weighted average cost of capital, which Perella Weinberg derived based on Solutia's estimated cost of equity (derived using CAPM) and Solutia's estimated after-tax cost of debt at an assumed target capital structure. The present values of unlevered free cash flows generated over the period described above were then added to the present values of terminal values resulting in a range of implied enterprise values for Solutia. From such range of implied enterprise values, Perella Weinberg derived ranges of

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implied equity values for Solutia by subtracting the debt at book value and minority interest at book value and by adding cash and cash equivalents. These analyses resulted in a range of implied equity values per share of Solutia common stock of \$22.65 to \$31.87.

*Leveraged Buyout Analysis*

Perella Weinberg performed an illustrative leveraged buyout analysis to estimate the theoretical prices at which a financial sponsor might effect a leveraged buyout of Solutia. For purposes of this analysis, and in the exercise of its professional judgment regarding financing options available for such a transaction, Perella Weinberg assumed that a financial sponsor would attempt to realize a return on its investment after five years, with a valuation of Solutia realized by the financial sponsor in such subsequent exit transaction based on a range of enterprise value to last twelve months EBITDA multiples of 6.0x to 8.0x. Perella Weinberg utilized the Solutia Forecast Information in performing its analysis. For purposes of this analysis, Perella Weinberg assumed an illustrative multiple of total debt to last twelve months EBITDA at the transaction date of 5.50x, reflecting an illustrative multiple of debt to last twelve months EBITDA of 3.75x for a term loan having an interest rate of LIBOR plus 4.5% and an illustrative multiple of debt to last twelve months EBITDA of 1.75x for senior notes having an interest rate of 9.5%. Perella Weinberg then derived a range of theoretical purchase prices based on an assumed required internal rate of return for a financial sponsor of between 17.5% and 25.0%. This analysis resulted in a range of implied equity values per share of \$18.91 to \$27.83.

*Selected Transactions Analysis*

Perella Weinberg analyzed certain information relating to selected precedent transactions in the specialty chemicals industry from September 2006 to December 16, 2011 that, in the exercise of its professional judgment, Perella Weinberg determined to involve relevant companies with operations comparable to Solutia. The selected transactions analyzed were the following:

<b>Transaction Announcement</b>	<b>Acquiror</b>	<b>Target</b>
December 16, 2011	Apollo Global Management LLC	Taminco
October 28, 2011	American Securities LLC	Unifrax I LLC
July 20, 2011	Ecolab Inc.	Nalco Holding Company
July 11, 2011	Lonza Group Ltd.	Arch Chemicals, Inc.
May 31, 2011	Ashland Inc.	International Specialty Products Inc.
April 4, 2011	Solvay SA	Rhodia SA
March 14, 2011	Berkshire Hathaway Inc.	The Lubrizol Corporation
June 23, 2010	BASF SE	Cognis Holding Luxembourg S.à.r.l.
September 15, 2008	BASF SE	Ciba Holding AG
July 11, 2008	Ashland Inc.	Hercules Incorporated
July 10, 2008	The Dow Chemical Company	Rohm and Haas Company
June 1, 2007	The Carlyle Group	PQ Corporation
May 21, 2007	Saudi Basic Industries Corporation	GE Plastics
September 14, 2006	Apollo Management, L.P.	GE Advanced Materials
September 5, 2006	Court Square Capital Partners	MacDermid, Incorporated

For each of the selected transactions, Perella Weinberg calculated and compared the resulting enterprise value in the transaction as a multiple of last twelve months EBITDA (as adjusted from GAAP to exclude certain non-recurring expenses, EV / LTM EBITDA), and, where applicable, the premium represented by the acquisition price to the closing price of the target's common stock on the dates one day and one month prior to the transaction. The multiples for the selected transactions were based on publicly available information at the time of the relevant transaction. The results of these analyses are summarized in the following table:

	EV /EBITDA	Premium To Price:	
		1 Day Prior	1 Month Prior
Median	8.8x	36.3%	39.7%
Mean	8.8x	43.9%	38.7%

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Perella Weinberg observed that, as discussed above under *Analysis of Implied Premia and Multiples of Financial Results*, the implied enterprise value of Solutia based on the per share merger consideration as a multiple of 2011 EBITDA was 9.0x, relative to a median EV/EBITDA multiple for the selected transactions of 8.8x, and that the implied premium of the merger consideration to Solutia's January 26, 2012 closing stock price was 41.7%, relative to a median premium to the 1-day prior price for the selected transactions of 36.3%.

Although the selected transactions were used for comparison purposes, none of the selected transactions nor the companies involved in them was either identical or directly comparable to the merger, Solutia or Eastman. In addition, in connection with its review, Perella Weinberg considered the dates on which these transactions were announced and the market conditions existing at such time. Accordingly, Perella Weinberg's comparison of the selected transactions to the merger and analysis of the results of such comparisons were not purely mathematical, but instead necessarily involved complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the relative values of the companies involved in such transactions and of the merger and were based on Perella Weinberg's experience working with corporations on various merger and acquisition transactions.

### *Illustrative Premiums Paid Analysis*

Perella Weinberg analyzed the premiums paid in 104 acquisitions of publicly-traded United States companies since January 1, 2010 with transaction values greater than \$1 billion. For each of the 104 transactions, based on publicly available information, Perella Weinberg calculated the premiums of the offer price in the transaction to the target company's closing stock price one day and one month prior to the announcement of the transaction. Perella Weinberg observed that the median premiums to target company closing stock price one day and one month prior to transaction announcement were 34% and 40%, respectively. Perella Weinberg observed that, as discussed above under *Analysis of Implied Premia and Multiples of Financial Results*, the implied premium represented by the \$27.65 per share merger consideration (calculated based on the closing price per share on the New York Stock Exchange of Eastman common stock on January 26, 2012) to be received by the holders of shares of Solutia common stock in the merger relative to \$19.51, the closing market price per share of Solutia common stock on the January 26, 2012, was 41.7%.

### *Miscellaneous*

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth herein, without considering the analyses or the summary as a whole, could create an incomplete view of the processes underlying Perella Weinberg's opinion. In arriving at its fairness determination, Perella Weinberg considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis. Rather, Perella Weinberg made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. No company or transaction used in the analyses described herein as a comparison is directly comparable to Solutia or the merger.

Perella Weinberg prepared the analyses described herein for purposes of providing its opinion to the Solutia board of directors as to the fairness, from a financial point of view, as of the date of such opinion, of the merger consideration to be received per share by holders of Solutia common stock pursuant to the merger agreement. These analyses do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold. Perella Weinberg's analyses were based in part upon the Solutia Forecast Information and third-party research analyst estimates, which are not necessarily indicative of actual future results, and which may be significantly more or less favorable than suggested by Perella Weinberg's analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties to the merger agreement or their respective advisors, none of Solutia, Perella Weinberg or any other person assumes responsibility if future results are materially different from those forecasted by Solutia management or third parties.

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As described above, the opinion of Perella Weinberg to the Solutia board of directors was one of many factors taken into consideration by the Solutia board of directors in making its determination to approve the merger. Perella Weinberg was not asked to, and did not, recommend the specific consideration provided for in the merger agreement, which consideration was determined through negotiations between Solutia and Eastman.

Pursuant to the terms of the engagement letter between Perella Weinberg and Solutia, Solutia agreed to pay to Perella Weinberg retainer and advisory fees, including a fee for a financial fairness opinion, no portion of which are or were contingent upon the completion of the merger, the conclusion contained in any financial fairness opinion or, in the case of the retainer fees, the delivery of any financial fairness opinion. In particular, pursuant to the terms of the engagement letter, upon delivery of the opinion, Perella Weinberg received a fee of \$5.0 million, against which was applied a credit for fees (including initial and quarterly retainer fees) previously paid to Perella Weinberg, such that the aggregate fees paid to Perella Weinberg for the engagement totaled \$5.0 million. In addition, Solutia agreed to reimburse Perella Weinberg for its expenses and to indemnify Perella Weinberg for certain liabilities and other items arising out of its engagement.

In the ordinary course of its business activities, Perella Weinberg or its affiliates may at any time hold long or short positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, in debt or equity or other securities (or related derivative securities) or financial instruments (including bank loans or other obligations) of Solutia or Eastman or any of their respective affiliates. Except in connection with its engagement as financial advisor to the Solutia board of directors in connection with the proposed merger, during the two-year period prior to the date of Perella Weinberg's opinion, no material relationship existed between Perella Weinberg and its affiliates and Solutia or Eastman pursuant to which compensation was received by Perella Weinberg or its affiliates; however, Perella Weinberg and its affiliates may in the future provide investment banking and other financial services to Solutia or Eastman or their respective affiliates for which they would expect to receive compensation. Without limiting the foregoing, as disclosed by Perella Weinberg to Solutia in connection with its engagement, Perella Weinberg Partners Capital Management LP, or PWPCM, an affiliate of Perella Weinberg, owned shares of Solutia common stock, which ownership was publicly disclosed by PWPCM in its filing with the SEC on Form 13F for the quarter ended September 30, 2011, the information contained in which has and will be updated by subsequent Form 13F filings made by PWPCM. As further disclosed to Solutia in connection with its engagement, Perella Weinberg, as a firm, and its affiliates maintain internal policies and procedures, including information barriers, reasonably designed to prevent the dissemination of material non-public, confidential and proprietary information from personnel who provide corporate advisory services, on the one hand, to the firm's asset management professionals who provide investment services, on the other hand. Based on publicly information available as of January 26, 2012, shares owned by PWPCM represented approximately 2.8% of the Solutia common stock then outstanding.

**Presentations by Solutia's Consultants**

On January 23, 2012, the Solutia board of directors received presentations from two third party advisors that had been asked to consider Solutia's long-range plan, the impact of macroeconomic factors on the achievability of the plan and possible unseen risks and opportunities available to Solutia. Neither party was asked to consider the proposed merger with Eastman. Additional information on the presentations is presented below.

***Dr. John Rutledge***

On January 23, 2012, Dr. John Rutledge, an economist who is also founder and chairman of Rutledge Capital LLC, made a presentation to the Solutia board of directors relating to macroeconomic risks that could affect Solutia's long-range plan. In his presentation, Dr. Rutledge suggested that business planning generally (and understandably) fails to take into account the risk of adverse impacts from unforeseen macroeconomic events and thus Solutia's long-range plan likely does not take into account the risk of occurrence of these macroeconomic events. For example, Dr. Rutledge identified several macroeconomic events, such as sovereign bond defaults, banking system failures and currency impacts, that could impact Solutia's ability to achieve the results of the long-range plan as a stand-alone company and suggested that the risk of these events and their effects on Solutia's future business performance may not be fully reflected in Solutia's long-range plan (in part because the effects of these events are not fully known). Dr. Rutledge also discussed with the Solutia board of

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directors the possibility of other unforeseen macroeconomic events affecting Solutia. He also reviewed with the Solutia board of directors qualitative factors affecting market and country-specific growth, regulatory uncertainty and currency risks. For example, with respect to Europe, Dr. Rutledge discussed the possibility of impacts from the European Union debt crisis, the potential for adverse developments relating to the Euro currency and the potential failure of large European banks affecting Solutia's businesses. With respect to China, Dr. Rutledge discussed the possibility of impacts from a potential property value bubble, protectionist trade policies, requirements for funding of expansion and gaining access to natural resources, uncertainties surrounding governance, rule of law and intellectual property matters, politically-sensitive sectors, and competition from other regions affecting Solutia's businesses. Dr. Rutledge did not quantify the potential impacts of any of these factors and did not offer any specific predictions for the occurrence of these events or how they would impact Solutia's businesses.

Dr. Rutledge was selected by Solutia to provide his views on these matters because of his reputation as an economist with extensive insight into macroeconomic risks and uncertainties. Dr. Rutledge received a consulting fee of \$100,000 from Solutia for his services. In addition, Solutia agreed to reimburse Dr. Rutledge for his travel expenses incurred in connection with his engagement. Dr. Rutledge has been retained by Solutia to perform consulting services to Solutia in the past two years for consulting services, for which he received aggregate fees of \$20,000.

***The Valence Group LLC***

On January 23, 2012, The Valence Group LLC (Valence) made a presentation to the Solutia board of directors relating to its review of Solutia's long-range plan. In its presentation, Valence reviewed with the Solutia board of directors the results of its review of Solutia's long-range plan, which had been undertaken on a business-by-business basis and which analyzed factors regarding the achievability of, and identified risks and potential upsides, in the key underlying assumptions. Valence discussed potential risks to the achievability of Solutia's long-range plan, as well as potential upsides, for the following lines of business: Saflex, Crystex, Santoflex, Performance Films, Photovoltaics, and Fluids.

On a consolidated basis, Valence observed that Solutia's long-range plan assumed annual revenue and EBITDA growth of approximately 2.5x and 3.0x the latest IMF GDP forecast (January 2012), respectively. Additionally, Solutia's 2011-2014 annual revenue growth assumption in its long-range plan of 8.4% exceeded the equity analysts consensus forecast for Solutia of 7.5% and the average of equity analyst consensus forecast for companies regarded as comparable to Solutia of 4.8%. Valence also observed that Solutia's 2011-2013 annual EBITDA growth assumption in its long-range plan of 10.2% exceeded the equity analysts consensus forecast for Solutia at 8.1% and the average of equity analyst consensus forecast for companies regarded as comparable to Solutia of 5.5%. Valence noted that margin expansion, the driver for Solutia projecting EBITDA to grow faster than revenue, would likely require some combination of share gains, achievement of premium pricing strategies and/or cost rationalization.

Valence also observed that achieving the long-range plan would require Solutia to outperform the growth of its key underlying end markets as forecasted by third party observers. Due to recent economic turbulence, third party growth forecasts for Solutia's key underlying markets, including markets for automobiles, automotive tires and construction materials, had declined to levels that were, on average, more than 10% lower than the market growth rates contemplated by Solutia's long-range plan. For example, for the period from 2011 to 2016, Valence observed that Solutia's long-range plan contemplated annual market growth of 6.7%, 5.3%, 5.0% and 5.0% of global automotive builds, global construction, global tire production (only through 2015) and global rubber consumption (only through 2015), respectively, but that more recent estimates for these growth rates derived from third party data were 5.3% (based on IHS data as of December 2011), 4.7% (based on IHS data as of November 2011), 4.0% (based on estimates from The Goodyear Tire & Rubber Company presented at the Deutsche Bank Auto Industry Conference on January 10, 2012) and 5.0% (based on International Rubber Study Group data as of January 2012), respectively.

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In reviewing each of Solutia’s business for the potential risks to the achievability of Solutia’s long-range plan, as well as potential upsides, Valence observed that significant factors included changes in gross domestic product and regional growth rates, regional adoption of technologies (particularly in Europe and Asia), the growth rate of the underlying market segment in which the business operates, competitive activities and, operational execution, as well as organizational strength and competency. Valence did not quantify the potential impacts of any of these risks or upsides and did not offer any specific predictions for the occurrence of these events or how they would impact Solutia’s businesses. Valence stated inter alia that achievement of the long-range plan by Solutia on a stand-alone basis would likely require gross domestic product growth to reach levels forecasted prior to the recent economic turbulence and achievement of share gains and premium pricing strategies. As a result of its review, Valence concluded that the long-range plan could be achievable but bore more downside risk than upside potential.

Valence was selected by Solutia to review Solutia’s long-range plan as a result of Valence’s experience and strong reputation providing advisory services to companies in the chemicals sector. Valence received an advisory fee of \$500,000 from Solutia for its services. In addition, Solutia agreed to reimburse Valence for its expenses incurred in connection with its engagement and to indemnify Valence and its related persons for liabilities arising from its engagement. In addition to the advisory fee received by Valence from Solutia for its services described above, Valence received fees of \$500,000 plus reimbursement of expenses for financial advisory services provided in connection with its retention in November 2009 to provide financial advisory services for a transaction that was not completed, with the final installment for such services being paid by Solutia to Valence in January 2010. Valence has also provided other financial advisory services to Solutia on occasion during the last two years in connection with transactions that have not been completed and for which Valence has not received fees.

**Certain Unaudited Eastman Forecasts and Other Information**

Although Eastman periodically may issue limited public guidance concerning its expected financial performance, Eastman does not as a matter of course publicly disclose detailed financial forecasts. However, in the course of due diligence in connection with the negotiation of the merger, Eastman provided certain non-public financial forecasts for the years ending December 31, 2012, 2013 and 2014, which are referred to as the Eastman Forecasts, to its financial advisors and to Solutia, the financial advisors of Solutia and the financial advisor of the Solutia board of directors. The Eastman Forecasts were prepared by Eastman’s management based upon certain internal financial forecasts that were prepared as part of its annual planning process considered by the Eastman board of directors in late 2011, and are subjective. While the Eastman Forecasts are being included in this proxy statement/prospectus, the Eastman Forecasts were not prepared with a view toward complying with published guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. In the view of Eastman’s management, the Eastman Forecasts were prepared on a reasonable basis and reflected the best then-currently available estimates and judgments of Eastman’s management. The inclusion of the Eastman Forecasts in this proxy statement/prospectus should not be regarded as an indication that Eastman or any other recipient of this information considered, or now considers, this information to be necessarily predictive of actual future results.

This prospective financial information has been prepared by, and is the responsibility of, Eastman’s management. PricewaterhouseCoopers LLP ( PwC ) has neither examined, compiled, nor performed any procedures with respect to the prospective financial information and, accordingly, PwC does not express an opinion or any other form of assurance with respect thereto. PwC’s report included in Eastman’s 2011 Annual Report on Form 10-K incorporated by reference herein relates to Eastman’s historical financial information, does not extend to the prospective financial information and should not be read to do so. The Eastman Forecasts:

were based upon numerous assumptions, as further described below, many of which are beyond the control of Eastman and may not prove to be accurate;

were originally prepared in the fourth quarter of 2011;

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do not necessarily reflect current estimates or assumptions management of Eastman may have about prospects for Eastman's businesses, changes in general business or economic conditions, or any other transaction or event that has occurred or that may occur and that was not anticipated at the time the forecasts were prepared;

are not necessarily indicative of current values or future performance, which may be significantly more favorable or less favorable than as set forth below; and

are not, and should not be regarded as, a representation that any of the expectations contained in, or forming a part of, the Eastman Forecasts will be achieved.

Key assumptions underlying the Eastman Forecasts include:

Steady revenue growth from 2011-2014, largely driven by volume growth across the portfolio; and

Strong earnings growth from 2011-2014 driven by revenue growth, operational leverage, continued cost advantages and operational excellence.

**Eastman Forecasts**

The following information was included in the Eastman Forecasts:

	2012	2013	2014
(\$ in millions)			
Sales	\$ 7,627	\$ 8,128	\$ 8,482
Net income attributable to common stockholders	\$ 657	\$ 749	\$ 862
Capital expenditures	\$ 500	\$ 466	\$ 460
Cash flow from operating activities	\$ 830	\$ 971	\$ 1,143

**Calculations of Additional Forecasted Information**

Solutia management had prepared mathematical calculations of certain additional information about Eastman (the "Calculated Information") based on information in the Eastman Forecasts. In doing so, Solutia made no judgments about, or adjustments to, the components of the Eastman Forecasts. Eastman did not participate in, or in any way verify, and made no judgments about, the calculations comprising the Calculated Information. Certain of the Eastman Forecasts and Calculated Information was provided to the Solutia board of directors, the financial advisors of Solutia and the financial advisor of the Solutia board of directors. The Calculated Information was not shared with Eastman by Solutia prior to the execution of the merger agreement. The following information was included in the Calculated Information:

	2012	2013	2014
(\$ in millions)			
Calculated EBITDA (1)	\$ 1,348	\$ 1,482	\$ 1,642
Calculated free cash flow (2)	\$ 330	\$ 505	\$ 683

- (1) Solutia calculated Calculated EBITDA as earnings before interest and other (expense) income, net, income taxes, depreciation and amortization. Calculated EBITDA is a non-GAAP financial measure and should not be considered as an alternative to operating earnings or net earnings as a measure of operating performance or cash flows or as a measure of liquidity. Calculated EBITDA does not include the impact of any potential synergies or costs related to the merger.
- (2) Solutia calculated Calculated free cash flow as cash flow from operating activities less capital expenditures. Calculated free cash flow is a non-GAAP financial measure and should not be considered as an alternative to operating cash flows or as a measure of liquidity.



Calculated free cash flow does not include the impact of any potential synergies or costs related to the merger.

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### ***Possible Benefits of the Merger***

In connection with Eastman's and Solutia's respective evaluations of the merger, representatives of Eastman and Solutia discussed various potential benefits to Eastman of the merger, including, among other things, potential cost savings (including from reduced corporate costs, raw material and procurement savings, and improved manufacturing and supply chain processes), potential revenue synergies (including from leveraging tire and LCD touch screen end-market and other technologies from both companies, leveraging market-development and other complementary business capabilities, and leveraging key transportation, architectural, and other end-market overlaps), potential tax synergies from access to Solutia's historical net operating losses and foreign tax credits, potential operating efficiencies and other benefits.

Eastman has disclosed that it expects that the merger could result in annual cost savings of up to \$100 million on a run rate basis by the end of 2013. In particular, Eastman expects that it will be able to realize between \$60 million and \$70 million of savings from the costs incurred by Eastman and Solutia separately from reduced corporate costs, resulting primarily from combining the management, personnel in corporate functions, and corporate facilities of the two companies and operating on unified combined information technology and internal controls systems; and between \$30 million and \$40 million of savings from expected benefits of combining supply chain and manufacturing processes including reduced raw material and procurement costs resulting from the expected increased purchasing power of the combined company for similar raw materials, the benefits from increased capacity utilization as a result of manufacturing materials that were previously purchased, and similar operating efficiencies. In addition, Eastman expects to realize tax benefits of approximately \$1.5 billion of net operating losses over 15 years and of approximately \$150 million in foreign tax credits over 10 years. Neither Eastman nor Solutia quantified the amount of the other benefits that could potentially result from the merger. Both Eastman and Solutia were aware that the amounts of any benefits to Eastman as a result of the merger were estimates, that they may change, and that achieving any of the benefits would be subject to a number of uncertainties. For additional information related to limitations on these benefits, see "Risk Factors" beginning on page 25.

All of the financial information contained in this section entitled "Certain Unaudited Eastman Forecasts and Other Information" is forward-looking in nature. This information relates to multiple future years and such information by its nature becomes less predictive with each succeeding year. Neither Eastman nor Solutia provide any assurances that actual future financial results will not materially vary from the forward-looking information presented above.

The information above does not take into account any circumstances or events occurring after the respective dates on which it was prepared. Neither Eastman nor Solutia intends to update or revise any of the information presented above. The information presented above constitutes forward-looking statements. For additional information on factors which may cause actual future financial results to materially vary from the information presented above, see "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors" beginning on pages 31 and 25, respectively.

While the financial advisors of Solutia and the financial advisor of the Solutia board of directors did review this information, they did not use any of this information for purposes of their financial analysis of the merger consideration.

### **Certain Unaudited Solutia Forecasts**

Although Solutia periodically may issue limited guidance to investors concerning its expected financial performance, Solutia does not as a matter of course publicly disclose detailed financial projections. However, in connection with the negotiation of the merger, Solutia provided to Eastman and the financial advisors of Solutia and the Solutia board of directors certain non-public financial forecasts for the years ended December 31, 2012, 2013, 2014, 2015 and 2016, which are referred to as the "Solutia Forecasts," that the management of Solutia

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prepared for the Solutia board of directors in connection with its annual strategic planning and budgeting process. Solutia management reviewed the Solutia Forecasts with the Solutia board of directors to assist in its evaluation of the strategic rationale for the merger. While the Solutia Forecasts are being included in this proxy statement/prospectus, the Solutia Forecasts were not prepared with a view toward complying with published guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. In the view of Solutia's management, the Solutia Forecasts were prepared on a reasonable basis and reflected the best then-currently available estimates and judgments of Solutia's management relevant to strategic planning and budgeting. The inclusion of the Solutia Forecasts in this proxy statement/prospectus should not be regarded as an indication that Solutia or any other recipient of this information considered, or now considers, this information to be necessarily predictive of actual future results, and does not constitute an admission or representation by any person that such information is material and readers are cautioned not to place undue reliance on the prospective financial information.

The Solutia Forecasts are unaudited. This prospective financial information has been prepared by, and is the responsibility of, Solutia's management. Deloitte & Touche LLP ( Deloitte ) has neither examined, compiled, nor performed any procedures with respect to the prospective financial information and, accordingly, Deloitte does not express an opinion or any other form of assurance with respect thereto or their achievability. Deloitte assumes no responsibility for, and disclaims any association with, the prospective financial information. Deloitte's report included in Solutia's 2011 Annual Report on Form 10-K incorporated by reference herein relates to Solutia's historical financial information, does not extend to the prospective financial information and should not be read to do so. The Solutia Forecasts:

were based upon numerous assumptions, as further described below, many of which are beyond the control of Solutia and may not prove to be accurate;

were originally during the course of late October 2011 through early December 2011;

do not necessarily reflect current estimates or assumptions management of Solutia may have about prospects for Solutia's businesses, changes in general business or economic conditions, or any other transaction or event that has occurred or that may occur and that was not anticipated at the time the forecasts were prepared;

are not necessarily indicative of current values or future performance, which may be significantly more favorable or less favorable than as set forth below; and

are not, and should not be regarded as, a representation that any of the expectations contained in, or forming a part of, the Solutia Forecasts will be achieved.

In addition, Solutia provided to its financial advisors, the financial advisor of the Solutia board of directors and Eastman a separate upside sensitivity case that reflected an assumption that there would be incrementally higher volumes in its Technical Specialties division, resulting in an approximately 6.5% increase to consolidated EBITDA in each of 2014 to 2016. The financial advisors of Solutia and the financial advisor of the Solutia board of directors did not rely upon the upside sensitivity case. Solutia management reviewed the Solutia Forecasts with the Solutia board of directors to assist in its evaluation of the strategic rationale for the merger.

The key assumptions underlying the Solutia Forecasts include:

strong revenue growth from 2011 to 2016 based on premised global GDP growth of approximately 4-5% per annum (with stable exchange rates), continued development of strong positions in core products and brands, and expansion in the Asia Pacific region with a focus on premium, high-growth markets such as acoustic, electronics and energy;

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continued margin expansion from 2011 to 2016 due to product mix improvements, rebalancing of asset footprint resulting in increased fixed cost leverage and lower supply chain costs, and technology and manufacturing process improvements; and

significant capital spending in key strategic areas over the forecast period.

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The following information was included in the Solutia Forecasts:

	2012	2013	2014	2015	2016
(\$ in millions)					
Sales	\$ 2,267	\$ 2,495	\$ 2,665	\$ 2,910	\$ 3,162
Adjusted EBITDA (1)	\$ 563	\$ 628	\$ 668	\$ 761	\$ 842
Net income attributable to common stockholders	\$ 271	\$ 327	\$ 354	\$ 415	\$ 482
Capital expenditures	\$ 156	\$ 231	\$ 211	\$ 132	\$ 139
Free cash flow (2)	\$ 147	\$ 139	\$ 146	\$ 320	\$ 367

- (1) Adjusted EBITDA is defined as earnings before interest and other (expense) income, net, income taxes, depreciation, amortization and stock compensation expense. Adjusted EBITDA is a non-GAAP financial measure and should not be considered as an alternative to operating earnings or net earnings as a measure of operating performance or cash flows or as a measure of liquidity. Adjusted EBITDA does not include the impact of any potential synergies or costs related to the merger.
- (2) Free cash flow is defined as cash provided by continuing operations less capital expenditures and acquisition payments. Free cash flow is a non-GAAP financial measure and should not be considered as an alternative to operating cash flows or as a measure of liquidity. Free cash flow does not include the impact of any potential synergies or costs related to the merger.

Solutia cannot assure you that the Solutia Forecasts will be realized or that its future financial results will not materially vary from the Solutia Forecasts. The Solutia Forecasts cover multiple years and such information by its nature becomes less predictive with each succeeding year.

The Solutia Forecasts do not necessarily take into account any circumstances or events occurring after the date they were prepared. Solutia does not intend to update or revise the Solutia Forecasts. The Solutia Forecasts are forward-looking statements. For additional information on factors which may cause Solutia's actual future financial results to materially vary from the Solutia Forecasts, see *Cautionary Statement Regarding Forward-Looking Statements* and *Risk Factors* beginning on pages 31 and 25, respectively.

**Interests of Certain Persons in the Merger**

In considering the recommendation of the Solutia board of directors that you vote to adopt the merger agreement, you should be aware that Solutia's executive officers and directors have economic interests in the merger that are different from, or in addition to, those of Solutia stockholders generally. The Solutia board of directors was aware of and considered those interests, among other matters, in reaching its decisions to adopt and approve the merger agreement, the merger and the transactions contemplated by the merger agreement.

**Equity Awards Held by Executive Officers and Directors*****Stock Options***

At the effective time of the merger, each outstanding option to acquire shares of Solutia common stock issued under any Solutia Equity Plan, whether or not then vested or exercisable, will be cancelled and terminated in exchange for the right to receive, in cash, the amount by which the cash value of the merger consideration (using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two trading days prior to the merger) exceeds the exercise price for such option. See *The Merger Agreement* *Merger Consideration* *Treatment of Solutia Stock Options and Other Equity-Based Awards* *Solutia Stock Options* on page 145.

**Table of Contents****Restricted Stock**

At the effective time of the merger, restrictions on any restricted shares of Solutia common stock issued under any Solutia Equity Plan will lapse and such shares will be fully vested, and the holder thereof will be entitled to receive, for each such restricted share of Solutia common stock, the merger consideration. See The Merger Agreement Merger Consideration Treatment of Solutia Stock Options and Other Equity-Based Awards Solutia Restricted Stock beginning on page 145.

**Restricted Stock Units**

At the effective time of the merger, each restricted stock unit issued under any Solutia Equity Plan will be converted into a vested right to receive, in cash, the value of the merger consideration (using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two trading days prior to the merger). See The Merger Agreement Merger Consideration Treatment of Solutia Stock Options and Other Equity-Based Awards Solutia Restricted Stock Units on page 145.

**Performance Share Awards**

At the effective time of the merger, restrictions on any performance share award granted under any Solutia Equity Plan will lapse and such performance share award will become vested based on no greater than the performance results for the applicable performance period according to the relevant award provisions, and the holder thereof will be entitled to receive, in the case of each performance share award in the form of restricted stock, the merger consideration. See The Merger Agreement Merger Consideration Treatment of Solutia Stock Options and Other Equity-Based Awards Performance Share Awards and Performance Share Unit Awards on page 145.

The following table sets forth, for each of Solutia's executive officers and non-employee directors, as applicable, the number of shares of Solutia common stock subject to unvested stock options, restricted stock awards, restricted stock units and performance share awards, as well as the approximate value of each of those awards, assuming continued service through the effective time of the merger and assuming that the effective time of the merger occurs on June 30, 2012. Consistent with Item 402(t) of Regulation S-K, the dollar amounts set forth below are determined with reference to \$27.59, the average closing price per share of Solutia common stock for the first five days following the public announcement of the merger on January 27, 2012. The table does not include the phantom stock unit grants made in 2012, as discussed below, or any awards scheduled to vest prior to June 30, 2012.

	Vesting Upon Completion of Merger Stock Options		Vesting Upon Completion of Merger Restricted Stock Awards		Vesting Upon Completion of Merger Restricted Stock Units		Vesting Upon Completion of Merger Performance Shares	
	Shares (#)	Value \$(1)	Shares (#)	Value \$(2)	Shares (#)	Value \$(3)	Shares (#)	Value \$(4)
<b>Executive Officers(5)</b>								
Jeffrey N. Quinn <i>President, Chief Executive Officer and Chairman of the Board</i>	200,925	\$ 1,484,159	164,563	\$ 4,546,464			147,690	\$ 4,080,311
James M. Sullivan <i>Executive Vice President and Chief Financial Officer</i>	74,732	\$ 552,540	51,399	\$ 1,420,026			54,983	\$ 1,519,044
D. Michael Donnelly <i>Executive Vice President and Chief Operating Officer</i>	34,585	\$ 285,986	22,339	\$ 617,171			23,673	\$ 654,034
Robert T. DeBolt <i>Senior Vice President Business Operations</i>	38,468	\$ 274,514	29,370	\$ 811,420			27,315	\$ 754,655
Paul J. Berra, III <i>Senior Vice President, Legal and Governmental Affairs and General Counsel</i>	32,433	\$ 237,258	25,965	\$ 717,348			23,612	\$ 652,335
All other executive officers as a group (7 persons)	110,624	\$ 793,781	66,178	\$ 1,828,333			74,135	\$ 2,048,161

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	Vesting Upon Completion of Merger Stock Options		Vesting Upon Completion of Merger Restricted Stock Awards		Vesting Upon Completion of Merger Restricted Stock Units		Vesting Upon Completion of Merger Performance Shares	
	Shares (#)	Value \$(1)	Shares (#)	Value \$(2)	Shares (#)	Value \$(3)	Shares (#)	Value \$(4)
<b>Executive Officers(5)</b>								
<b>Non-Employee Directors(6)</b>								
William T. Monahan				\$	1,044	\$ 103,843		
Robert K. deVeer, Jr.			1,044	\$ 103,843				
James P. Heffernan				\$ 75,000	1,044	\$ 28,843		
Edgar G. Hotard			1,044	\$ 103,843				
W. Thomas Jagodinski			1,044	\$ 103,843				
Robert A. Peiser			1,044	\$ 103,843				
William C. Rusnack			3,253	\$ 164,872				
Gregory C. Smith			1,044	\$ 103,843				

- (1) Values for each option are calculated by multiplying the number of shares subject to the option by \$27.59 per share of Solutia common stock less the exercise price per share.
- (2) Values for restricted stock awards are calculated by multiplying the number of restricted shares of Solutia common stock subject to the award by \$27.59 per share of Solutia common stock. The dollar amount column also reflects the value of the accrued and unpaid dividends with respect to the underlying Solutia common stock subject to the award.
- (3) Values for restricted stock unit awards are calculated by multiplying the number of units subject to the award by \$27.59 per share of Solutia common stock. The dollar amount column also reflects the value of the accrued and unpaid dividends with respect to the underlying Solutia common stock subject to the award.
- (4) Solutia's executive officers hold performance share awards only in the form of restricted stock. The dollar amount column also reflects the value of the accrued and unpaid dividends with respect to the underlying Solutia common stock subject to the award. The performance shares are measured half against relative total shareholder return (TSR) and half against relative return on capital (ROIC), each compared to the peer group. For purposes of determining the vesting of the performance shares shown above, Solutia's common stock price for the middle of February was compared to the peer group for the TSR component, and Solutia's performance through the end of 2011 (inclusive of the fourth quarter) was compared to the performance of the peer group through the end of the third quarter of 2011 for the ROIC component. The Solutia common stock price used for the TSR component and the performance period used for the ROIC component will be adjusted based on the effective time of the merger. The actual number of shares that are subject to vesting can range from 25% of the target shares of Solutia common stock for achievement of 40% performance and 175% of the target shares of Solutia common stock for 75% performance or higher.
- (5) James R. Voss, Solutia's former Executive Vice President and Chief Operating Officer, was terminated effective August 5, 2011. Consistent with Instruction 1 to Item 402(2)(t) of Regulation S-K, the table above shall be deemed to include James R. Voss with \$0 in each column.
- (6) The dollar amount column reflects the annual equity retainer to be granted to the non-employee directors for 2012, which will be paid in the form of restricted stock and, for Mr. Monahan, restricted stock units, that have a grant date fair value of \$75,000 for each non-employee director. Since the number of shares of restricted stock, or for Mr. Monahan, restricted stock units, to be granted to each non-employee director is not currently determinable the number of shares subject to the annual equity retainer of restricted stock or restricted stock units, as applicable, is not reflected in the share amount column.

**Payments to Solutia Executive Officers Contingent Upon the Merger**

The descriptions below are summaries of the material terms of agreements that Solutia has with its executive officers, including its named executive officers, which are qualified in their entirety by the actual agreements, copies of which have been filed with the SEC. The various definitions of good reason generally include failure to pay compensation, material reductions in compensation, the assignment to the executive officer of duties materially inconsistent with his or her current duties, a material diminution in position, authority, duties or responsibilities, a change in duty location and/or a failure to renew an employment agreement, as applicable. The actual definition of good reason is qualified in its entirety by the definition contained in the applicable agreement and/or plan.

**Severance Plan**

Under the terms of Solutia's executive separation pay plan, as amended pursuant to the merger agreement (the Executive Separation Pay Plan), under which all of Solutia's executive officers participate other than Messrs. Quinn, Sullivan and DeBolt, executive officers that experience an involuntary termination, which generally includes a termination by Solutia for any reason other than cause (as defined in the Executive Separation Pay Plan), or a termination by the executive officer for good reason (as defined in the Executive Separation Pay Plan) within twelve months after a change in control (as defined in the Executive Separation Pay Plan), will be eligible to receive certain severance payments and benefits.





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If the executive officer (other than Messrs. Quinn, Sullivan and DeBolt) experiences an involuntary termination within twelve months of a change in control, the executive officer will be entitled to:

a lump sum cash payment equal to 200% for Messrs. Berra and Donnelly, 150% for Mr. Glandon (Mr. Glandon is one of the seven executive officers) and 100% for all other executive officers, of the sum of his or her annual base salary plus either the target bonus for Messrs. Donnelly and Glandon or the average annual bonus paid in respect of the 2010 and 2011 calendar years for Mr. Berra and all other executive officers; and

continuation of medical and dental benefits for all executive officers for a twelve-month period at active employee rates. The right to receive the severance benefits under the Executive Separation Pay Plan is conditioned on the executive officer's execution of a release of claims in favor of Solutia and, other than with respect to the continued participation in welfare benefit plans, may be subject to a six-month delay in accordance with the requirements of Section 409A of the Code.

The value of the cash severance and other benefits that may become payable under the Executive Separation Pay Plan to each of Solutia's executive officers assuming base salaries remain unchanged from their current levels, completion of the merger on June 30, 2012, and a contemporaneous qualifying termination of employment of the executive officers, is included in the table set forth below under Golden Parachute Compensation.

***Employment Agreements with Certain Named Executive Officers***

The agreements for Messrs. Quinn, Sullivan and DeBolt provide that if the executive officer is terminated other than for cause (as defined in the agreements) or such executive officer terminates employment for good reason (as defined in the agreements), in each case upon a change in control (as defined in the agreements), or at any time within 24 months following a change in control, the executive officer will be entitled to receive a lump sum cash payment equal to:

the sum of (1) the executive officer's accrued annual base salary through the date of termination, (2) any unpaid annual bonus amounts earned with respect to the previous year, and (3) any accrued vacation pay;

an amount equal to the average annualized payment the executive officer actually received for the three years immediately preceding the date of termination under Solutia's annual incentive plan (AIP), multiplied by the number of days that have transpired during that fiscal year immediately prior to the date of termination, divided by 365;

a severance payment equal to 250% of the sum of (1) the executive officer's annual base salary immediately prior to the date of termination and (2) the average annualized payment actually received for the three most recent years under the AIP;

all outstanding equity awards granted pursuant to any equity compensation plans in effect will immediately vest except as specifically provided below with respect to the phantom stock units; and

continuation of medical and dental benefits for four months following the termination date at active employee rates as well as outplacement assistance.

In addition, the agreements for Messrs. Quinn, Sullivan and DeBolt provide that in the event excise taxes are being imposed on the executive officer as the result of Section 4999 of the Code, Solutia will provide a tax reimbursement and gross-up payment to the executive officers to indemnify the executives for such taxes. All such payments and benefits, other than the accrued benefits, continued participation in welfare benefit plans and outplacement services, are subject to each executive officer's execution of a general release of claims in favor of Solutia within thirty days following the termination date and, other than with respect to the accrued benefits and the continued participation in welfare benefit

plans, may be subject to a six-month delay in accordance with the

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requirements of Section 409A of the Code. The agreements also contain provisions relating to non-competition, protection of Solutia's confidential information and non-solicitation of its employees.

The value of the cash severance and other benefits that may become payable under the agreements for Messrs. Quinn, Sullivan and DeBolt, assuming base salaries remain unchanged from their current levels, completion of the merger on June 30, 2012, and a contemporaneous qualifying termination of employment of the executive officers, is included in the table set forth below under Golden Parachute Compensation.

***2012 Annual Incentive Plan***

The Executive Compensation and Development Committee of the Solutia board of directors (the ECDC) approved performance measures for the 2012 AIP on February 21, 2012 for grants to be awarded to all of Solutia's executive officers for the 2012 calendar year consistent with past practices, as modified by the terms of the merger agreement. The grants and the AIP for the 2012 calendar year cannot be amended, modified or terminated on or after the completion of the merger in a manner adverse to any executive officer without the executive officer's consent. Under the terms of the grants and the AIP, if an executive officer other than Messrs. Quinn, Sullivan and DeBolt is terminated by Solutia for any reason other than cause (as defined in the AIP) or if such executive officer terminates employment for good reason (as defined in the AIP), in each case on or following the merger and prior to December 31, 2012, the applicable executive officer will be entitled to a pro-rated bonus (at target) reflecting the number of days such executive officer was employed during the 2012 calendar year divided by 365.

***2012 Long Term Incentive Plan***

On February 21, 2012, the ECDC granted long term incentive awards to all of Solutia's executive officers in the form of phantom stock unit awards. The phantom stock unit awards were made pursuant to the merger agreement, in lieu of annual equity grants under the long term incentive plan. The phantom stock units granted to all executive officers will vest over a four year period and, notwithstanding the terms of any employment agreement with a named executive officer to the contrary, will not accelerate as a single trigger on a change in control (as defined in the phantom stock unit award agreement). The phantom stock units granted to Solutia's named executive officers provide that in the event of a termination of employment by Solutia for any reason other than cause (as defined in the phantom stock unit award agreement) or a termination of employment for good reason (as defined in the phantom stock unit award agreement), in each case on or following a change in control, the phantom stock units will vest in a percentage equal to the number of days in which the applicable named executive officer was employed during the 2012 calendar year divided by 365. The phantom stock units granted to all other Solutia executive officers that were not named executive officers provide that in the event of a termination of employment by Solutia for any reason other than cause or a termination of employment for good reason, in each case following a change in control, the phantom stock units will vest in full upon such termination.

In addition, if a change in control occurs during the 2012 calendar year, (1) the value of each phantom stock unit that becomes vested at any time will be the final trading price of a share of Solutia common stock immediately prior to such change in control and (2) all vested phantom stock units will be settled in cash, unless otherwise agreed between Eastman and Solutia prior to the merger.

**Golden Parachute Compensation**

The following table sets forth the information required by Item 402(t) of Regulation S-K regarding certain compensation which each of Solutia's named executive officers may receive that is based on or that otherwise relates to the merger. This compensation is referred to as golden parachute compensation. The golden parachute compensation payable to Solutia's named executive officers is subject to a non-binding advisory vote of Solutia stockholders, as described under Proposals Submitted to Solutia Stockholders Non-Binding Advisory Vote on Golden Parachute Compensation beginning on page 68.

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While not required pursuant to Item 402(t) of Regulation S-K, the following table also includes quantification of these amounts for Solutia's other executive officers who are not named executive officers. These amounts are not subject to the non-binding advisory vote of Solutia stockholders, as described under *Proposals Submitted to Solutia Stockholders Non-Binding Advisory Vote on Golden Parachute Compensation* beginning on page 68.

Assuming that the merger qualifies as a change in control as defined in each applicable agreement and/or plan, that the merger is completed and the executive officers are terminated on June 30, 2012 in a qualifying termination of employment and are entitled to full benefits available under their respective employment agreements and/or the Executive Separation Pay Plan, as applicable, the executive officers would receive approximately the amounts set forth in the table below, based on a per share price of Solutia common stock of \$27.59, the average closing price per share of Solutia common stock for the first five days following the public announcement of the merger on January 27, 2012, as required pursuant to Item 402(t) of Regulation S-K. Please note that the amounts indicated below are estimates based on multiple assumptions that may or may not actually occur, including assumptions described in this proxy statement/prospectus. As a result, the actual amounts, if any, to be received by a named executive officer may differ from the amounts set forth below.

<b>Executive Officers(6)</b>	<b>Cash (1)</b>	<b>Equity (2)</b>	<b>Pension / NQDC (3)</b>	<b>Perquisites/ Benefits (4)</b>	<b>Tax Reimburse- ment (5)</b>	<b>Total</b>
Jeffrey N. Quinn <i>President, Chief Executive Officer and Chairman of the Board</i>	\$ 9,242,653	\$ 10,110,934	\$ 0	\$ 92,805	\$ 0	\$ 19,446,392
James M. Sullivan <i>Executive Vice President and Chief Financial Officer</i>	\$ 3,520,306	\$ 3,491,610	\$ 22,218	\$ 51,161	\$ 1,850,731	\$ 8,936,026
D. Michael Donnelly <i>Executive Vice President and Chief Operating Officer</i>	\$ 2,485,058	\$ 1,557,191	\$ 16,579	\$ 45,239	\$ 0	\$ 4,104,068
Robert T. DeBolt <i>Senior Vice President Business Operations</i>	\$ 2,182,171	\$ 1,840,589	\$ 12,334	\$ 41,426	\$ 1,115,173	\$ 5,191,693
Paul J. Berra, III <i>Senior Vice President, Legal and Governmental Affairs and General Counsel</i>	\$ 1,866,173	\$ 1,606,942	\$ 9,212	\$ 46,487	\$ 0	\$ 3,528,814
All other executive officers as a group (7 persons) (7)	\$ 6,636,318	\$ 4,670,275	\$ 38,813	\$ 270,252	\$ 0	\$ 11,615,658

- (1) These amounts represent double trigger benefits, and include the estimated value of cash severance payments under the employment agreements and the Executive Separation Pay Plan, as applicable, payable in a cash lump sum payment following a qualifying termination of employment at any time following completion of the merger, the estimated pro rata, lump sum annual incentive payment for 2012, payable upon a qualifying termination of employment during the 2012 calendar year on or following the completion of the merger, as well as the estimated pro rata vesting for named executive officers and full vesting for all other executive officers and the lump sum payment of the phantom stock units granted in 2012, payable upon a qualifying termination of employment on or following the completion of the merger, in each case, assuming base salaries, incentive targets and short-term incentive awards remain unchanged from their current levels. The estimated amount of each benefit for each named executive officer and the other executive officers as a group is as follows:

*Mr. Quinn:* (1) \$7,214,641 for the estimated cash severance payable under Mr. Quinn's employment agreement; (2) \$950,245 for the estimated pro rata annual incentive payment; and (3) \$1,077,767 for the pro-rated vesting and payment of unvested phantom stock units granted in 2012.

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*Mr. Sullivan:* (1) \$2,837,501 for the estimated cash severance payable under Mr. Sullivan's employment agreement; (2) \$317,400 for the estimated pro rata annual incentive payment; and (3) \$365,405 for the pro-rated vesting and payment of unvested phantom stock units granted in 2012.

*Mr. Donnelly:* (1) \$1,900,000 for the estimated cash severance payable under the Executive Separation Pay Plan; (2) \$236,849 for the estimated pro rata annual incentive payment under the 2012 AIP; and (3) \$348,209 for the pro-rated vesting and payment of unvested phantom stock units granted in 2012.

*Mr. DeBolt:* (1) \$1,792,678 for the estimated cash severance payable under Mr. DeBolt's employment agreement; (2) \$176,202 for the estimated pro rata annual incentive payment; and (3) \$213,292 for the pro-rated vesting and payment of unvested phantom stock units granted in 2012.

*Mr. Berra:* (1) \$1,528,200 for the estimated cash severance payable under the Executive Separation Pay Plan; (2) \$131,601 for the estimated pro rata annual incentive payment under the 2012 AIP; and (3) \$206,372 for the pro-rated vesting and payment of unvested phantom stock units granted in 2012.

*All Other Executive Officers as a Group (7 persons):* (1) \$3,956,472 for the estimated cash severance payable under the Executive Separation Pay Plan; (2) \$786,703 for the estimated pro rata annual incentive payment under the 2012 AIP; and (3) \$1,893,143 for the pro-rated vesting and payment of unvested phantom stock units granted in 2012.

- (2) Represents the value of the single trigger benefit for the accelerated vesting of all unvested equity at the effective time of the merger, as shown in the table above under the heading "Equity Awards Held by Executive Officers and Directors" on page 123.
- (3) These amounts represent the value of the double trigger matching contribution to be made in respect of Solutia's Savings and Investment Restoration Plan, calculated by using the estimated pro rata annual incentive payment described above, which would be payable upon a qualifying termination of employment during the 2012 calendar year or following the completion of the merger. Solutia's Savings and Investment Restoration Plan is a nonqualified deferred compensation plan. Solutia also maintains a frozen pension plan that has been frozen as of June 30, 2004. Certain executive officers maintain fully vested accounts in the pension plan, which either becomes payable upon termination of employment, or deferred at the executive officers election. There is no enhancement of the pension value as a result of the merger.
- (4) These amounts represent the value of the double trigger in-kind benefits provided under the employment agreements and the Executive Separation Pay Plan, including continued medical and dental benefits and outplacement assistance, which would be provided upon a qualifying termination of employment following completion of the merger and the value of the matching contribution in respect of Solutia's Savings and Investment Plan, calculated by using the estimated pro rata annual incentive payment described above.
- (5) Represents the amounts that may become payable to the executives to indemnify them for the impact of the excise taxes that may be due by reason of the application of Section 4999 of the Code. Such amounts will be payable if necessary to indemnify the executive for the impact of such excise taxes, without regard to whether there is a termination of service following completion of the merger. These amounts are subject to change based on the effective time of the merger, date of termination of the executive officer, interest rates then in effect and certain other assumptions used in the calculation. They do not take into account the value of any non-competition agreement or certain amounts that may be reasonable compensation either before or after the effective time of the merger, each of which may, in some cases, significantly reduce the amount of, or result in the elimination of, the payments.
- (6) James R. Voss, the former Executive Vice President and Chief Operating Officer, was terminated effective August 5, 2011. Consistent with Instruction 1 to Item 402(2)(t) of Regulation S-K, the table above shall be deemed to include James R. Voss with \$0 in each column.
- (7) Not subject to non-binding, advisory vote on golden parachute compensation.

**Board of Directors and Management of Eastman After the Merger**

The board of directors and executive officers of Eastman are not expected to change in connection with the merger.

**Solutia Director and Officer Indemnification and Continuation of Insurance**

The surviving corporation has agreed pursuant to the merger agreement to provide certain rights of indemnification to current and former directors and officers, employees and fiduciaries under benefit plans of Solutia against all losses arising out of actions or omissions occurring at or prior to completion of the merger that are based on or arise out of the fact that such person is or was a director, officer, employee or fiduciary

under such benefit plan. In addition, the surviving corporation after completion of the merger has agreed to provide

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certain rights of indemnification with respect to losses based on or arising out of the transactions contemplated by the merger agreement and to continue to provide directors, officers and employees of Solutia directors and officers liability insurance policies following the completion of the merger.

### **Regulatory Approvals**

Under the antitrust or competition laws of the United States, the European Union, China, South Korea, and the Ukraine, Eastman and Solutia cannot complete the merger until they file certain required notifications and report forms with the relevant antitrust or competition governmental entities and, where applicable, receive clearance (including the passage of applicable waiting periods) from such governmental entities to complete the merger. Eastman and Solutia are not currently aware of any other material governmental consents, approvals or filings that are required prior to the parties' completion of the merger other than those described below. If additional approvals, consents and filings are required to complete the merger, Eastman and Solutia intend to seek such consents and approvals and make such filings. Although Eastman and Solutia believe that they will receive the required consents and approvals described below to complete the merger, we cannot give any assurance as to the timing of these consents and approvals or as to Eastman's and Solutia's ultimate ability to obtain such consents or approvals (or any additional consents or approvals which may otherwise become necessary) or that we will obtain such consents or approvals on terms and subject to conditions satisfactory to Eastman and Solutia.

### ***HSR Act***

The merger is subject to the requirements of the HSR Act and the related rules and regulations, which provide that certain acquisition transactions may not be completed until required information has been furnished to the Antitrust Division of the DOJ and the FTC and until certain waiting periods have been terminated or have expired. The expiration or early termination of the HSR Act waiting period would not preclude the Antitrust Division of the DOJ or the FTC from challenging the merger on antitrust grounds and seeking to preliminarily or permanently enjoin the proposed merger. Neither Eastman nor Solutia believes that the merger will violate federal antitrust laws, but the Antitrust Division of the DOJ or the FTC may take a different position. If we do not complete the merger within twelve months after the expiration or early termination of the initial HSR Act waiting period, Eastman and Solutia will need to submit new information to the Antitrust Division of the DOJ and the FTC, and wait for the expiration or earlier termination of a new HSR Act waiting period before we could complete the merger.

On February 27, 2012 Eastman and Solutia filed their respective notification and report forms under the HSR Act with the Antitrust Division of the DOJ and the FTC. The waiting period under the HSR Act expired on March 28, 2012.

### ***European Commission Approval***

Eastman and Solutia each conduct business in Member States of the European Union, or the EU. The merger has an EU dimension and falls within the scope of the EU Merger Regulation 139/2004, or the EUMR. As a result, Eastman and Solutia were required to make a merger notification to the European Commission. The European Commission notified the parties that the 25-business day Phase One waiting period has begun. Absent an in-depth Phase Two investigation, the review period under the EUMR is expected to expire on May 25, 2012.

### ***Other Antitrust Approvals***

Eastman and Solutia also conduct business in a number of countries outside the United States and the EU. As a result, in addition to the HSR and EU filings discussed above, pre-merger notification filings were required to be made under the antitrust and competition laws of China, South Korea, and the Ukraine. The required antitrust filings were made in China on February 13, 2012; in South Korea on March 8, 2012; and in the Ukraine on March 7, 2012. South Korea cleared the merger on March 23, 2012; China cleared the merger on April 16, 2012; and Ukraine cleared the merger on April 25, 2012.

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### **New York Stock Exchange Listing of Eastman Common Stock; Deregistration of Solutia Common Stock After the Merger**

Pursuant to the merger agreement, Eastman has agreed to use its reasonable best efforts to cause the shares of Eastman common stock to be issued or reserved for issuance in the merger to be approved for listing on the New York Stock Exchange, subject to official notice of issuance, prior to the effective time of the merger. After the completion of the merger, Eastman expects to deregister Solutia common stock under the Exchange Act.

### **Exchange of Shares of Solutia Common Stock**

Eastman will appoint an exchange agent for the payment of the merger consideration in exchange for shares of Solutia common stock. Promptly after the effective time of the merger, Eastman will mail or cause the exchange agent to mail to each holder of record of Solutia common stock a letter of transmittal and instructions for effecting the surrender of stock certificates or uncertificated shares in exchange for the payment of the merger consideration described above to be made to the holder of such certificates or uncertificated shares. Upon surrender or transfer of shares of Solutia common stock to the exchange agent, together with a properly completed letter of transmittal and such other evidence as the exchange agent may reasonably require, the holder of such shares will be entitled to receive the merger consideration for each share of Solutia common stock. The exchange agent, the surviving corporation and Eastman are entitled to deduct and withhold any applicable taxes from any merger consideration that would otherwise be payable.

After the effective time of the merger, each certificate that previously represented shares of Solutia common stock will be cancelled and, subject to compliance with the procedures described above, exchanged for the merger consideration as described above under Effect of the Merger.

Neither Solutia nor Eastman will be liable to holders of Solutia common stock for any amount delivered to a public official under applicable abandoned property, escheat or similar laws.

Solutia stockholders should not return their stock certificates with the enclosed proxy card and should not forward stock certificates to the exchange agent without a letter of transmittal.

### **Distributions with Respect to Unexchanged Shares of Solutia Common Stock**

A holder of Solutia common stock will be entitled to receive dividends or other distributions on Eastman common stock with a record date after the effective time of the merger, but only after such holder has surrendered its Solutia common stock certificates and uncertificated shares. Any dividend or other distribution on Eastman common stock with a record date after the effective time of the merger will be paid (1) at the time of surrender of the common stock certificate or uncertificated share, if the payment date is on or prior to the date of surrender and not previously paid or (2) at the appropriate payment date, if the dividends or distributions have a payment date subsequent to such surrender.

### **Fractional Shares**

Eastman will not issue any fractional shares of Eastman common stock in connection with the merger. Instead, each holder of Solutia common stock who would otherwise be entitled to receive a fraction of a share of Eastman common stock (after taking into account all shares of Solutia common stock owned by such holder at the effective time of the merger) will receive cash (without interest and rounded down to the nearest cent) equal to such fractional amount multiplied by the average of the volume weighted averages of the trading prices of Eastman common stock on the New York Stock Exchange on each of the five consecutive trading days ending on (and including) the trading day that is two trading days prior to the closing date under the merger agreement.



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### **Lost, Stolen and Destroyed Certificates**

If a Solutia common stock certificate is lost, stolen or destroyed, the holder of such certificate must deliver an affidavit of that fact prior to receiving any merger consideration and, if required by Eastman, may also be required to provide an indemnity bond (in such reasonable amount as may be directed by Eastman) prior to receiving the merger consideration.

### **Appraisal Rights**

Under the DGCL, if you do not wish to accept the per share merger consideration provided for in the merger agreement, you have the right to seek appraisal of your shares of Solutia common stock and to receive payment for the fair value of your shares of Solutia common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger, as determined by the Delaware Court of Chancery, together with interest, if any, to be paid upon the amount determined to be fair value. The fair value of your shares of Solutia common stock as determined by the Delaware Court of Chancery may be more or less than, or the same as, the merger consideration per share that you are otherwise entitled to receive under the terms of the merger agreement. These rights are known as appraisal rights. Solutia stockholders who do not vote in favor of the proposal to adopt the merger agreement, who properly demand appraisal for their shares of Solutia common stock in compliance with the provisions of Section 262 of the DGCL, or Section 262, and who hold of record shares of Solutia common stock through the effective time of the merger will be entitled to appraisal rights. Strict compliance with the statutory procedures in Section 262 is required. Failure to follow precisely any of the statutory requirements will result in the loss of your appraisal rights.

This section is intended only as a brief summary of the material provisions of the Delaware statutory procedures that a stockholder must follow in order to seek and perfect appraisal rights. This summary, however, is not a complete statement of all applicable requirements and the law pertaining to appraisal rights under the DGCL, and is qualified in its entirety by reference to Section 262, the full text of which appears in *Annex E* to this proxy statement/prospectus. The following summary does not constitute any legal or other advice, nor does it constitute a recommendation that stockholders exercise their appraisal rights under Section 262.

Under Section 262, when a merger agreement is to be submitted for adoption at a meeting of stockholders, the company submitting the matter to a vote of stockholders must notify the stockholders that appraisal rights will be available not less than twenty days before the meeting to vote on the transaction. A copy of Section 262 must be included with such notice. This proxy statement/prospectus constitutes Solutia's notice to its stockholders that appraisal rights are available in connection with the merger and the full text of Section 262 is attached to this proxy statement/prospectus as *Annex E*, in compliance with the requirements of Section 262. If you wish to consider exercising your appraisal rights, you should carefully review the text of Section 262 contained in *Annex E*. Failure to comply timely and properly with the requirements of Section 262 will result in the loss of your appraisal rights under the DGCL. Moreover, because of the complexity of the procedures for exercising the right to seek appraisal of shares of Solutia common stock, Solutia believes that if a stockholder is considering exercising such rights, such stockholder should seek the advice of legal counsel.

If you wish to demand appraisal of your shares of Solutia common stock, you must satisfy each of the following conditions: You must deliver to Solutia a written demand for appraisal of your shares of Solutia common stock before the vote is taken to approve the proposal to adopt the merger agreement, which must reasonably inform Solutia of the identity of the holder of record of shares of Solutia common stock who intends to demand appraisal of his, her or its shares of Solutia common stock; and you must not vote or submit a proxy in favor of the proposal to adopt the merger agreement.

If you fail to comply with either of these conditions and the merger is completed, you will be entitled to receive payment for your shares of Solutia common stock as provided for in the merger agreement, but you will have no appraisal rights with respect to your shares of Solutia common stock. A holder of shares of Solutia common stock wishing to exercise appraisal rights must hold of record the shares of Solutia common stock on

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the date the written demand for appraisal is made and must continue to hold such shares of Solutia common stock of record through the effective time of the merger, because appraisal rights will be lost if such shares of Solutia common stock are transferred prior to the effective time of the merger. A proxy that is submitted and does not contain voting instructions will, unless revoked, be voted in favor of the proposal to adopt the merger agreement, and it will constitute a waiver of the stockholder's right of appraisal and will nullify any previously delivered written demand for appraisal. Therefore, a stockholder who submits a proxy and who wishes to exercise appraisal rights must either submit a proxy containing instructions to vote against the proposal to adopt the merger agreement or abstain from voting on the proposal to adopt the merger agreement. Voting against or failing to vote for the proposal to adopt the merger agreement by itself does not constitute a demand for appraisal within the meaning of Section 262. The written demand for appraisal must be in addition to and separate from any proxy or vote on the proposal to adopt the merger agreement.

All demands for appraisal should be addressed to Solutia's Corporate Secretary, 575 Maryville Centre Drive, St. Louis, Missouri 63141, and must be delivered before the vote is taken to approve the proposal to adopt the merger agreement at the Solutia special meeting. The demand must reasonably inform Solutia of the identity of the stockholder and the intention of the stockholder to demand appraisal of the fair value of his, her or its shares of Solutia common stock. A stockholder's failure to make the written demand prior to the taking of the vote on the adoption of the merger agreement at the special meeting of Solutia stockholders will constitute a waiver of appraisal rights.

Only a holder of record of shares of Solutia common stock is entitled to demand an appraisal of the shares registered in that holder's name. Accordingly, to be effective, a demand for appraisal by a stockholder of Solutia common stock must be made by, or in the name of, the record stockholder, fully and correctly, as the stockholder's name appears on the stockholder's stock certificate(s) or in the transfer agent's records, in the case of uncertificated shares, should specify the stockholder's mailing address and the number of shares registered in the stockholder's name, and must state that the person intends thereby to demand appraisal of the stockholder's shares in connection with the merger. The demand cannot be made by the beneficial owner if he or she does not also hold the shares of Solutia common stock of record. The beneficial holder must, in such cases, have the registered owner, such as a broker, bank or other nominee, submit the required demand with respect to those shares of Solutia common stock. **If you hold your shares of Solutia common stock through a broker, bank or other nominee and you wish to exercise appraisal rights, you should consult with your broker, bank or other nominee to determine the appropriate procedures for the making of a demand for appraisal by the nominee.**

If shares of Solutia common stock are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of a demand for appraisal should be made in that capacity. If the shares of Solutia common stock are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or for all joint owners. An authorized agent, including an authorized agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, he or she is acting as agent for the record owner. A record owner, such as a broker, bank or other nominee, who holds shares of Solutia common stock as a nominee for others, may exercise his or her right of appraisal with respect to the shares of Solutia common stock held for one or more beneficial owners, while not exercising this right for other beneficial owners. In that case, the written demand should state the number of shares of Solutia common stock as to which appraisal is sought. Where no number of shares of Solutia common stock is expressly mentioned, the demand will be presumed to cover all shares of Solutia common stock held in the name of the record owner.

Within ten days after the effective time of the merger, the surviving corporation in the merger must give written notice of the effective date of the merger to each stockholder of the acquired corporation who has properly filed a written demand for appraisal and who did not vote in favor of the proposal to adopt the merger agreement. At any time within sixty days after the effective time of the merger, any stockholder who has not commenced an appraisal proceeding or joined a proceeding as a named party may withdraw the demand and accept the consideration specified by the merger agreement for that stockholder's shares of Solutia common stock by delivering to the surviving corporation a written withdrawal of the demand for appraisal. However, any

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such attempt to withdraw the demand made more than sixty days after the effective time of the merger will require written approval of the surviving corporation. Unless the demand is properly withdrawn by the stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party within sixty days after the effective date of the merger, no appraisal proceeding in the Delaware Court of Chancery will be dismissed as to any stockholder without the approval of the Delaware Court of Chancery, with such approval conditioned upon such terms as the court deems just. If the surviving corporation does not approve a request to withdraw a demand for appraisal when that approval is required, or, except with respect to any stockholder who withdraws such stockholder's right to appraisal in accordance with the proviso in the immediately preceding sentence, if the Delaware Court of Chancery does not approve the dismissal of an appraisal proceeding, the stockholder will be entitled to receive only the appraised value determined in any such appraisal proceeding, which value could be less than, equal to or more than the consideration offered pursuant to the merger agreement.

Within 120 days after the effective time of the merger, but not thereafter, either the surviving corporation or any stockholder who has complied with the requirements of Section 262 and is entitled to appraisal rights under Section 262 may commence an appraisal proceeding by filing a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares of Solutia common stock held by all stockholders entitled to appraisal. Upon the filing of the petition by a stockholder, service of a copy of such petition shall be made upon the surviving corporation. The surviving corporation has no obligation to file such petition has no present intention to file a petition and holders should not assume that the surviving corporation will file a petition. In the event that the surviving corporation does not file such petition, it is the obligation of the holders of Solutia common stock to initiate all necessary action to perfect their appraisal rights with respect to shares of Solutia common stock within the time prescribed in Section 262 and the failure of a stockholder to file such a petition within the period specified in Section 262 could nullify the stockholder's previous written demand for appraisal. In addition, within 120 days after the effective time of the merger, any stockholder who has properly filed a written demand for appraisal and who did not vote in favor of the merger agreement, will be entitled to receive from the surviving corporation, upon written request, a statement setting forth the aggregate number of shares of Solutia common stock not voted in favor of the merger agreement and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. The statement must be mailed within ten days after such written request has been received by the surviving corporation or within ten days after the expiration of the period for delivery of demands for appraisal, whichever is later. A person who is the beneficial owner of shares of Solutia common stock held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file a petition for appraisal or request from the surviving corporation such statement.

If a petition for appraisal is duly filed by a stockholder and a copy of the petition is delivered to the surviving corporation, then the surviving corporation will be obligated, within twenty days after receiving service of a copy of the petition, to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all stockholders who have demanded an appraisal of their shares of Solutia common stock and with whom agreements as to the value of their shares of Solutia common stock have not been reached. After notice to stockholders who have demanded appraisal, if such notice is ordered by the Delaware Court of Chancery, the Delaware Court of Chancery is empowered to conduct a hearing upon the petition and to determine those stockholders who have complied with Section 262 and who have become entitled to the appraisal rights provided by Section 262. The Delaware Court of Chancery may require stockholders who have demanded payment for their shares of Solutia common stock to submit their stock certificates to the Register in Chancery for notation of the pendency of the appraisal proceedings; and if any stockholder fails to comply with that direction, the Delaware Court of Chancery may dismiss the proceedings as to that stockholder.

After determination of the stockholders entitled to appraisal of their shares of Solutia common stock, the Delaware Court of Chancery will appraise the shares of Solutia common stock, determining their fair value as of the effective time of the merger after taking into account all relevant factors exclusive of any element of value arising from the accomplishment or expectation of the merger, together with interest, if any, to be paid upon the amount determined to be the fair value. When the fair value has been determined, the Delaware Court of Chancery will direct the payment of such value upon surrender by those stockholders of the certificates

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representing their shares of Solutia common stock. Unless the Court in its discretion determines otherwise for good cause shown, interest from the effective date of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective time of the merger and the date of payment of the judgment.

Neither Solutia nor Eastman anticipates offering more than the per share merger consideration to any stockholder exercising appraisal rights and reserve the right to assert, in any appraisal proceeding, that, for purposes of Section 262, the fair value of a share of Solutia common stock is less than the per share merger consideration. In determining fair value, the court is required to take into account all relevant factors. In *Weinberger v. UOP, Inc.*, 457 A.2d 701 (Del. 1983), the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered and that [f]air price obviously requires consideration of all relevant factors involving the value of a company. The Delaware Supreme Court has stated that in making this determination of fair value, the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts which could be ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. Section 262 provides that fair value is to be exclusive of any element of value arising from the accomplishment or expectation of the merger. In *Cede & Co. v. Technicolor, Inc.*, 634 A.2d 345 (Del. 1993), the Delaware Supreme Court stated that such exclusion is a narrow exclusion [that] does not encompass known elements of value, but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In *Weinberger*, the Delaware Supreme Court also stated that elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered. In addition, the Delaware Courts have decided that the statutory appraisal remedy, depending on factual circumstances, may or may not be a dissenting stockholder's exclusive remedy.

Costs of the appraisal proceeding (which do not include attorneys' fees or the fees and expenses of experts) may be determined by the Delaware Court of Chancery and imposed upon the surviving corporation and the stockholders participating in the appraisal proceeding by the Delaware Court of Chancery, as it deems equitable in the circumstances. Upon the application of a stockholder, the Delaware Court of Chancery may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts used in the appraisal proceeding, to be charged pro rata against the value of all shares of Solutia common stock entitled to appraisal. Any stockholder who demanded appraisal rights will not, after the effective time of the merger, be entitled to vote shares of Solutia common stock subject to that demand for any purpose or to receive payments of dividends or any other distribution with respect to those shares of Solutia common stock, other than with respect to payment as of a record date prior to the effective time of the merger. If no petition for appraisal is filed within 120 days after the effective time of the merger, or if the stockholder otherwise fails to perfect his or her appraisal rights, successfully withdraws or loses such holder's right to appraisal, then the right of that stockholder to appraisal will cease and that stockholder's shares of Solutia common stock will be deemed to have been converted at the effective time of the merger into the right to receive the merger consideration pursuant to the merger agreement. In addition, as indicated above, a stockholder may withdraw his, her or its demand for appraisal in accordance with Section 262 and accept the merger consideration offered pursuant to the merger agreement.

**Failure to comply strictly with all of the procedures set forth in Section 262 of the DGCL will result in the loss of a stockholder's statutory appraisal rights. In view of the complexity of Section 262 of the DGCL, Solutia stockholders who may wish to pursue appraisal rights should consult their legal and financial advisors.**

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**Litigation Related to the Merger**

On February 2, 2012, a putative shareholder class and derivative action, styled *Jennifer Howard v. Jeffrey N. Quinn, et al.*, was filed against Solutia, its board of directors and Eastman in the Circuit Court of St. Louis County, Missouri (the Missouri Action ). On February 7, 2012, a second putative shareholder class action, styled *John C. Dewan v. Solutia, Inc.*, was filed against Solutia, the Solutia board of directors, Eastman and Merger Sub in the Chancery Court of Delaware. On February 14, 2012, two additional putative shareholder class actions, styled *Joseph C. Huttemann v. Jeffrey N. Quinn, et al.*, and *David Wolfe v. Solutia, Inc., et al.*, respectively, were filed against Solutia, the Solutia board of directors, Eastman and Merger Sub in the Chancery Court of Delaware (together with the putative shareholder class action filed on February 7, 2012, the Delaware Actions ).

The Missouri Action and the Delaware Actions generally allege that the Solutia board of directors breached its fiduciary duties to Solutia stockholders by, among other things, approving Eastman s proposed acquisition of Solutia for allegedly inadequate consideration, following an allegedly unfair sale process, and that Eastman and Merger Sub aided and abetted the Solutia board of directors alleged breaches of fiduciary duty. The Delaware Actions further allege that the Solutia board of directors breached its fiduciary duties by agreeing to terms in the merger agreement that favor Eastman and deter alternative bids. The complaints in the Missouri Action and the Delaware Actions seek, among other things, an injunction against the completion of Eastman s proposed acquisition of Solutia and attorneys fees and expenses incurred in connection with the action. The complaint in the Missouri Action further seeks rescission of Eastman s proposed acquisition of Solutia in the event it is completed, and any damages arising from the defendants alleged breaches. Solutia, Eastman and Merger Sub each believe that all the allegations are without merit and intend to vigorously defend themselves against the allegations in these complaints.

On February 21, 2012, the Chancery Court of Delaware entered an order consolidating the Delaware Actions (the Consolidated Delaware Action ).

On March 5, 2012, the Circuit Court of St. Louis County, Missouri entered an order staying the Missouri Action in favor of the Consolidated Delaware Action.

On March 22, 2012, plaintiffs in the Consolidated Delaware Action filed a Verified Consolidated Amended Class Action Complaint (the Consolidated Amended Complaint ), styled *In re Solutia Inc. Shareholders Litigation*, which generally alleges that the Solutia board of directors breached its fiduciary duties to Solutia stockholders by, among other things, approving Eastman s proposed acquisition of Solutia for allegedly inadequate consideration, following an allegedly unfair sale process, and agreeing to terms in the merger agreement that favor Eastman and deter alternative bids. The Consolidated Amended Complaint also generally alleges that the Solutia board of directors breached its fiduciary duties to Solutia stockholders by failing to disclose in the Form S-4 registration statement filed on March 7, 2012 certain material information concerning events leading up to the announcement of the proposed acquisition and relating to the review and analysis of the transaction by Solutia management, and by the financial advisors to Solutia and the Solutia board of directors. The Consolidated Amended Complaint further alleges that Eastman and Merger Sub aided and abetted the Solutia board of directors alleged breaches of fiduciary duties. The Consolidated Amended Complaint seeks, among other things, an injunction against the completion of Eastman s proposed acquisition of Solutia, rescission of Eastman s proposed acquisition of Solutia in the event it is completed, any damages arising from the defendants alleged breaches, and costs and attorneys fees associated with the action. Also on March 22, 2012, plaintiffs in the Consolidated Delaware Action filed a motion for a preliminary injunction against consummation of the merger.

On May 3, 2012, the parties to the Consolidated Delaware Action entered into a Memorandum of Understanding (the MOU ) to provide for the settlement of all claims related to Eastman s proposed acquisition of Solutia. The settlement provides for, among other things, a stay of all proceedings in the Consolidated Delaware Action, including plaintiffs request for a preliminary injunction against the consummation of Eastman s proposed acquisition of Solutia, the inclusion of additional disclosures with respect to various aspects of Eastman s proposed acquisition of Solutia in this proxy statement/prospectus, and the entry of a stipulation

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certifying a mandatory class of all Solutia stockholders. The settlement is subject to final documentation and court approval, and is conditioned on consummation of Eastman's proposed acquisition of Solutia. Under the MOU, plaintiffs' counsel in the Consolidated Delaware Action will petition the court for an award of attorneys' fees and expenses. The MOU does not specify any particular fee to be awarded to plaintiffs' counsel in the Consolidated Delaware Action, but it does require the parties to negotiate those fees and expenses in good faith. The decision to award, or not to award, the requested attorneys' fees and expenses will be within the discretion of the Chancery Court of Delaware, and the effectiveness of the settlement is not conditioned upon the award of attorneys' fees and expenses. If the settlement is approved by the Chancery Court of Delaware, it will resolve and release, on behalf of the entire class of Solutia stockholders, all claims that were or could have been brought by them challenging any aspect of Eastman's proposed acquisition of Solutia, the merger agreement, and any disclosures made in connection therewith, among other claims.

### **Accounting Treatment of the Merger**

The merger will be accounted for by Eastman as a business combination under the acquisition method of accounting, in conformity with GAAP. Under the acquisition method of accounting, the assets and liabilities of Solutia as of the effective time of the merger will be recorded by Eastman at their respective fair values and added to those of Eastman. Any excess of purchase price over the fair value of the net assets will be recorded as goodwill. Solutia's assets and liabilities and results of operations will be consolidated from the date of the merger.

### **Material U.S. Federal Income Tax Consequences**

The following discussion is a general summary of the material U.S. federal income tax consequences of the exchange of the merger consideration for Solutia common stock in the merger and the ownership of Eastman common stock received in the merger to U.S. holders and non-U.S. holders (in each case, as defined below). The following discussion does not address any aspects of U.S. taxation other than U.S. federal income taxation. This discussion does not address any non-income or other taxes or any foreign, state or local tax consequences of the merger.

**Solutia urges you to consult your own tax advisor as to the specific tax consequences to you of the merger and the ownership of Eastman common stock received in the merger, including the applicability and effect of U.S. federal, state, local and non-U.S. income and other tax laws in light of your particular circumstances.**

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to a holder of Solutia common stock in light of that holder's particular circumstances and does not address holders subject to special rules (such as controlled foreign corporations, passive foreign investment companies, companies that accumulate earnings to avoid U.S. federal income tax, tax-exempt organizations, financial institutions, brokers or dealers in securities, insurance companies, persons subject to the alternative minimum tax, regulated investment companies, real estate investment trusts, persons who hold Solutia common stock as part of a hedging or conversion transaction or as part of a short-sale, straddle or other integrated investment, certain former citizens or residents of the United States, partnerships or other pass-through entities for U.S. federal income tax purposes (or investors in such pass-through entities) or persons who acquired Solutia common stock pursuant to the exercise of options or otherwise as compensation). This discussion is based on the Code, applicable Treasury regulations, administrative interpretations and court decisions, each as in effect as of the date of this proxy statement/prospectus and all of which are subject to change, possibly with retroactive effect. This discussion applies only to a holder that holds its Solutia common stock and Eastman common stock received in the merger as a capital asset (generally, an asset held for investment).

For purposes of this discussion, a U.S. holder is a beneficial holder of Solutia common stock that is for U.S. federal income tax purposes:

an individual citizen or resident of the United States;

a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

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an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust that (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

For purposes of this discussion, a non-U.S. holder is a beneficial holder of Solutia common stock that is for U.S. federal income tax purposes:

a nonresident alien individual;

a foreign corporation; or

a foreign estate or trust.

If a partnership (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds Solutia common stock or Eastman common stock received in the merger, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partner and the partnership. Partnerships holding Solutia common stock, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of the merger and the ownership and disposition of Eastman common stock received in the merger to them.

***Tax Consequences to U.S. Holders***

***Exchange of Merger Consideration for Solutia Common Stock***

A U.S. holder's receipt of the merger consideration in exchange for Solutia common stock in the merger will be a taxable transaction for U.S. federal income tax purposes. Accordingly, a U.S. holder generally will recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between (1) the sum of (a) the amount of cash received by such holder in the merger and (b) the fair market value, at the effective time of the merger, of the shares of Eastman common stock received by such holder in the merger, and (2) such holder's adjusted tax basis in shares of Solutia common stock owned by such holder immediately prior to the effective time of the merger.

Any such gain or loss generally will be long-term capital gain or loss if the U.S. holder's holding period in the shares of Solutia common stock immediately prior to the merger is more than one year. The amount and character of gain or loss must be calculated separately for each identifiable block of shares (generally, shares purchased at the same time in the same transaction) of Solutia common stock surrendered. For U.S. holders that are individuals, estates or trusts, long-term capital gain generally is taxed at a preferential U.S. federal rate (currently 15%). The deductibility of capital losses is subject to certain limitations. Each U.S. holder is urged to consult its tax advisor regarding the manner in which gain or loss should be calculated as a result of the merger.

The U.S. holder's tax basis in shares of Eastman common stock received in the merger will equal the fair market value of such shares at the effective time of the merger and the holding period for such shares will begin on the date immediately following the effective time of the merger.

***Consequences of Holding Eastman Common Stock***

***Distributions.*** Distributions to U.S. holders on Eastman common stock received in the merger that are paid out of Eastman's current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) will be treated as dividends for U.S. federal income tax purposes. Dividends received by individual U.S. holders with respect to Eastman common stock through December 31, 2012 generally should qualify for a 15% tax rate on qualified dividend income so long as certain holding period requirements are met. Dividends paid on Eastman common stock will be eligible for the dividends received deduction if the U.S. holder is an

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otherwise qualifying corporate holder that meets the holding period and other requirements for the dividends received deduction. Any distribution not constituting a dividend will be treated first as reducing the adjusted basis in the U.S. holder's shares of Eastman common stock and, to the extent it exceeds the adjusted basis in the U.S. holder's shares of Eastman common stock, as gain from the sale or exchange of such stock.

*Gain on Sale or Other Disposition of Eastman Common Stock.* Upon the sale or other taxable disposition of Eastman common stock received in the merger, a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount realized on such sale or taxable disposition and the U.S. holder's adjusted tax basis in the shares of Eastman common stock sold. Any such gain or loss will be long-term capital gain or loss if the U.S. holder's holding period in the shares of Eastman common stock sold is more than one year. For U.S. holders that are individuals, estates or trusts, long-term capital gain generally is taxed at a preferential U.S. federal rate (currently 15%). The deductibility of capital losses is subject to certain limitations.

Notwithstanding the above, if Eastman redeems a U.S. holder's Eastman common stock, such redemption may be treated as a distribution, and therefore as a dividend to the extent of Eastman's earnings and profits (as described above), rather than as a sale or taxable disposition. Broadly, whether a redemption will be treated as a distribution rather than as a sale will depend on the U.S. holder's remaining actual or constructive interest, if any, in Eastman after the redemption for purposes of Section 302(b) of the Code. Each U.S. holder is urged to consult its tax advisor regarding the U.S. federal income tax and other tax consequences of a sale, redemption, or other taxable disposition of Eastman common stock received in the merger.

*Medicare Tax.* For taxable years beginning after December 31, 2012, certain U.S. holders who are individuals, estates or trusts will be required to pay a 3.8% tax on the lesser of (1) the U.S. holder's net investment income for the relevant taxable year and (2) the excess of the U.S. holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. holder's net investment income generally will include dividend income and net gains from the disposition of Eastman common stock, unless such income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). Each U.S. holder is urged to consult its tax advisor regarding the applicability of the Medicare tax to its income and gains in respect of the Eastman common stock received in the merger.

*Information Reporting and Backup Withholding*

In general, payments received in connection with the exchange of Solutia common stock in the merger and payments of dividends on, and proceeds of a disposition of, shares of Eastman common stock received in the merger may be reported to the Internal Revenue Service (IRS). Backup withholding, currently at a rate of 28%, may apply with respect to payments received in connection with the exchange of Solutia common stock in the merger and to payments of dividends on, and proceeds of a disposition of, shares of Eastman common stock received in the merger unless the U.S. holder receiving such a payment (1) is an exempt holder (generally, a corporation, tax-exempt organization, qualified pension or profit-sharing trust, individual retirement account, or nonresident alien individual who or which, when required, certifies as to his, her or its status) or (2) provides a certificate (generally on IRS Form W-9) containing the holder's name, address, correct federal taxpayer identification number and a statement that the holder is a U.S. person and is not subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowable as a refund or credit against a holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.



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***Tax Consequences to Non-U.S. Holders***

*Exchange of Merger Consideration for Solutia Common Stock*

In general, a non-U.S. holder will not be subject to U.S. federal income tax on any gain realized upon the exchange of merger consideration for Solutia common stock in the merger unless:

the gain is effectively connected with a trade or business carried on by the non-U.S. holder within the United States (and, if required by an applicable tax treaty, is attributable to a U.S. permanent establishment of such non-U.S. holder);

the non-U.S. holder is an individual and is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are met; or

Solutia is or has been a U.S. real property holding corporation within the meaning of Section 897 of the Code for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding such disposition or such non-U.S. holder's holding period of its Solutia common stock. Solutia does not believe it is or has been a U.S. real property holding corporation during the preceding five years.

Gain that is effectively connected with the conduct of a trade or business in the United States (or is so treated) generally will be subject to U.S. federal income tax, net of certain deductions, at regular U.S. federal income tax rates. If the non-U.S. holder is a foreign corporation, a 30% branch profits tax also may apply to such effectively connected gain. An individual non-U.S. holder who is subject to U.S. federal income tax because the non-U.S. holder was present in the United States for 183 days or more during the taxable year that includes the effective time of the merger will be subject to a flat 30% tax on the gain derived from the exchange of merger consideration for Solutia common stock, which may be offset by U.S. source capital losses. If Solutia is or has been a U.S. real property holding corporation within the meaning of Section 897 of the Code, gains may be treated as effectively connected with a trade or business in the United States and proceeds from the exchange may be subject to a 10% withholding tax.

*Consequences of Holding Eastman Common Stock*

*Distributions.* In general, distributions to a non-U.S. holder with respect to shares of Eastman common stock received in the merger that constitute dividends for U.S. federal income tax purposes will be subject to U.S. withholding tax at a rate of 30% of the gross amount of the distribution, unless the non-U.S. holder is eligible for a reduced rate of withholding tax under an applicable tax treaty and the non-U.S. holder provides proper certification of its eligibility for such reduced rate. A distribution will constitute a dividend for U.S. federal income tax purposes to the extent of Eastman's current or accumulated earnings and profits as determined for U.S. federal income tax purposes. Any distribution not constituting a dividend will be treated first as reducing the adjusted basis in the non-U.S. holder's shares of Eastman common stock and, to the extent it exceeds the adjusted basis in the non-U.S. holder's shares of Eastman common stock, as gain from the sale or exchange of such stock.

Dividends paid to a non-U.S. holder that are effectively connected with its conduct of a trade or business within the United States (and, if a tax treaty applies, are attributable to a U.S. permanent establishment) will not be subject to U.S. withholding tax, as described above, if the non-U.S. holder complies with applicable certification and disclosure requirements. Instead, such dividends generally will be subject to U.S. federal income tax on a net income basis, in the same manner as if the non-U.S. holder were a resident of the United States, provided that the non-U.S. holder timely files a U.S. federal income tax return. Dividends received by a foreign corporation that are effectively connected with its conduct of trade or business within the United States may be subject to an additional branch profits tax at a rate of 30% (or such lower rate as may be specified by an applicable tax treaty).

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*Gain on Sale or Other Disposition of Eastman Common Stock.* In general, a non-U.S. holder will not be subject to U.S. federal income tax on any gain realized upon the sale or other taxable disposition of the non-U.S. holder's shares of Eastman common stock received in the merger unless:

the gain is effectively connected with a trade or business carried on by the non-U.S. holder within the United States (and, if required by an applicable tax treaty, is attributable to a U.S. permanent establishment of such non-U.S. holder);

the non-U.S. holder is an individual and is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are met; or

Eastman is or has been a U.S. real property holding corporation within the meaning of Section 897 of the Code for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding such disposition or such non-U.S. holder's holding period of its Eastman common stock. Eastman does not believe it is or has been a U.S. real property holding corporation during the preceding five years and, although there can be no assurance, does not anticipate becoming one in the future.

Gain that is effectively connected with the conduct of a trade or business in the United States (or is so treated) generally will be subject to U.S. federal income tax, net of certain deductions, at regular U.S. federal income tax rates. If the non-U.S. holder is a foreign corporation, a 30% branch profits tax also may apply to such effectively connected gain. An individual non-U.S. holder who is subject to U.S. federal income tax because the non-U.S. holder was present in the United States for 183 days or more during the year of sale or other disposition of Eastman common stock will be subject to a flat 30% tax on the gain derived from such sale or other disposition, which may be offset by U.S. source capital losses. If Eastman is, has been or becomes a U.S. real property holding corporation within the meaning of Section 897 of the Code, gains may be treated as effectively connected with a trade or business in the United States and may be subject to a 10% withholding tax.

Notwithstanding the above, if Eastman redeems a non-U.S. holder's Eastman common stock, such redemption may be treated as a distribution, and therefore as a dividend to the extent of Eastman's earnings and profits (as described above), rather than as a sale or taxable disposition. Broadly, whether a redemption will be treated as a distribution rather than as a sale will depend on the non-U.S. holder's remaining actual or constructive interest, if any, in Eastman after the redemption for purposes of Section 302(b) of the Code. Each non-U.S. holder is urged to consult its tax advisor regarding the U.S. federal income tax and other tax consequences of a sale, redemption, or other disposition of Eastman common stock received in the merger.

*Foreign Account Tax Compliance Act*

Sections 1471 through 1474 of the Code generally impose a withholding tax of 30% on payments of dividends on, and gross proceeds from the disposition of, Eastman common stock made after December 31, 2012 to (1) a foreign financial institution, unless such institution enters into an agreement with the U.S. government to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which would include certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners) or (2) a foreign entity that is not a financial institution, unless such entity provides the withholding agent with a certification identifying the substantial U.S. owners of the entity, which generally includes any U.S. person who directly or indirectly owns more than 10% of the entity. The IRS has since released transitional guidance indicating that it will not apply this new withholding tax to (1) dividends paid on or before December 31, 2013 or (2) the gross proceeds of a disposition of common stock in a U.S. corporation paid on or before December 31, 2014. Each non-U.S. holder should consult its tax advisors regarding the implications of Sections 1471 through 1474 of the Code on the Eastman common stock received by the non-U.S. holder in the merger.

*Information Reporting and Backup Withholding*

The amount of dividends paid to, and the tax withheld with respect to, each non-U.S. holder must be reported annually to the IRS and to each non-U.S. holder. These reporting requirements apply regardless of

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whether withholding was reduced or eliminated by an applicable tax treaty. Copies of this information reporting may also be made available under the provisions of a specific tax treaty or agreement with the tax authorities in the country in which the non-U.S. holder resides or is established.

Provided that a non-U.S. holder has complied with certain reporting procedures (usually satisfied by providing an IRS Form W-8BEN) or otherwise establishes an exemption, the non-U.S. holder will not be subject to backup withholding with respect to the receipt of the merger consideration in exchange for Solutia common stock and dividend payments on, and proceeds from the disposition of, shares of Eastman common stock received in the merger, unless Eastman or Eastman's paying agent knows or has reason to know that the holder is a U.S. person. Additional rules relating to information reporting requirements and backup withholding with respect to the payments of proceeds from the exchange of Solutia common stock in the merger and the sale or other disposition of shares of Eastman common stock are as follows:

if the proceeds are paid to or through the U.S. office of a broker, a non-U.S. holder generally will be subject to backup withholding and information reporting unless the non-U.S. holder certifies under penalties of perjury that it is not a U.S. person (usually on an IRS Form W-8BEN) or otherwise establishes an exemption;

if the proceeds are paid to or through a non-U.S. office of a broker that is a U.S. person or that has certain specified U.S. connections, a non-U.S. holder generally will be subject to information reporting (but generally not backup withholding) unless the non-U.S. holder certifies under penalties of perjury that it is not a U.S. person (usually on an IRS Form W-8BEN) or otherwise establishes an exemption; and

if the proceeds are paid to or through a non-U.S. office of a broker that is not a U.S. person and does not have any of the specified U.S. connections, a non-U.S. holder generally will not be subject to backup withholding or information reporting.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder will be allowed as a credit against the non-U.S. holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is timely furnished to the IRS. Non-U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules to them.

**The foregoing summary does not discuss all aspects of U.S. federal income taxation that may be relevant to particular holders of Solutia common stock. Solutia stockholders should consult their own tax advisors as to the particular tax consequences to them of the merger and the ownership and disposition of Eastman common stock received in the merger under any federal, state, local, foreign or other tax laws.**

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**THE MERGER AGREEMENT**

*The following describes the material provisions of the merger agreement, which is attached as Annex A to this proxy statement/prospectus and which is incorporated by reference herein. The description in this section and elsewhere in this proxy statement/prospectus is qualified in its entirety by reference to the merger agreement. This summary does not purport to be complete and may not contain all of the information about the merger agreement that is important to you. Eastman and Solutia encourage you to read carefully the merger agreement in its entirety before making any decisions regarding the merger because it is the principal document governing the merger.*

*The merger agreement and this summary of its terms have been included to provide you with information regarding the terms of the merger agreement. Factual disclosures about Eastman or Solutia contained in this proxy statement/prospectus or in Eastman's or Solutia's public reports filed with the SEC may supplement, update or modify the factual disclosures about Eastman or Solutia contained in the merger agreement and described in this summary. The representations, warranties and covenants made in the merger agreement by Eastman, Solutia and Merger Sub were qualified and subject to important limitations agreed to by Eastman, Solutia and Merger Sub in connection with negotiating the terms of the merger agreement. In particular, in your review of the representations and warranties contained in the merger agreement and described in this summary, it is important to bear in mind that the representations and warranties were negotiated with the principal purposes of establishing the circumstances in which a party to the merger agreement may have the right not to close the merger if the representations and warranties of the other party prove to be untrue due to a change in circumstance or otherwise, and allocating risk between the parties to the merger agreement, rather than establishing matters as facts. Information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of this proxy statement/prospectus, may have changed since the date of the merger agreement and subsequent developments or new information qualifying a representation or warranty may have been included in this proxy statement/prospectus.*

**The Merger**

Subject to the terms and conditions of the merger agreement and in accordance with the DGCL, at the effective time of the merger, Merger Sub, a wholly owned subsidiary of Eastman and a party to the merger agreement, will merge with and into Solutia. Solutia will survive the merger as an indirect wholly owned subsidiary of Eastman and the separate corporate existence of Merger Sub will cease.

**Effective Time; Closing**

The effective time of the merger will occur at the time that Solutia files a certificate of merger with the Secretary of State of the State of Delaware on the closing date of the merger or such other time as agreed to by Eastman and Solutia and specified in the certificate of merger. Unless the parties agree otherwise, the closing of the merger will occur on the second business day after all of the mutual conditions to the merger set forth in the merger agreement have been satisfied or waived, but if the date of such satisfaction or waiver occurs prior to May 31, 2012, Eastman may elect to delay the closing to a later date within twenty business days after the date of such satisfaction or waiver if Eastman agrees to permanently and unconditionally waive any further reliance on the conditions to Eastman's obligation to effect the merger under the merger agreement.

The purpose of Eastman's right to postpone the closing as described above is to provide Eastman with a reasonable and appropriate period of time during which it can market and place the debt financing contemplated by the debt financing agreements entered into by Eastman in connection with, and for the purpose of financing the cash portion of the merger consideration payable in, the merger, as described in more detail under Financing Covenant; Solutia Cooperation. Pursuant to the merger agreement, Eastman has agreed:

to use its reasonable best efforts to arrange and obtain the debt financing on the terms and conditions described in the commitment letters executed and delivered by certain financial institutions, maintain in

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effect the commitment letters (including any definitive agreements entered into in connection therewith), satisfy on a timely basis all conditions in the financing agreements applicable to Eastman and Merger Sub to obtaining the debt financing as promptly as reasonably practicable, negotiate and enter into definitive agreements with respect to the debt commitment letters on terms and conditions contained therein or consistent in all material respects therewith as promptly as reasonably practicable and promptly upon execution thereof provide complete executed copies of such definitive agreements to Solutia, complete the debt financing at or prior to the closing, and fully enforce the counterparties' obligations and its rights under the financing agreements, including by suit or other appropriate proceeding to cause the lenders under the debt financing to fund in accordance with their respective commitments if all conditions to funding the debt financing in the applicable financing agreements have been satisfied or waived; and

if any portion of the amount of the debt financing necessary to complete the transactions contemplated by the merger agreement becomes reasonably likely to be unavailable on the material terms and conditions contemplated by the applicable financing agreements, (1) to promptly notify Solutia and (2) to use its reasonable best efforts to arrange and obtain alternative debt financing from alternative sources in an amount sufficient to complete the transactions contemplated by the merger agreement with terms and conditions not materially less favorable, taken as a whole, to Eastman, Merger Sub and Solutia than the terms and conditions set forth in the applicable financing agreements, as promptly as practicable following the occurrence of such event.

Pursuant to the merger agreement, Eastman, Solutia and Merger Sub agreed to use their respective reasonable best efforts to cause the transactions contemplated in the merger agreement to be completed as soon as reasonably practicable. Eastman and Solutia currently expect to complete the merger by mid-2012, subject to receipt of required stockholder and regulatory approvals and to the satisfaction or waiver of the other conditions to the merger described below.

**Merger Consideration**

***Solutia Common Stock***

The merger agreement provides that each share of Solutia common stock outstanding immediately prior to the effective time of the merger (other than shares owned by Solutia as treasury stock and shares held by holders properly exercising appraisal rights under the DGCL) will be converted automatically at the effective time of the merger into the right to receive (1) \$22.00 in cash, without interest, and (2) 0.12 shares of Eastman common stock.

The merger agreement provides that each share of Solutia common stock held by Solutia as treasury stock will be cancelled without any conversion or payment of consideration. Shares of Solutia common stock held by a stockholder who is entitled to exercise, and properly exercises, appraisal rights with respect to such shares pursuant to and in compliance with the DGCL will not be converted into the right to receive the merger consideration. Such stockholder will instead be entitled to the appraisal rights provided under the DGCL as described under **The Merger Appraisal Rights** beginning on page 132. Each issued and outstanding share of capital stock of Merger Sub will be converted into and become one validly issued, fully paid and nonassessable share of common stock of the surviving corporation.

Eastman will not issue any fractional shares of Eastman common stock in connection with the merger. Instead, a stockholder of Solutia who otherwise would have received a fraction of a share of Eastman common stock (after taking into account all shares of Solutia common stock owned by such holder at the effective time of the merger) will receive an amount in cash (without interest and rounded down to the nearest cent) equal to such fractional amount multiplied by the average of the volume weighted averages of the trading prices of Eastman common stock on the New York Stock Exchange on each of the five consecutive trading days ending on (and including) the trading day that is two trading days prior to the closing date under the merger agreement.

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For information on the treatment of Solutia stock options, restricted stock, restricted stock units, performance share awards, performance share unit awards and warrants, see [Treatment of Solutia Stock Options and Other Equity-Based Awards](#) and [Treatment of Solutia Warrants](#) below.

### ***Treatment of Solutia Stock Options and Other Equity-Based Awards***

#### ***Solutia Stock Options***

At the effective time of the merger, each option to purchase shares of Solutia common stock granted pursuant to any Solutia Equity Plan outstanding immediately prior to the effective time of the merger, whether or not then vested or exercisable, will be cancelled and terminated in exchange for the right to receive, in cash and for each share of Solutia common stock subject to such option, the amount by which the cash value of the merger consideration (using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two trading days prior to the merger) exceeds the exercise price of such option, which amount will be paid by the surviving corporation on the closing date under the merger agreement.

#### ***Solutia Restricted Stock***

At the effective time of the merger, each outstanding restricted stock award granted under any Solutia Equity Plan the restrictions on which have not lapsed immediately prior to the effective time of the merger will become fully vested and the holder thereof will be entitled to receive, the merger consideration.

#### ***Solutia Restricted Stock Units***

At the effective time of the merger, each restricted stock unit with respect to shares of Solutia common stock issued under any Solutia Equity Plan that is outstanding immediately prior to the effective time of the merger will be converted into a vested right to receive, in cash, the cash value of the merger consideration (using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two trading days prior to the merger).

#### ***Performance Share Awards and Performance Share Unit Awards***

At the effective time, restrictions on any unvested performance share award or performance share unit award granted under any Solutia Equity Plan will lapse and such performance share or performance share unit will vest based on no greater than the performance results for the applicable performance period according to the relevant award provisions, and the holder thereof will be entitled to receive, in the case of performance shares in the form of restricted stock, the merger consideration and, in the case of performance shares units in the form of restricted stock units, the cash value of the merger consideration (using the five-day average trading price of Eastman common stock ending on (and including) the trading day that is two trading days prior to the merger).

### ***Treatment of Solutia Warrants***

At the effective time of the merger, the obligations with respect to each warrant issued pursuant to the Warrant Agreement, dated February 28, 2008, between Solutia and the warrant agent named therein, outstanding as of the effective time of the merger, whether or not then vested or exercisable, will be adjusted as necessary to provide that the obligations with respect to such warrant will be assumed by Eastman and converted into a warrant to acquire upon exercise, on the same terms and conditions as were applicable under such warrant immediately prior to the effective time of the merger other than changes that are immaterial to warrant holders and permitted by the applicable warrant agreement, the per share merger consideration.

### ***Adjustments to Stock Portion of Merger Consideration***

The Eastman common stock portion of the merger consideration will be adjusted to reflect appropriately the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities of

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a subsidiary of Eastman or Solutia or of any securities convertible into shares of Eastman common stock or shares of Solutia common stock), extraordinary cash dividends (excluding regular quarterly dividends at the currently announced level), reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to shares of Eastman common stock or shares of Solutia common stock with a record date occurring on or after the date of the merger agreement and prior to the effective time of the merger.

### **Withholding**

The surviving corporation, Eastman, Merger Sub and the exchange agent will be entitled to deduct and withhold from any amounts otherwise payable pursuant to the merger agreement any amount it is required to deduct and withhold with respect to the making of such payment under the applicable U.S. federal, state, local or foreign law. To the extent withheld, such withheld amounts will be treated for purposes of the merger agreement as having been paid to the person with respect to which such deduction and withholding was made.

### **Dividends and Distributions**

No dividends or other distributions declared or made with a record date after the effective time of the merger with respect to shares of Eastman common stock (and no cash payment in lieu of fractional shares of Eastman common stock) will be paid to the holder of any unsurrendered stock certificate or book-entry share of Solutia common stock until the holder thereof surrenders such certificate or book-entry share of Solutia common stock in accordance with the exchange procedures set forth in the merger agreement, after which the holder of shares of Eastman common stock issued in exchange for such surrendered certificates or book-entry share of Solutia common stock will be paid, without interest, the amount of dividends or other distributions with a record date after the effective time of the merger but prior to surrender payable with respect to such shares of Eastman common stock and the amount of any cash payable in lieu of fractional shares of Eastman common stock.

The merger agreement provides that other than with respect to dividends that had been declared by the Solutia board of directors as of the date of the merger agreement, Solutia will not declare or pay any dividends with respect to its capital stock until the earlier of the termination of the merger agreement in accordance with its terms and the effective time of the merger.

### **Conditions to the Completion of the Merger**

Solutia and Eastman may not complete the merger unless each of the following conditions is satisfied or waived:

the merger agreement must have been approved by the affirmative vote of the holders of a majority of the outstanding Solutia common stock as of the record date;

the shares of Eastman common stock to be issued in the merger must have been authorized for listing on the New York Stock Exchange, subject to official notice of issuance;

all antitrust clearances under the HSR Act and the clearance of the merger under certain applicable foreign antitrust or competition laws must have been obtained;

this registration statement of which this proxy statement/prospectus forms a part must have been declared effective by the SEC and must not be subject to any stop order suspending the effectiveness of this proxy statement/prospectus or proceedings for such purposes initiated or threatened by the SEC; and

no order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the completion of the merger or any of the transactions contemplated under the merger agreement must be in effect and completion of the merger must not be illegal under any applicable statute, rule, regulation, order, injunction or decree enacted, entered, promulgated or enforced by any governmental entity.





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In addition, each of Solutia's, Eastman's and Merger Subs' obligations to effect the merger is subject to the satisfaction or waiver of the following additional conditions:

the representations and warranties of the other party being true and correct at the effective time as of the effective time of the merger (ignoring for such purposes any reference to material adverse effect or materiality contained in each representation or warranty) but in the aggregate, subject to the material adverse effect standard provided in the merger agreement and summarized below;

the other party having performed, at or prior to the closing, in all material respects, all obligations required to be performed or complied with by it under the merger agreement;

the receipt of an officer's certificate executed by the Chief Executive Officer or Chief Financial Officer of the other party certifying that the two preceding conditions have been satisfied; and

there shall not have occurred at any time after the date of the merger agreement any material adverse effect on the other party. For purposes of the merger agreement, material adverse effect means, when used with respect to Eastman or Solutia, any effect that (1) has had a material adverse effect on the results of operations, assets, business or financial condition of Eastman or Solutia, as the case may be, taken as a whole, except that effects caused by any of the following, either alone or in combination, will not be taken into consideration for the purpose of determining whether a material adverse effect has occurred pursuant to this clause (1): (a) any changes or circumstances affecting market, economic, credit, securities market, regulatory or political conditions in the United States or any other country in which Eastman or Solutia, as the case may be, operates to the extent that such effects are not borne disproportionately by Eastman or Solutia, as the case may be; (b) any changes or circumstances affecting any industry in which Eastman or Solutia, as the case may be, operates to the extent that such effects are not borne disproportionately by Eastman or Solutia, as the case may be; (c) any change in the price or availability of any raw material or commodity used or sold by the Eastman or Solutia, as the case may be, provided that such effects are not borne disproportionately by Eastman or Solutia, as the case may be; (d) any enactment of, change in, or change in interpretation of, any law or GAAP or governmental policy; (e) any acts of God, natural disasters, terrorism, armed hostilities, sabotage, war or any escalation or worsening of acts of terrorism, armed hostilities or war, or any escalation of any of the foregoing; (f) any changes as a result of the announcement or pendency of the merger agreement or performance of the transactions contemplated therein, including by reason of the identity of the other party to such transactions; (g) any action taken pursuant to the terms of the merger agreement or with the consent or at the direction of the other party to the merger agreement (or any action not taken as a result of the failure of the other party to consent to any action requiring such other party's consent); (h) any change in the market price, or change in trading volume, of the capital stock of Eastman or Solutia, as the case may be; (i) any failure by Eastman or Solutia, as the case may be, to meet internal, analysts' or other earnings estimates or financial projections or forecasts for any period, or any changes in credit ratings and any changes in any analysts' recommendations or ratings with respect to Eastman or Solutia, as the case may be; (j) any pending, initiated, or threatened legal or administrative proceeding, claim, suit or action against Eastman or Solutia, as the case may be, or any of their respective officers or directors, in each case, arising out of or relating to the transactions contemplated in the merger agreement and (k) the effect of any matters specifically included in disclosures that were made by each party to the other qualifying such party's representations and warranties, or in any registration statements, reports and proxy statements required to be filed with or furnished to, as applicable, the SEC since January 1, 2010, as filed or amended as through the date of the merger agreement but, solely for purposes of this clause (k), and the references to such registration statements, reports and proxy statements referenced therein, this clause (k) shall not be deemed to be an exclusion of consideration for any risk factor disclosure under the headings Risk Factors, Forward-Looking Statements or any similar precautionary sections in such registration statements, reports or proxy statements, or (2) would, individually or in the aggregate, prevent or materially delay the completion by Eastman or Solutia, as the case may be, of the transactions contemplated by the merger agreement.

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### **Reasonable Best Efforts to Obtain Solutia Stockholder Approval**

Solutia has agreed to call a meeting of its stockholders as soon as is reasonably practicable after this proxy statement/prospectus is declared effective by the SEC for mailing for the purpose of such stockholders considering and voting on the adoption of the merger agreement and any other matters required to be voted upon by such stockholders in connection with the transactions contemplated in the merger agreement (provided, however, that Solutia may delay or postpone convening such stockholders meeting if the Solutia board of directors (or a duly authorized committee thereof), after consultation with outside legal counsel, reasonably believes that failure to delay or postpone such stockholders meeting would reasonably be expected to be inconsistent with its obligations or duties under applicable law. Subject to and until the Solutia board of directors effects a change of recommendation as described in more detail in **Non-Solicitation of Alternative Proposals** below, Solutia has agreed to use its reasonable best efforts to obtain such stockholder approval, subject to its right of termination. The merger agreement requires Solutia to submit the merger agreement to a stockholder vote even if its board of directors no longer recommends adoption of the merger agreement. The Solutia board of directors has approved the merger by a unanimous vote and directed that the merger be submitted to Solutia stockholders for their consideration.

### **Non-Solicitation of Alternative Proposals**

The merger agreement contains detailed provisions prohibiting Solutia from seeking an alternative transaction to the merger. Under these **no solicitation** provisions, Solutia has agreed that, from the time of the execution of the merger agreement until the completion of the merger or the termination of the merger agreement, it will not, will not authorize or permit any of its subsidiaries and their respective officers, directors, employees, and will use its reasonable best efforts to cause its investment banks, attorneys or other advisors or representatives to not:

initiate, solicit or knowingly encourage the submission of, or (other than informing persons of the **no-solicitation** provision), participate or engage in any negotiations or discussions with respect to, any acquisition proposal (as defined below);

disclose or furnish any nonpublic information or data to any person concerning Solutia in connection with any acquisition proposal or afford any person access to the properties, books or records of Solutia or its subsidiaries in connection with any acquisition proposal except as required by law, pursuant to a request by any governmental entity or if the Solutia board of directors determines in good faith, after consultation with its financial advisors and outside counsel that such acquisition proposal is or would reasonably be expected to lead to a superior proposal (as described below); or

enter into or execute, or propose to enter into or execute, any acquisition agreement.

The merger agreement requires Solutia to, and to cause its subsidiaries and their respective officers, directors and employees, and to use its reasonable best efforts to cause its investment banks, attorneys or other advisors or representatives to, cease and terminate all discussions or negotiations with any person commenced prior to the execution of the merger agreement regarding any proposal that constitutes or would reasonably be expected to lead to an acquisition proposal, request the prompt return or destruction of all confidential information previously furnished to any such person who executed a confidentiality agreement with Solutia related to any acquisition proposal within twelve months prior to the execution of the merger agreement or their representatives and immediately terminate all access to data previously granted to any such person or their representatives related to such proposal.

For purposes of the merger agreement, the term **acquisition proposal** means any *bona fide* proposal, indication of interest or offer from any person (other than a proposal or offer made by Eastman, Merger Sub or any affiliate thereof) to acquire or purchase, directly or indirectly, in one transaction or a series of transaction:

assets of Solutia and its subsidiaries (including securities of Solutia's subsidiaries, but excluding sales of assets in the ordinary course of business) that account for 20% or more of Solutia's consolidated assets or from which 20% or more of Solutia's revenues or earnings on a consolidated basis are derived; or

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20% or more of the outstanding capital stock of Solutia or of any resulting parent company of Solutia, pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, tender offer, exchange offer or similar transaction, in each case other than the transactions contemplated in the merger agreement.

The merger agreement permits Solutia or its board of directors to comply with Rule 14d-9 and Rule 14e-2 under the Exchange Act with regard to any acquisition proposal that Solutia may receive or to make any other disclosure to the stockholders of Solutia, if the Solutia board of directors determines in good faith (after consultation with outside legal counsel), that the failure to take such action would be inconsistent with any applicable law.

Notwithstanding the terms above or any other term in the merger agreement to the contrary, Solutia and its subsidiaries, officers, directors, employees, investment banks, attorneys or other advisors or representatives will be permitted, prior to the receipt of the requisite Solutia stockholder approval, to furnish non-public information (after such person enters into an acceptable confidentiality agreement) with respect to Solutia and its subsidiaries to a person making an acquisition proposal that did not otherwise result from a breach of the foregoing no solicitation provisions, and participate in discussions and negotiations including making counter proposals with respect to such acquisition proposal received by Solutia if its board of directors (or a duly authorized committee thereof) determines in good faith (after consultation with financial advisors and outside legal counsel) that such proposal is or could reasonably be expected to lead to an acquisition proposal that is a superior proposal (as described below).

Solutia has also agreed in the merger agreement that it will as promptly as reasonably practicable, and in any event orally within 24 hours after receipt and in writing within one business day after receipt, notify Eastman of any acquisition proposal. Such notice shall include the identity of the person making any such acquisition proposal and the material terms of any such acquisition proposal. In addition, Solutia has agreed to keep Eastman reasonably informed on a prompt basis of any material changes to any such acquisition proposal and, if Solutia and any person enter into, subsequent to the date of the merger agreement, a confidentiality agreement that includes provisions that are less favorable in the aggregate to Solutia than those contained in the confidentiality agreement between Solutia and Eastman, to offer to amend the confidentiality agreement between Solutia and Eastman to include substantially the same provisions for the benefit of the parties thereto. Solutia has also agreed not to grant any waiver, amendment or release under any standstill agreement to which Solutia is a party, unless the Solutia board of directors (or a duly authorized committee thereof) determines in good faith (after consultation with outside legal counsel), that the failure to take such action would be inconsistent with applicable law.

For purposes of the merger agreement, superior proposal means a proposal or offer constituting an acquisition proposal (except that the reference to 20% in the definition of acquisition proposal is deemed to be a reference to 50% ) that the Solutia board of directors (or a duly authorized committee thereof) determines in good faith (after consultation with its outside legal counsel and financial advisors) to be:

more favorable to the stockholders of Solutia than the transactions contemplated in the merger agreement, taking into account all relevant factors (including all terms and conditions of such proposal and the merger agreement (including any changes to the terms of the merger agreement proposed by Eastman in response to such offer or otherwise)) that the Solutia board of directors (or such committee) considers relevant; and

reasonably capable of being completed, taking into account all financial, legal, regulatory and other aspects and conditions of such proposal that the Solutia board of directors (or such committee) considers relevant.

The merger agreement provides that neither the Solutia board of directors nor any committee thereof will:

withdraw or modify, or publicly propose to withdraw or modify, in a manner adverse to Eastman, its recommendation that Solutia stockholders vote in favor of the adoption of the merger agreement;

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approve, adopt or recommend, or publicly propose to approve, adopt or recommend, any acquisition proposal;

in the event of a tender offer or exchange offer for any outstanding shares of the capital stock of Solutia, fail to recommend against acceptance of such tender offer or exchange offer by Solutia stockholders within ten business days of the commencement thereof;

recommend that Solutia stockholders reject adoption of the merger agreement or the transactions contemplated thereby (any action described in this bullet or the three foregoing bullets, a change of recommendation ); or

allow Solutia or any of its subsidiaries to execute or enter into, any letter of intent, memorandum of understanding, agreement in principle, merger agreement, acquisition agreement, option agreement, joint venture agreement, partnership agreement, or other similar agreement providing for any acquisition proposal (other than an acceptable confidentiality agreement) or requiring it to abandon, terminate or fail to complete the transactions contemplated by the merger agreement.

Notwithstanding the terms above or any other term in the merger agreement to the contrary, subject to the conditions described below, the Solutia board of directors may, at any time after the date of the merger agreement and prior to the adoption of the merger agreement by the stockholders of Solutia, solely in response to a superior proposal that did not result from a breach of the non-solicitation covenants of the merger agreement, effect a change of recommendation and terminate the merger agreement and concurrently approve, adopt, recommend, accept or enter into an acquisition agreement related to a superior proposal.

The Solutia board of directors may only effect an adverse recommendation change or terminate the merger agreement to accept a superior proposal if and to the extent that the Solutia board of directors (or a duly authorized committee thereof) determines in good faith, after consultation with outside counsel and its financial advisor, that failing to take any such action would be reasonably likely to be inconsistent with the directors' obligations under applicable law and only if:

solely with respect to a superior proposal, four business days have elapsed since Solutia's delivery of written notice to Eastman (which will not constitute a change of recommendation) that the Solutia board of directors intends to take such action and specifying the terms and conditions of such superior proposal, including the identity of the person making such superior proposal provided, that with respect to any applicable superior proposal, any amendment to the financial terms or any other material term of such superior proposal will require a new written notice by the Solutia (which shall not in itself be deemed a change of recommendation) but in the case of any such new written notice, all references to a four business day period shall be deemed to refer to a two business day period, and no such termination of the merger agreement in connection with a superior proposal by Solutia or withdrawal or modification of the Solutia board of directors' recommendation that its stockholders vote in favor of adoption of the merger agreement may be made during any such four-business-day period; and

Solutia has, and has caused its financial and legal advisors to have, during such four-business-day period, to the extent requested by Eastman, negotiated with Eastman in good faith regarding any revisions to the terms of the merger agreement so that such acquisition proposal ceased to constitute a superior proposal, or the cause for the adverse recommendation change ceased to exist, as applicable, if such changes were accepted by Solutia.

Further, at any time after the date of the merger agreement and prior to the adoption of the merger agreement by Solutia stockholders, in contexts not involving an acquisition proposal, the Solutia board of directors may effect a change of its recommendation in favor of adoption of the merger agreement if the Solutia board of directors (or a duly authorized committee thereof) determines in good faith, after consultation with its financial advisor and outside counsel, that failure to take such action would be reasonably likely to be inconsistent with the directors' obligations under applicable law. In such an event, Solutia may be required to pay Eastman a termination fee of \$102 million.

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### **Financing Covenant; Solutia Cooperation**

Eastman has agreed to use its reasonable best efforts to take all actions and to do all things necessary, proper or advisable to:

arrange and obtain the debt financing for the merger on the terms and conditions described in the commitment letters executed and delivered by certain financial institutions;

maintain in effect the commitment letters (including any definitive agreements entered into in connection therewith);

satisfy on a timely basis all conditions in the financing agreements applicable to Eastman and Merger Sub to obtaining the debt financing as promptly as reasonably practicable;

negotiate and enter into definitive agreements with respect to the debt commitment letters on terms and conditions contained therein or consistent in all material respects therewith as promptly as reasonably practicable and promptly upon execution thereof provide complete executed copies of such definitive agreements to Solutia;

complete the debt financing at or prior to the closing; and

fully enforce the counterparties' obligations and its rights under the financing agreements, including by means of suit or other appropriate proceeding to cause the lenders under the debt financing to fund in accordance with their respective commitments if all conditions to funding the debt financing in the applicable financing agreements have been satisfied or waived.

Pursuant to the merger agreement, Eastman has also agreed not to permit certain amendments, modifications or waivers to the debt commitment letters.

Eastman has agreed to keep Solutia reasonably informed on a timely basis of the status of Eastman's and Merger Sub's efforts to arrange the debt financing and to satisfy the conditions thereof, including, upon Solutia's reasonable request, (1) advising and updating Solutia with respect to status, proposed closing date and material terms of the material definitive documentation for the debt financing and (2) providing copies of the current drafts of all such definitive documentation.

In addition, if any portion of the amount of the debt financing necessary to complete the transactions contemplated by the merger agreement becomes reasonably likely to be unavailable on the material terms and conditions contemplated by the applicable financing agreements, (1) Eastman is required to promptly notify Solutia and (2) Eastman has agreed to use its reasonable best efforts to arrange and obtain alternative debt financing from alternative sources in an amount sufficient to complete the transactions contemplated by the merger agreement with terms and conditions not materially less favorable, taken as a whole, to Eastman, Merger Sub and Solutia than the terms and conditions set forth in the applicable financing agreements, as promptly as practicable following the occurrence of such event.

Pursuant to the merger agreement, Solutia has agreed to, and has agreed to cause its subsidiaries and to use its reasonable best efforts to cause its representatives to, at Eastman's cost and expense, cooperate in connection with the arranging, obtaining and syndicating of the debt financing for the merger as may be reasonably requested by Eastman and is customary and necessary in connection with the debt financing. Eastman has agreed to promptly, upon request by Solutia, reimburse Solutia for all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) incurred by Solutia or any of its subsidiaries in connection with such cooperation of Solutia and its subsidiaries, and to indemnify Solutia, its subsidiaries and their respective representatives from and against any and all losses, damages, claims, costs or expenses suffered or incurred by any of them in connection with the arrangement of the debt financing and any information used in connection therewith (other than with respect to any information relating to Solutia provided in writing by Solutia or any of its subsidiaries).



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**Table of Contents****Regulatory Matters; Third-Party Consents*****Filings***

Pursuant to the merger agreement, Eastman and Solutia agreed to cooperate with each other and use their respective reasonable best efforts to (1) promptly prepare and file all necessary documentation, (2) effect all applications, notices, petitions and filings, (3) obtain as promptly as practicable all permits, consents, approvals and authorizations of all third parties and governmental entities that are necessary or advisable to complete the transactions contemplated by the merger agreement and (4) comply with the terms and conditions of all such permits, consents, approvals and authorizations of all such governmental entities. Each of Eastman and Solutia also agreed to promptly advise the other upon receiving any communication from any governmental entity, consent or approval of which is required to complete the transactions contemplated by the merger agreement.

***Regulatory Matters***

Under the antitrust or competition laws of the United States, the European Union, China, South Korea, and the Ukraine, Eastman and Solutia cannot complete the merger until they file certain required notifications and report forms with the relevant antitrust or competition governmental entities and, where applicable, receive clearance (including the passage of applicable waiting periods) from such governmental entities to complete the merger. Pursuant to the merger agreement, Eastman has agreed to promptly take, in order to complete the transactions contemplated in the merger agreement, all actions necessary (1) to avoid or eliminate each and every impediment and obtain all consents under any antitrust or competition law required by any U.S. federal, state, local or foreign antitrust or competition governmental entity, in each case with competent jurisdiction, so as to enable the parties to close the transactions contemplated by the merger agreement as promptly as reasonably practicable (and in any event no later than three business days prior to the October 1, 2012 (as may be extended pursuant to the termination provision of the merger agreement)) and (2) to prevent the entry of, and to have vacated, lifted, reversed or overturned, any decree, judgment, injunction or other order that would prevent, prohibit, restrict or delay the completion of the transactions contemplated in the merger agreement in each case including (a) executing settlements, undertakings, consent decrees, stipulations or other agreements with any governmental entity, (b) selling, divesting, licensing, holding separate or otherwise conveying particular assets or categories of assets or businesses of Eastman, its affiliates, and Solutia, (c) terminating, relinquishing, modifying, or waiving existing relationships, ventures, contractual rights, obligations or other arrangements of Eastman, Solutia or their respective subsidiaries, and (d) creating any relationships, ventures, contractual rights, obligations or other arrangements of Eastman, Solutia or their respective subsidiaries. Eastman has agreed in the merger agreement that it will respond to and seek to resolve as promptly as practicable any objections that are raised and refrain from taking any action that would reasonably be expected to impede or delay antitrust clearance (and in any event no later than three business days prior to October 1, 2012). No actions taken in accordance with the foregoing will be considered for purposes of determining whether a material adverse effect on Eastman or Solutia has occurred. The timing or outcome of the process for obtaining requisite antitrust clearances under applicable antitrust or competition laws cannot be predicted with certainty, but the parties expect to obtain all clearances by the end of May 2012.

**Termination**

Eastman and Solutia may terminate the merger agreement at any time before the effective time of the merger, whether before or after Solutia stockholders have voted in favor of adoption of the merger agreement, by mutual written consent of Eastman and Solutia duly authorized by each of their respective boards of directors.

In addition, either Eastman or Solutia may terminate the merger agreement at any time before the effective time of the merger by written notice to the other party:

whether before or after Solutia stockholders have voted in favor of adoption of the merger agreement, if the merger has not been completed on or before October 1, 2012; provided, however, that if all of the conditions to closing have been satisfied or are then capable of being satisfied (other than those that are

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satisfied by having obtained the required antitrust clearances or there being no effective injunctions preventing the completion of the transactions contemplated in the merger agreement), such termination date may be extended by Eastman or Solutia from time to time by written notice to the other party up to a date not beyond October 31, 2012 (however, such right to terminate the merger agreement will not be available to any party whose breach of any covenant or agreement in the merger agreement has been the primary cause that resulted in the failure to complete the merger by such date);

if the merger agreement has been submitted to Solutia stockholders for adoption at a duly convened stockholders meeting (or adjournment, postponement or recess thereof) and such Solutia stockholders have not adopted the merger agreement upon a vote taken thereof;

if any governmental entity of competent jurisdiction enacts or issues any final and non-appealable law or order or takes any final and non-appealable action enjoining or otherwise prohibiting completion of the transactions contemplated by the merger agreement; provided that this right to terminate the merger agreement is not applicable to any party that failed to comply with its obligations to use its reasonable best efforts to cause the transactions contemplated by the merger agreement to be completed as soon as reasonably practicable; or

if there is a material breach by the non-terminating party of any of its representations, warranties, covenants or agreements contained in the merger agreement that has not been cured by such party within the earlier of the termination date as described above and 20 business days after such party's receipt of written notice of such breach from the other party but only so long as the other party is not in material breach of its representations, warranties, covenants, or agreements in the merger agreement, which breach would give rise to the failure of a closing condition described under Conditions to the Completion of the Merger.

In addition, at any time before the effective time of the merger (1) Eastman may terminate the merger agreement by written notice to Solutia if, prior to adoption by the stockholders of Solutia of the merger agreement at a duly convened stockholders meeting, the Solutia board of directors or any committee thereof makes a change in its recommendation that the stockholders of Solutia vote in favor of the adoption of the merger agreement, and (2) Solutia may terminate the merger agreement by written notice to Eastman at any time prior to adoption by the stockholders of Solutia of the merger agreement at a duly convened stockholders meeting, in order to approve, adopt, recommend, accept or enter into an acquisition agreement relating to a superior proposal.

In some cases, termination of the merger agreement may require Solutia to pay a termination fee to Eastman as described below under Solutia Termination Fee.

**Solutia Termination Fee**

The merger agreement provides that Solutia is required to pay a termination fee of \$102 million to Eastman in each of the following circumstances:

the merger agreement is terminated by Solutia prior to adoption by the stockholders of Solutia of the merger agreement at a duly convened stockholders meeting, in order to approve, adopt, recommend, accept or enter into an acquisition agreement relating to a superior proposal (in which case Solutia must pay the termination fee concurrently with and as a condition to such termination);

the merger agreement is terminated by Eastman prior to adoption by the stockholders of Solutia of the merger agreement at a duly convened stockholders meeting, as a result of the Solutia board of directors or any committee thereof making a change in its recommendation that the stockholders of Solutia vote in favor of the adoption of the merger agreement as described above in Non-Solicitation of Alternative Proposals (in which case Solutia must pay the termination fee within three business days following such termination); and



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if (1)(a) after the date of the merger agreement and prior to the Solutia stockholders meeting there is publicly disclosed (and not subsequently withdrawn) an acquisition proposal, and the merger agreement is terminated by Eastman or Solutia because the stockholders of Solutia have not adopted the merger agreement upon a vote taken thereof, or, (b) after the date of the merger agreement, there is publicly disclosed (and not subsequently withdrawn) an acquisition proposal, and the merger agreement is terminated by Eastman due to a breach by Solutia of any of its representations, warranties, covenants or agreements contained in the merger agreement, and (2) at any time on or prior to the twelve-month anniversary of such termination, Solutia or any of its subsidiaries enters into a definitive agreement providing for any acquisition proposal or the transactions contemplated by any acquisition proposal are consummated (in which case Solutia will pay the termination fee within five business days following the date on which Solutia consummates such acquisition proposal). For purposes of the foregoing clause (2), references in the definition of the term acquisition proposal to the figure 20% will be deemed to be replaced by more than 50%.

**Expenses**

Whether or not the merger is completed, all fees and expenses incurred in connection with the merger agreement, the merger and the other transactions contemplated by the merger agreement will be paid by the party incurring or required to incur such fees and expenses, except as otherwise provided in the merger agreement. Notwithstanding the foregoing, Eastman will reimburse Solutia for all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) incurred by Solutia or any of its subsidiaries in connection with the cooperation of Solutia and its subsidiaries with respect to the arrangement of the debt financing, and to indemnify Solutia, its subsidiaries and their respective representatives from and against any and all losses, damages, claims, costs or expenses suffered or incurred by any of them in connection with the arrangement of the financing and any information used in connection therewith (other than with respect to any information relating to Solutia provided in writing by Solutia or any of its subsidiaries).

**Conduct of Business Pending the Merger**

Under the merger agreement, each of Solutia and Eastman has undertaken certain covenants that place restrictions on it and its respective subsidiaries from the date of the merger agreement until the earlier of the termination of the merger agreement in accordance with its terms and the effective time of the merger, unless the other party gives its prior written consent (which cannot be unreasonably withheld, conditioned or delayed) or as otherwise required by law. In general, each party has agreed to, and has agreed to cause its respective subsidiaries to, (1) use commercially reasonable efforts to conduct, in all material respects, its business in the ordinary course and (2) use commercially reasonable efforts to preserve intact its business organizations and its significant business relationships and to preserve satisfactory relationships with its employees.

Subject to certain exceptions set forth in the merger agreement and the disclosure letters delivered by Eastman and Solutia in connection with the merger agreement, unless the other party consents in writing (which consent cannot be unreasonably withheld, conditioned or delayed), each of Solutia and Eastman has agreed to certain restrictions limiting its and its respective subsidiaries' ability to, among other things:

incur any indebtedness for borrowed money or assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any person in excess of a specified amount;

adjust, split, combine or reclassify any of its capital stock;

amend its certificate of incorporation or by-laws;

declare or pay any dividend on, make any other distribution with respect to, or purchase or otherwise acquire any shares of, its capital stock other than, (1) with respect to Solutia, such dividends that had been declared as of the date of the merger agreement and (2) with respect to Eastman, quarterly cash dividends not to exceed the current dividend rate at the time of the merger agreement, with record dates and payment dates consistent with Eastman's dividend practice at the time of the merger agreement;

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sell, lease, transfer or otherwise dispose of any of its businesses in excess of a specified amount;

issue any additional shares of capital stock;

adopt or recommend a plan of complete or partial dissolution, liquidation, recapitalization, restructuring or other reorganization; or

agree to take, make any commitment to take, or adopt any resolutions of its board of directors in support of any actions prohibited by the merger agreement.

Solutia has further agreed that, subject to certain exceptions set forth in the merger agreement and the disclosure letters delivered by Solutia, Solutia will not, and will not permit any of its subsidiaries to, among other

things, undertake the following actions without the consent of Eastman (which consent will not be unreasonably withheld, conditioned or delayed):

grant any stock options, restricted stock, restricted stock units, performance shares, performance share units, stock appreciation rights or grant any individual, corporation or entity any right to acquire any shares of its capital stock;

make any changes to employee benefit plans or agreements, compensation or benefits to any director, executive officer or employee;

cancel, release, or settle any pending or threatened third-party litigation, action or proceeding in excess of a specified amount;

make any acquisition (including by merger) of the capital stock or a material portion of the assets of any other person for consideration exceeding a specified amount;

make any capital expenditures in excess of a specified amount during any consecutive three-year period;

enter into any new line of business that is material to Solutia and its subsidiaries, taken as a whole, or materially change any of its technology or operating policies that are material to Solutia and its subsidiaries;

make any material change in its methods or principles of accounting or any material tax election;

amend in any material respect or waive any of its material rights under certain contracts;

allow any material foreign or U.S. registration to lapse in connection with any intellectual property of Solutia used in its business;

enter into or amend in any material respect any collective bargaining agreement;

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make any discretionary contributions to pension or retirement plans in excess of the minimum required contributions as required by applicable law; or

enter into or renew any raw material supply contract that is inconsistent with past practice, has a term greater than two years, and provides for annual payments to Solutia or any of its subsidiaries in excess of a specified amount.

Eastman and Merger Sub have further agreed that, subject to certain exceptions set forth in the merger agreement and the disclosure letters delivered by Eastman, they will not, and Eastman will not permit any of its subsidiaries to, without the prior written consent of Solutia (which consent will not be unreasonably withheld, conditioned or delayed):

acquire by merger or consolidation, or by the purchase of all or a controlling equity interest in, or by any other manner, any person, division, business or equity interest of any person in excess of a specified amount; or

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take any action that would reasonably be expected to materially impair or delay Eastman's and Merger Sub's ability to satisfy any of the conditions to the merger set forth in the merger agreement or complete the merger or would cause such action or the transactions contemplated in the merger agreement to be subject to a vote of Eastman stockholders.

### **Additional Covenants**

The merger agreement also contains covenants relating to cooperation in the preparation of this proxy statement/prospectus and additional agreements relating to, among other things, access to information, notice of specified matters and public announcements.

### **Governance of Surviving Corporation**

The merger agreement provides that the directors and officers of Merger Sub immediately prior to the effective time of the merger will become, at the effective time, the directors and officers of the surviving corporation, until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified, as the case may be.

The merger agreement provides that, at the effective time of the merger, the Solutia Charter and the Solutia Bylaws will, by virtue of the merger, be amended and restated in their entirety to read as the certificate of incorporation and bylaws of Merger Sub as in effect immediately prior to the effective time of the merger, except that in each case the name of the surviving corporation will remain Solutia Inc., and as so amended and restated will be the certificate of incorporation and bylaws of the surviving corporation.

### **Indemnification; Directors and Officers Insurance**

The merger agreement provides that, from and after the effective time of the merger and ending on the sixth anniversary thereof, Eastman will cause the surviving corporation to indemnify, defend and hold harmless (including by advancing expenses) each current and former director, officer and employee of Solutia and its subsidiaries, and each person who served as a director, officer, member, trustee or fiduciary of another entity at the request or for the benefit of Solutia or its subsidiaries against all losses in connection with any claim relating to or in connection with any action or omission relating to their position with Solutia or its subsidiaries occurring or alleged to have occurred before or at the effective time of the merger, to the fullest extent permitted under applicable law.

The merger agreement also provides that, for six years after the effective time of the merger, none of (1) the Solutia Charter and the Solutia Bylaws, (2) any indemnification agreements with an indemnified party described above and disclosed in the disclosure letter delivered by Solutia, and (3) the respective organizational documents of Solutia's subsidiaries may be amended, repeated or otherwise modified in a manner that would adversely impact the rights thereunder of the indemnified parties described above, except in the case of either of clauses (1) or (3) above, as required by applicable law.

In addition, as provided by the merger agreement, Solutia intends to purchase a six year pre-paid tail directors and officers liability insurance policy with respect to claims arising from facts or events that occurred on or before the effective time of the merger.

### **Employee Matters**

Pursuant to the merger agreement, Eastman has agreed that it will, and will cause its affiliates after completion of the merger, subject to certain exceptions, to:

continue the employment effective immediately after the closing date of all employees of Solutia or any of its subsidiaries, including such employees on medical, disability, family or other leave of absence as of the closing date;

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until at least the first anniversary of the effective time of the merger, provide at least the same base wages, annual base salary and annual rate of bonus potential (as determined by percentage of annual base salary) provided to such employee on the closing date;

from the closing date until at least December 31, 2012, provide each such employee with employee benefits (excluding any equity based compensation) that are substantially similar in the aggregate to the employee benefits provided by Solutia as of the date of the merger agreement;

from the closing date until at least December 31, 2014, if an eligible employee terminates employment from Eastman or its affiliates after the closing, provide such employee with severance benefits equal to those provided under a Solutia benefit plan in which such employee was eligible to participate before the effective time of the merger;

(1) give each such employee service credit granted by Solutia prior to the closing under any comparable Solutia benefit plan for all purposes other than for benefit accrual purposes under a defined benefit pension plan; (2) give each such employee service credit granted by Solutia prior to the closing under any comparable personnel policies that cover such employee after the closing date; (3) allow such employees to participate in each Solutia benefit plan providing welfare benefits in the plan year in which the closing occurs without regard for preexisting-condition limitations, waiting periods, evidence of insurability or other exclusions or limitations; and (4) credit such employee with any expenses that were covered by the Solutia benefit plans for purposes of determining deductibles, co-pays and other applicable limits under the Solutia benefit plan in which they participate and any similar replacement plans;

continue to credit to each such employee all vacation and personal holiday pay that such employee is entitled to use but has not used as of the closing date subject to Eastman's vacation day carryover policy;

from and after the effective time of the merger, (1) honor all obligations under the Solutia benefit plans and compensation and severance arrangements and agreements in effect immediately before the effective time of the merger and (2) treat the transactions contemplated by the merger agreement as constituting a change in control, change of control, or similar terms under the Solutia benefit plans and such compensation and severance arrangements or agreements; and

operate Solutia's annual bonus arrangements for 2012 in accordance with the terms established by the Solutia board of directors (or a duly authorized committee thereof) within sixty days following the date of the merger agreement (subject to reasonable adjustment by Eastman in good faith to reflect the completion of the transactions contemplated in the merger agreement).

## **Representations and Warranties**

The merger agreement contains representations and warranties by Solutia, Eastman and Merger Sub. These representations and warranties have been made solely for the benefit of the other parties to the merger agreement and:

may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

have been qualified by disclosures that were made to Eastman or Solutia in connection with the negotiation of the merger agreement, which disclosures are not reflected in the merger agreement;

may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

were made only as of the date of the merger agreement or such other date or dates as may be specified in the merger agreement and are subject to more recent developments.

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Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

The representations and warranties made by both Solutia and Eastman relate to, among other things:

corporate organization and similar corporate matters;

capital structure;

subsidiaries;

approval and authorization of the merger agreement;

absence of conflicts;

required consents and approvals of governmental entities in connection with the transactions contemplated by the merger agreement;

documents filed with the SEC, financial statements included in those documents and regulatory reports filed with governmental entities;

disclosure controls and procedures and internal controls over financial reporting;

absence of undisclosed liabilities;

absence of material adverse effect since September 30, 2011;

legal proceedings;

taxes;

compliance with applicable laws, licenses and permits;

environmental matters;

material contracts;

intellectual property matters;

title to properties;

assets;

real properties;

foreign corrupt practices, money laundering;

export control laws;

insurance;

opinion of financial advisor;

information supplied in connection with this proxy statement/prospectus and the registration statement of which it is a part;

inapplicability of state takeover laws;

the stockholder vote required to adopt the merger agreement; and

brokers and finders.

Additional representations and warranties made only by Solutia relate to, among other things, employee benefits and labor matters.

Additional representations and warranties made only by Eastman and Merger Sub relate to, among other things, financing for the merger and share ownership of Solutia.



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### **Amendment and Waiver**

Subject to compliance with applicable law, the merger agreement may be amended by Eastman and Solutia, by action taken or authorized by their respective boards of directors, at any time before or after approval of the matters presented in connection with the merger by the Solutia stockholders. The merger agreement may not be amended except by an instrument in writing signed on behalf of each of the parties.

At any time prior to the effective time of the merger, Eastman and Solutia may, by action taken or authorized by their respective boards of directors, to the extent legally allowed:

extend the time for the performance of any of the obligations or other acts of the other party;

waive any inaccuracies in the representations and warranties contained in the merger agreement; and

waive compliance with any of the agreements or conditions contained in the merger agreement.

Notwithstanding the foregoing, after any approval of the transactions contemplated by the merger agreement by Solutia stockholders, there may not be, without further approval of such stockholders, any extension or waiver of the merger agreement or any portion thereof that reduces the amount or changes the form of the merger consideration to be paid to the holders of shares of Solutia common stock under the merger agreement, other than as contemplated by the merger agreement.

Any agreement on the part of a party to any such extension or waiver will be valid only if set forth in a written instrument signed on behalf of such party, but such extension or waiver or failure to insist on strict

compliance with an obligation, covenant, agreement or condition will not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

### **Governing Law and Venue; Waiver of Jury Trial**

The parties have agreed that the merger agreement will be governed by Delaware law. Each party has irrevocably and unconditionally submitted to the exclusive jurisdiction of the Delaware Court of Chancery and any appellate court from any thereof sitting in New Castle County in the State of Delaware (and if the Delaware Court of Chancery is unavailable or declines to accept jurisdiction, the federal courts sitting in the State of Delaware) in any action or proceeding arising out of or relating to the merger agreement or the transactions contemplated thereby or for recognition or enforcement of any judgment relating thereto. Each party has further irrevocably and unconditionally waived any right such party may have to a trial by jury with respect to any litigation directly or indirectly arising out of or relating to the merger agreement or the transactions contemplated by the merger agreement.

### **Specific Performance**

The merger agreement provides that the parties will be entitled to an injunction or injunctions, specific performance or other equitable relief to prevent breaches of the merger agreement and to enforce specifically the terms and provisions thereof in the agreed upon courts without proof of damages or otherwise.

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**DESCRIPTION OF EASTMAN CAPITAL STOCK**

The following description of Eastman capital stock and warrants to acquire Eastman common stock is only a summary. You should refer to the Eastman Charter and the Eastman Bylaws for the actual terms of Eastman capital stock. These documents are filed as exhibits to this proxy statement/prospectus.

**Authorized Capital Stock**

Eastman is authorized to issue up to 400,000,000 shares of capital stock, of which 50,000,000 may be shares of preferred stock, par value \$.01 per share, and 350,000,000 may be shares of common stock, par value \$.01 per share. As of \_\_\_\_\_, 2012, \_\_\_\_\_ shares of Eastman common stock were issued and outstanding. As of the date hereof, no class or series of Eastman preferred stock has been established, and no shares of Eastman preferred stock have been issued or are outstanding.

***Common Stock***

Holder of Eastman common stock are entitled to one vote for each share on all matters voted on by Eastman stockholders. Holders of Eastman common stock do not have cumulative voting rights in the election of directors. Holders of Eastman common stock do not have any preemptive right to subscribe for or purchase any of Eastman's securities of any class or kind.

Holder of Eastman common stock do not have any subscription, redemption or conversion privileges. Subject to the preferences or other rights of any Eastman preferred stock that may be issued from time to time, holders of Eastman common stock are entitled to participate ratably in dividends on the Eastman common stock as declared by the Eastman board of directors. Holders of Eastman common stock are entitled to share ratably in all assets available for distribution to Eastman stockholders in the event of Eastman's liquidation or dissolution, subject to distribution of the preferential amount, if any, to be distributed to holders of Eastman preferred stock.

***Preferred Stock***

Subject to limitations prescribed by law, the Eastman board of directors is authorized to determine the voting powers, designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions and other terms of any class or series of Eastman preferred stock. Issuances of Eastman preferred stock would be subject to the applicable rules of the New York Stock Exchange or other organizations on whose systems Eastman stock may then be quoted or listed. Depending upon the terms of Eastman preferred stock established by the Eastman board of directors, any or all classes or series of Eastman preferred stock may have preference over the Eastman common stock with respect to dividends and other distributions and upon Eastman's liquidation. Issuance of any such shares with voting powers would dilute the voting power of the outstanding Eastman common stock.

**Certain Provisions Affecting Control of Eastman**

***General***

Certain provisions of the Eastman Charter and the DGCL described in this section may delay or make more difficult acquisitions or changes of control of Eastman not approved by the Eastman board of directors. These provisions could have the effect of discouraging third parties from making proposals involving an acquisition or change of control of Eastman, although these kinds of proposals, if made, might be considered desirable by a majority of Eastman stockholders. These provisions may also have the effect of making it more difficult for third parties to cause the replacement of Eastman's current management without the concurrence of the Eastman board of directors.

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### ***Number of Directors; Removal; Vacancies***

The Eastman Bylaws provide that the number of Eastman's directors will be determined from time to time exclusively by a vote of a majority of the Eastman board of directors then in office. The Eastman Charter also provides that the Eastman board of directors has the exclusive right to fill vacancies, including vacancies created by expansion of the Eastman board of directors. This provision could have the effect of discouraging a potential acquiror from attempting to obtain control of Eastman. The Eastman Charter further provides that directors may be removed with or without cause (except that Continuing Classified Directors (as defined below) may be removed only for cause), by the affirmative vote of the holders of a majority of the voting power of all of the shares of Eastman capital stock then entitled to vote in the election of directors. This provision, in conjunction with the provision authorizing the Eastman board of directors to fill vacant directorships, could prevent Eastman stockholders from removing certain incumbent directors without cause and filling the resulting vacancies with their own nominees.

### ***Election of Directors***

The Eastman Bylaws provide that directors are elected by the affirmative vote of a majority of the votes cast, except as otherwise required by the DGCL or as provided for in the Eastman Charter or the Eastman Bylaws. Directors elected prior to Eastman's 2012 annual meeting of stockholders were elected to three year terms of office, with each class of directors having its term end in successive years. At Eastman's 2011 annual meeting of stockholders, Eastman stockholders approved amendments to the Eastman Charter declassifying the Eastman board of directors. As a result, the Eastman Charter provides that directors elected to succeed those directors whose terms expire at Eastman's 2012 annual meeting of stockholders are elected to a term of office to expire at Eastman's 2013 annual meeting of stockholders (with each remaining director whose term did not expire at such meeting being referred to for the remainder of their respective term as a Continuing Classified Director); at Eastman's 2013 annual meeting of stockholders, directors elected to succeed those directors whose terms expire at that meeting will be elected to a term of office to expire at Eastman's 2014 annual meeting of stockholders; and at Eastman's 2014 annual meeting of stockholders, and each annual meeting of stockholders thereafter, all directors shall be elected for terms expiring at the next annual meeting of stockholders and until such director's successor shall have been elected and qualified.

### ***No Stockholder Action by Written Consent; Special Meetings***

The Eastman Charter provides that stockholder action can be taken only at an annual or special meeting of stockholders and cannot be taken by written consent in lieu of a meeting. The Eastman Charter also provides that special meetings of the stockholders can only be called (1) pursuant to a resolution adopted by a majority of the Eastman board of directors then in office or (2) upon the written request of the holders of at least 25% of the outstanding voting stock of Eastman, in accordance with the requirements set forth in the Eastman Bylaws. These provisions could delay a stockholder vote on certain matters, such as business combinations and removal of directors, and could have the effect of discouraging a potential acquiror from making a tender offer.

### ***Advance Notice for Raising Business or Making Nominations at Meetings***

The Eastman Bylaws establish an advance notice procedure for stockholder proposals to be brought before a meeting of stockholders and for nominations by Eastman stockholders of candidates for election as directors at an annual meeting or a special meeting at which directors are to be elected. As described more fully in the Eastman Bylaws, only such business may be conducted at a meeting of stockholders as has been brought before the meeting by, or at the direction of, the Eastman board of directors, or by an Eastman stockholder who has given to Eastman's Corporate Secretary timely written notice, in proper form, of the Eastman stockholder's intention to bring that business before the meeting. The presiding officer at a stockholders meeting has the authority to make these determinations. Only persons who are nominated by, or at the direction of, the Eastman board of directors, or who are nominated by an Eastman stockholder who has given timely written notice, in

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proper form, to Eastman's Corporate Secretary prior to a meeting at which directors are to be elected will be eligible for election as Eastman's directors.

These provisions could make it more difficult for Eastman stockholders to raise matters affecting control of Eastman, including tender offers, business combinations or the election or removal of directors, for a stockholder vote.

### ***Amendments to the Eastman Bylaws***

The Eastman Charter and the Eastman Bylaws provide that the Eastman board of directors may adopt, amend, alter, change or repeal the Eastman Bylaws. The Eastman Bylaws provide that these changes must be made at a stockholder meeting or at a board meeting. The Eastman Charter provides that Eastman stockholders may adopt, amend, alter, change or repeal the Eastman Bylaws by the affirmative vote of a majority of the votes cast with respect to such adoption, amendment, alteration, change or repeal of the Eastman Bylaws. These provisions could make it difficult for stockholders to amend or repeal any provisions of the Eastman Bylaws adopted by the Eastman board of directors or to adopt any bylaw provisions opposed by the Eastman board of directors.

### ***Amendment of the Eastman Charter***

Any proposal to amend, alter, change or repeal any provision of the Eastman Charter requires approval by the affirmative vote of both a majority of the members of the Eastman board of directors then in office and a majority vote of the voting power of all of the shares of Eastman capital stock entitled to vote generally in the election of directors, voting together as a single class. This provision, which is the minimum approval required under the DGCL, could make it more difficult for Eastman stockholders to amend, alter, change or repeal any provision of the certificate of incorporation, including a provision affecting control of Eastman.

### ***Eastman Preferred Stock and Additional Eastman Common Stock***

Under the Eastman Charter, the Eastman board of directors has the authority to provide by board resolution for the issuance of shares of one or more classes or series of Eastman preferred stock. The Eastman board of directors is authorized to fix by resolution the terms and conditions of each such other class or series. The authorized shares of Eastman preferred stock, as well as authorized but unissued shares of Eastman common stock, are available for issuance without further action by Eastman stockholders, unless stockholder action is required by applicable law or the rules of the New York Stock Exchange or any other stock exchange on which any class or series of Eastman stock may then be listed.

These provisions give the Eastman board of directors the power to approve the issuance of a class or series of Eastman preferred stock, or additional shares of Eastman common stock, that could, depending on the terms of the stock, either impede or facilitate the completion of a merger, tender offer or other takeover attempt. For example, the issuance of new shares might impede a business combination if the terms of those shares include voting rights which would enable a holder to block business combinations; alternatively, the issuance of new shares might facilitate a business combination if those shares have general voting rights sufficient to cause an applicable percentage vote requirement to be satisfied.

### ***Constituency or Stakeholder Provision***

In determining what is in Eastman's best interests and the best interests of Eastman stockholders, the Eastman Charter authorizes the Eastman board of directors in its discretion to consider, in addition to the long-term and short-term interests of the stockholders, the social and economic effects of the matter being considered on employees, customers, creditors and communities in which Eastman operates. Further, in evaluating a potential business combination, the Eastman board of directors may also consider such matters as the business and financial condition of the acquiror, the competence, experience and integrity of the acquiror's management, and prospects for successful conclusion of the business combination being considered.

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This provision gives the Eastman board of directors the authority to take into account factors other than the financial interests of the stockholders and could result in the rejection of a business combination or tender offer even if proposed at a price exceeding market value.

### ***Delaware Business Combination Statute***

Section 203 of the DGCL provides that, subject to specified exceptions, an interested stockholder of a Delaware corporation may not engage in any business combination with the corporation for a three-year period following the time that stockholder becomes an interested stockholder unless:

prior to that time, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder ;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding certain shares); or

on or subsequent to that time, the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders by the affirmative vote of at least  $66\frac{2}{3}\%$  of the outstanding voting stock which is not owned by the interested stockholder.

Except as otherwise specified in Section 203, an interested stockholder is defined to include (1) any person that is the owner of 15% or more of the outstanding voting stock of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the relevant time and (2) the affiliates and associates of any such person.

Under certain circumstances, Section 203 makes it more difficult for a person who would be an interested stockholder to effect various business combinations with a corporation for a three-year period, although the stockholders may elect to exclude a corporation from the restrictions imposed under Section 203. The Eastman Charter does not exclude Eastman from the restrictions imposed under Section 203. The provisions of Section 203 may encourage companies interested in acquiring Eastman to negotiate in advance with the Eastman board of directors, since the stockholder approval requirement would be avoided if a majority of the directors then in office approve either the business combination or the transaction that results in the stockholder becoming an interested stockholder. These provisions also may have the effect of preventing changes in Eastman's management. It is possible that these provisions could make it more difficult to accomplish transactions that Eastman stockholders may otherwise deem to be in their best interests.

### **Transfer Agent and Registrar**

American Stock Transfer and Trust Company is the transfer agent and registrar for Eastman common stock.

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**COMPARISON OF RIGHTS OF HOLDERS OF EASTMAN COMMON STOCK AND SOLUTIA COMMON STOCK**

The following is a summary of the material differences between the rights of holders of Eastman common stock and the rights of holders of Solutia common stock, but it is not a complete description of those differences. These differences arise from the governing documents of the two companies, including the Eastman Charter, the Eastman Bylaws, the Solutia Charter and the Solutia Bylaws. Eastman and Solutia are both Delaware corporations and are governed by the DGCL. After completion of the merger, the rights of Solutia stockholders who become Eastman stockholders will be governed by the DGCL, the Eastman Charter and the Eastman Bylaws. Eastman and Solutia urge you to read each of the Eastman Charter, the Eastman Bylaws, the Solutia Charter and the Solutia Bylaws in their entirety. For additional information, see [Where You Can Find More Information](#) below.

	<b>Eastman</b>	<b>Solutia</b>
<b>Authorized Capital Stock</b>	<p>Eastman is authorized to issue 400,000,000 shares of capital stock divided into two classes consisting of:</p> <p>(1) 350,000,000 shares of common stock, par value \$0.01 per share;</p> <p>(2) 50,000,000 shares of preferred stock, par value \$0.01 per share.</p>	<p>Solutia is authorized to issue 600,000,000 shares of capital stock divided into two classes consisting of:</p> <p>(1) 500,000,000 shares of common stock, par value \$0.01 per share;</p> <p>(2) 100,000,000 shares of preferred stock, par value \$0.01 per share.</p>
<b>Rights of Preferred Stock</b>	<p>The Eastman Charter provides that the Eastman board of directors is authorized to determine the voting powers, designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions and other terms of any class or series of Eastman preferred stock.</p>	<p>The Solutia Charter provides that the Solutia board of directors may issue shares of Solutia preferred stock in one or more series, to establish from time to time the number of shares to be included in each series, and to fix the designations, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof.</p> <p>The Solutia Charter prohibits Solutia from issuing non-voting stock.</p>
<b>Number of Directors</b>	<p>The Eastman Bylaws state that the number of directors shall be as authorized from time to time exclusively by a vote of a majority of the members of the Eastman board of directors then in office. There are currently twelve directors serving on the Eastman board of directors.</p>	<p>The Solutia Charter and the Solutia Bylaws provide that there shall be between three and twelve directors serving on the Solutia board of directors, the exact number of which will be determined by the Solutia board of directors. There are currently nine directors serving on the Solutia board of directors.</p>

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	<b>Eastman</b>	<b>Solutia</b>
<b>Election of Directors</b>	<p>The Eastman Bylaws provide that elections for the Eastman board of directors shall be decided by a majority of the votes cast. Abstentions do not count as votes cast.</p> <p>If a nominee for director, who is an incumbent director, is not elected and no successor directors were elected at such meeting, then the incumbent director must tender his or resignation. If the Eastman board of directors does not accept such resignation, that director will stay in office until the next annual meeting at which his or her term expires and until his or her successor is duly elected, or his or her earlier resignation or removal. If the Eastman board of directors does accept such resignation, the Eastman board of directors may fill any resulting vacancy or may decrease the size of the Eastman board of directors.</p>	<p>The Solutia Bylaws provide that, a plurality of the votes cast at an annual meeting of stockholders or a special meeting of the stockholders called for the purpose of electing directors shall elect directors.</p>
<b>Cumulative Voting</b>	<p>The Eastman Bylaws provide that all questions shall be decided by a majority of the votes, except where otherwise provided in the Certificate of Incorporation, the Bylaws or DGCL. Neither the Eastman Charter nor the Eastman Bylaws provide for cumulative voting elsewhere.</p>	<p>The Solutia Charter and the Solutia Bylaws prohibit the use of cumulative voting for any election of directors.</p>
<b>Classification of Board of Directors</b>	<p>The Eastman Charter provides that directors elected prior to Eastman's 2012 annual meeting of stockholders were elected to three year terms of office, with each class of directors having its term end in successive years. The Eastman Charter provides that, beginning with the 2012 annual meeting of stockholders, all director nominees then-standing for election will be eligible for election to serve one-year terms.</p>	<p>The Solutia Charter and Solutia Bylaws provide that the members of the Solutia board of directors are classified into three classes as nearly equal as possible. Each class of director shall have a term of office expiring at the third annual meeting following its election.</p>

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	<b>Eastman</b>	<b>Solutia</b>
<b>Removal of Directors</b>	<p>The Eastman Charter provides that directors may be removed with or without cause (except that Continuing Classified Directors may be removed only for cause) by the affirmative vote of the holders of a majority of the voting power of all of the shares of capital stock of Eastman then entitled to vote generally in the election of directors, voting together as a single class.</p>	<p>The Solutia Charter and Solutia Bylaws provide that any director may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least a majority of the total voting power of all shares of Solutia entitled to vote generally in the election of directors, voting together as a single class.</p>
<b>Board Vacancies</b>	<p>The Eastman Charter provides that any vacancy occurring in the Eastman board of directors, and any directorship to be filled by reason of an increase in the number of directors, shall be filled only by the Eastman board of directors, acting by a majority of the remaining directors then in office, although less than a quorum. A director elected to fill a vacancy shall serve until the next election of directors and until a successor has been elected and qualified or such director earlier resigns or is removed.</p>	<p>The Solutia Charter and the Solutia Bylaws provide that any vacancy occurring in the Solutia board of directors shall be filled only by the Solutia board of directors acting by a majority of the directors then in office, even if less than a quorum. A director elected to fill a vacancy shall hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of a successor and to such director's earlier death, resignation or removal.</p>



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	<b>Eastman</b>	<b>Solutia</b>
<b>Director Nominations by Stockholders</b>	<p>The Eastman Bylaws provide that Eastman stockholders must give timely written notice to nominate directors for election.</p> <p>In the case of an annual meeting of stockholders, notices must be delivered to the Secretary of Eastman at Eastman's principal executive offices no earlier than 150 days and not later than 120 days prior to the date on which the notice of the immediately preceding year's annual meeting of stockholders was first sent to Eastman stockholders.</p> <p>In the case of a special meeting, notices must be delivered to the Secretary of Eastman at Eastman's principal executive offices no later than the close of business on the fifteenth day following the day on which notice of the date of the special meeting was first given to Eastman stockholders.</p>	<p>The Solutia Bylaws provide that Solutia stockholders may nominate candidates for the Solutia board of directors by providing timely written notice, if that Solutia stockholder is a stockholder of record on the date of giving notice and on the date stockholders are entitled to vote on the matter.</p> <p>In the case of an annual meeting of stockholders, notices must be delivered to the Secretary of Solutia at Solutia's principal executive office no fewer than ninety days nor more than 120 days prior to the first anniversary of the previous year's annual meeting provided that if the annual meeting is not within thirty days of the anniversary of the previous year's annual meeting, then notice must be received not later than the close of business on the tenth day following the announcement of the annual meeting was given.</p> <p>In the case of a special meeting called for the purpose of electing directors, notices shall be delivered to the Secretary of Solutia at Solutia's principal executive offices not later than ten days following announcement of the special meeting.</p> <p>Regardless, the notice for nominees for newly created directorships shall be delivered not later than ten days after the announcement of the new directorship or the public announcement of all of the nominees for director, even if such tenth day is later than shall have otherwise been required to be</p>

**Stockholder Nominations and  
Proposals (Requirements for  
Delivery and Notice)**

delivered to be timely.

In addition to the advance notice requirements described above, the Eastman Bylaws provide that all

In addition to the advance notice requirements described above, the Solutia Bylaws provide that a

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<b>Eastman</b>	<b>Solutia</b>
<p>notices for stockholder nominations and proposals shall include (1) the name and address of the proponent and any person acting in concert with the proponent; (2) the name and address of the proponent and any person acting in concert with the proponent as they appear on the books of Eastman; (3) the class and number of Eastman shares which are owned beneficially and of record by the proponent and such persons acting in concert; (4) a description of the proposal and all related material information; and (5) such information as the Eastman board of directors determines is necessary and appropriate to consider such proposal.</p> <p>Notice as to the nomination of directors must also include (1) as to each individual nominated (a) his or her name, date of birth and addresses; (b) the nominee's past five years' business experience; (c) whether that individual has served as an officer or director of an entity or has owned 5% or more of an entity's class of capital stock, partnership interest, or equity interest; (d) whether the individual has served on a board of directors of a registered company within the last five years; (e) whether the individual has been found to have violated a law or entered into bankruptcy within the last ten years that may be material to assessing the nominee's integrity; (f) all information related to the determination of the individual's status as independent; and (2) as to the stockholder submitting the notice, (a) the name and address of such stockholder, (b) the name and address of such stockholder as it appears on the books of Eastman, and (c) the class and number of</p>	<p>Solutia stockholder's notice given to the Secretary for director nominations must set forth (1) as to the nominee (a) his or her name, age and addresses; (b) his or her principal occupation or employment; (c) the class and number of shares beneficially owned by the nominee; and (d) any other information required in connection with proxy solicitation; (2) as to the stockholder giving notice and the beneficial owner, if any, on whose behalf the nomination was made (a) the name and address as they appear on Solutia's books; (b) the class and number of shares owned beneficially and of record by him or her; (c) any arrangement between such persons and any other person or entity in connection with the ownership of Solutia stock and the nomination of such nominee and any material interest of such stockholder in such nomination; (d) whether he or she intends to deliver a proxy statement to a sufficient number of Solutia stockholders to elect such nominee; (e) a representation that the stockholder giving the notice is a stockholder of record and intends to attend the meeting to nominate the nominee; and (f) any other such information that would be required by a proxy statement or other proxy solicitation. Such notice must also be accompanied by the written consent of the proposed nominee to serve as a director if elected.</p> <p>The Solutia Bylaws provide that Solutia stockholders may bring business before the Solutia board of directors at a meeting of the stockholders by providing timely written notice, if that stockholder is a stockholder of record on the date of giving notice and on the</p>

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<b>Eastman</b>	<b>Solutia</b>
Eastman shares beneficially owned by the stockholder.	date stockholders are entitled to vote on the matter. Timely notice must be delivered to the Secretary of Solutia at Solutia's principal executive office no fewer than ninety days nor more than 120 days prior to the first anniversary of the previous year's annual meeting provided that if the annual meeting is not within thirty days of the anniversary of the previous year's annual meeting, then notice must be received not later than the close of business on the tenth day following the announcement of the annual meeting was given. Notices must include (1) a brief description of the business to be brought at the meeting; (2) as to the proposing stockholder and the beneficial owner on whose behalf the proposal is made (a) the names and addresses of such persons as they appear on Solutia's books; (b) the class and number of shares owned by such persons beneficially and on record; (c) any arrangement between such persons and any other person or entity in connection with the ownership of Solutia stock and the business proposed by the stockholder and any material interest of the stockholder in that business; and (d) whether such persons intend to deliver a proxy statement to at least the percentage of the voting shares required to approve the proposal; and (3) a representation that such stockholder is a holder of record of Solutia stock and intends to appear at the meeting in person or by proxy to introduce the business.
In the case of an annual meeting of stockholders, notices must be delivered to the Secretary of	
Eastman at Eastman's principal executive offices no earlier than 150 days and not later than 120 days prior to the date on which the notice of the immediately preceding year's annual meeting of stockholders was first sent to the stockholders.	
In the case of a special meeting, notices shall be delivered to the Secretary of Eastman at Eastman's principal executive offices no later than the close of business on the fifteenth day following the day on which notice of the date of the special meeting was given.	

**Stockholder Action by Written Consent**

The Eastman Charter provides that all actions of Eastman stockholders must be effected at a duly called annual or special meeting of the	The Solutia Bylaws provide that any action required or permitted to be taken by Solutia stockholders or any class or series thereof, must be
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<b>Eastman</b>	<b>Solutia</b>
stockholders of such holders and may not be effected by written consent without a meeting.	effected at a duly called annual or special meeting of such stockholders and may not be effected by any consent in writing in lieu of a meeting of such stockholders.

**Certificate of Incorporation Amendments**

<p>The Eastman Charter provides that any provision of the Eastman Charter may be amended, altered, changed or repealed by an affirmative vote of both the majority of directors then in office and the majority of the voting power of all of the shares of Eastman capital stock entitled to vote generally in the election of directors, voting together as a single class.</p>	<p>The Solutia Charter provides that Solutia reserves the right to amend, alter, change or repeal any provision of the Solutia Charter, provided that stockholders, by an affirmative vote of at least 66 <sup>2</sup>/<sub>3</sub>% of the total voting power of all shares of Solutia stock entitled to vote generally in the election of directors, voting together as a single class, can amend, alter change or repeal, or adopt any provision inconsistent with, the articles of the Solutia Charter, titled Capital Stock, Board of Directors, Indemnification, Limited Liability of Directors, Meetings of Stockholders and Bylaws. Under the same terms, stockholders, by 66 <sup>2</sup>/<sub>3</sub>% affirmative vote of the total voting power of all shares of Solutia stock entitled to vote generally in the election of directors, can amend, alter, change or repeal the sentence in the Solutia Charter giving them the power voting together as a single class, to amend, alter, change or repeal those sections of the Solutia Charter.</p>
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**Bylaw Amendments**

<p>The Eastman Charter and the Eastman Bylaws provide that the Eastman board of directors is expressly authorized to adopt, amend, alter, change or repeal the Eastman Bylaws.</p>	<p>The Solutia Charter and Solutia Bylaws provides that the Solutia board of directors is expressly authorized to adopt, amend and repeal the bylaws of Solutia.</p>
<p>The Eastman Charter provides that stockholders may adopt, amend, alter, change or repeal the Eastman Bylaws by the affirmative vote of a majority of the votes cast with respect to such amendment or supplement of the Eastman Bylaws.</p>	<p>The Solutia Charter and Solutia Bylaws provide that Solutia stockholders by an affirmative vote of at least 66 <sup>2</sup>/<sub>3</sub>% of the total voting power of all shares of Solutia stock entitled to vote generally in the election of</p>

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**Eastman**

**Solutia**

directors, voting together as a single class, can alter, amend, repeal or adopt any provision inconsistent with certain sections and articles of the Solutia Bylaws, specifically section 2.3 (Stockholders: Special Meetings); section 2.5 (Stockholders: Notice); section 2.8 (Stockholders: Quorum); section 2.10 (Stockholders: Vote Required); section 2.14 (Stockholders: Advance Notice of Stockholder Business); section 2.15 (Stockholders: Advance Notice of Director Nominations); section 2.16 (Stockholders: No Stockholder Action by Written Consent Without a Meeting); section 3.2 (Directors: Number, Election and Term of Office); section 3.3 (Directors: Removal); section 3.5 (Directors: Vacancies and Newly Created Directorships); section 3.11 (Directors: Vote Required); article 6 (Indemnification); or section 8.1 (Amendments).

**Special Meetings of Stockholders**

The Eastman Charter and the Eastman Bylaws provide that special meetings of stockholders may only be called by the Eastman board of directors pursuant to a resolution adopted by the majority of the Eastman board of directors or upon written request of at least 25% of the outstanding voting stock of Eastman.

The Solutia Charter and the Solutia Bylaws provide that special meetings may be called at any time by the Solutia board of directors, the Chairman of the Board, or 35% of the total voting power of all shares of Solutia stock entitled to vote generally in the election of directors.

The Eastman Bylaws provide that notice of a stockholder request for a special meeting must be given to the Secretary of Eastman at Eastman's principal executive offices and must contain (1) the names and addresses of all proponents and all people working in concert with them; (2) the names and addresses on Eastman's books of all proponents and all

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	<b>Eastman</b>	<b>Solutia</b>
	<p>people working in concert with them; (3) the class and number of shares beneficially owned by the proponents and all people working in concert with them; (4) the text of the proposal; and (5) all arrangements between the proponents and any other persons in connection with the proposal and any material interest of each proponent in such business.</p>	
<b>Notice of Special Meetings of Stockholders</b>	<p>The Eastman Bylaws provide that written notice or electronic notice, to such Eastman stockholders as have consented to electronic notice, must be given to stockholders not less than ten days nor more than sixty days before any meeting stating the date, time, place, and the purpose for the meeting.</p>	<p>The Solutia Bylaws provide that written notice stating the date, place, if any, and time of the meeting, the means of remote communications, if any, and the purpose for which the meeting is called, shall be given to each Solutia stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting. Notice shall be given by mail or by electronic transmission if receipt thereof has been consented to by the stockholder to whom the notice is given.</p>
<b>Proxy</b>	<p>The Eastman Bylaws provide that Eastman stockholders can vote by proxy, which authority must be granted in writing, by electronic or telephonic transmission or communication or by any such other means permitted by the DGCL.</p>	<p>The Solutia Bylaws provide that each Solutia stockholder entitled to vote at any meeting of stockholders may authorize another person or persons to act for him by a proxy. No proxy shall be voted or acted upon after three years from its date unless the proxy provides for a longer period. All proxies filed at or before the meeting shall be submitted to and examined by the Secretary of Solutia, and no shares may be represented or voted under a proxy found to be invalid or irregular.</p>
<b>Limitation of Personal Liability of Directors</b>	<p>The Eastman Charter provides that to the full extent permitted by the DGCL, no director of Eastman will be personally liable to Eastman or</p>	<p>The Solutia Charter provides that to the fullest extent permitted by the DGCL as may be amended hereafter, a director of Solutia shall</p>

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<b>Eastman</b>	<b>Solutia</b>
its stockholders for breach of fiduciary duty as a director of Eastman; provided that this article does not eliminate director liability for (1) any breach of the duty of loyalty to Eastman, (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) under Section 174 of the DGCL, or (4) any transaction from which the director derived an improper personal benefit.	not be personally liable to Solutia or its stockholders for monetary damages for breach of fiduciary duty as a director.

**Indemnification of Directors and Officers**

<p>The Eastman Charter and the Eastman Bylaws provide that each person who is made a party to or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or officer of Eastman or is or was serving at the request of Eastman as a director, trustee, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action or inaction in an official capacity as a director or officer of Eastman, as a director, trustee, officer, employee or agent of such other enterprise or in any other capacity related to Eastman or such other enterprise while so serving as a director, trustee, officer, employee or agent of Eastman, shall be indemnified and held harmless by Eastman to the fullest extent not prohibited by the DGCL against all expense, liability and loss (including attorneys' fees and expenses, judgments, fines, ERISA excise</p>	<p>The Solutia Charter and the Solutia Bylaws provide that each person who was or is made a party to or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise, by reason of the fact that he or she is Solutia's legal representative, is or was a director or officer of Solutia, is or was serving at Solutia's request as a director, officer, employee, fiduciary or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee, fiduciary or agent or in any other capacity as a director, officer, employee, fiduciary or agent, shall be indemnified and held harmless by Solutia to the fullest extent permitted by the DGCL, as the same exists or may be hereafter amended, against all cost, expense, liability and loss (including, without limitation, attorneys' fees actually and reasonably incurred by such person in connection with</p>
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	<b>Eastman</b>	<b>Solutia</b>
	taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith.	such proceedings), provided that Solutia will only indemnify a person who initiated a proceeding if the Solutia board of directors authorized that action.
	Eastman shall not indemnify any such person in connection with a proceeding initiated by that person unless it was authorized by the Eastman board of directors. This prohibition does not apply to a counterclaim, cross-claim or third-party claim.	The right to indemnification includes, to the fullest extent permitted by the DGCL, the right to be paid by Solutia the expenses and costs (including attorneys' fees) reasonably incurred in defending any such proceeding for which such person may be entitled to such indemnification; provided, however, that the indemnitee must deliver to Solutia an undertaking to repay all amounts advanced if it should be ultimately determined that the person is not entitled to be indemnified by Solutia.
	The right to indemnification includes the right to be paid by	
	Eastman the expenses (including, without limitation, attorneys' fees and expenses) incurred in defending any such proceedings in advance of its final disposition provided, however, that the indemnitee must deliver to Eastman an undertaking to repay all amounts advanced if it is ultimately determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for the expenses.	
<b>DGCL Section 203 Election</b>	The Eastman Charter and the Eastman Bylaws are silent regarding the DGCL Section 203 election.	The Solutia Charter and the Solutia Bylaws are silent regarding the DGCL Section 203 election.
<b>Vote on Business Combinations</b>	The Eastman Bylaws provide that all questions shall be decided by a majority of the votes, except where otherwise provided in the Eastman Charter, the Eastman Bylaws or the DGCL. Neither the Eastman Charter nor the Eastman Bylaws provide for different voting procedures for business combinations.	The Solutia Bylaws provide that, absent express provision in the DGCL, Solutia Charter or Solutia Bylaws, the affirmative vote of the majority of shares of capital stock present or represented by proxy and entitled to vote shall be an act of Solutia. Neither the Solutia Charter nor the Solutia Bylaws provide for different voting procedures for business combinations.

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**LEGAL MATTERS**

The validity of the shares of Eastman common stock issuable pursuant to the merger will be passed upon for Eastman by Jones Day.

**EXPERTS**

**Eastman**

The financial statements incorporated in this proxy statement/prospectus by reference to Eastman Chemical Company's Current Report on Form 8-K filed on May 16, 2012 and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this proxy statement/prospectus by reference to the Annual Report on Form 10-K of Eastman Chemical Company for the year ended December 31, 2011 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

**Solutia**

The consolidated financial statements, and the related financial statement schedule, incorporated in this proxy statement/prospectus by reference from Solutia Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011, and the effectiveness of Solutia Inc.'s internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated by herein by reference. Such consolidated financial statements and financial statement schedule have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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**SUBMISSIONS OF SOLUTIA STOCKHOLDER PROPOSALS**

Solutia does not intend to hold an annual meeting in 2012 unless the merger is not completed.

In Solutia's proxy statement for its 2011 annual meeting of stockholders, held on April 18, 2011, Solutia disclosed that any Solutia stockholder who desired to include a proposal in the proxy statement for the 2012 annual meeting was required to deliver it so that it was received by Solutia by November 9, 2011. In addition, a stockholder was required to meet all requirements under the rules of the SEC necessary to have a proposal included in Solutia's proxy statement.

Under the Solutia Bylaws, any stockholder who wanted to propose a nominee for election as a director, or to present any other proposal, at the 2012 annual meeting was required to notify Solutia's secretary in writing, which notice must have been received at Solutia's headquarters not earlier than December 20, 2011 and not later than January 19, 2012. The Solutia Bylaws require that the notice contain specific information. Under the Solutia Bylaws, however, if the date of the 2012 annual meeting is changed so that it would occur more than 30 days before or after April 18, 2012, any such proposals would be required to be delivered not later than the close of business on the tenth day following the day on which notice of the date of the annual meeting was mailed or public announcement of the date of the annual meeting was made, whichever occurs first.

Any proposals would be required to be sent, in writing, to Miriam Rogers Singer, Vice President and Corporate Secretary, Solutia Inc., 575 Maryville Centre Drive, St. Louis, Missouri 63141.

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**WHERE YOU CAN FIND MORE INFORMATION**

Eastman and Solutia file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information filed by Eastman and Solutia at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Room 1024, Washington, D.C. 20549, at prescribed rates, or from commercial document retrieval services.

The SEC maintains a website that contains reports, proxy statements and other information, including those filed by Eastman and Solutia, at <http://www.sec.gov>. You may also access the SEC filings and obtain other information about Eastman and Solutia through the websites maintained by Eastman and Solutia, which are <http://www.eastman.com> and <http://www.solutia.com>, respectively. The information contained in those websites is not a part of or incorporated by reference into this proxy statement/prospectus.

Eastman has filed with the SEC a registration statement on Form S-4 to register the shares of Eastman common stock to be issued pursuant to the merger. This proxy statement/prospectus forms a part of that registration statement and constitutes a prospectus of Eastman, in addition to being a proxy statement of Solutia for the Solutia special meeting.

Statements contained in this proxy statement/prospectus, or in any document incorporated by reference in this proxy statement/prospectus regarding the content of any contract or other document, are not necessarily complete, and each of these statements is qualified in its entirety by reference to that contract or other document filed as an exhibit with the SEC. As allowed by SEC rules, this proxy statement/prospectus incorporates by reference certain information required to be included in the registration statement on Form S-4 filed by Eastman to register the shares of Eastman common stock to be issued pursuant to the merger and the exhibits to the registration statement, which means that important information can be disclosed to you by referring you to other documents filed separately with the SEC. The information incorporated by reference is deemed to be part of this proxy statement/prospectus, except for any information superseded by information in this proxy statement/prospectus. This proxy statement/prospectus incorporates by reference the documents set forth below that Eastman and Solutia have previously filed with the SEC as well as all documents filed by Eastman and Solutia pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this proxy statement/prospectus to the date the merger closes.

**Eastman**

Eastman's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (Items 6, 7 and 8 included in Eastman's Annual Report on Form 10-K for the year ended December 31, 2011 have been adjusted retrospectively to give effect to a change in accounting for pension and other postretirement obligations. Adjusted Items 6, 7 and 8 are included in Eastman's Current Report on Form 8-K filed on May 16, 2012);

Eastman's Proxy Statement on Schedule 14A filed on March 21, 2012;

Eastman's Quarterly Report on Form 10-Q for the three months ended March 31, 2012; and

Eastman's Current Reports on Form 8-K filed on January 27, 2012, January 30, 2012, March 6, 2012, March 7, 2012, May 8, 2012 and May 16, 2012 (other than documents or portions of documents not deemed to be filed).

The prospective financial information included in Exhibits 99.1 and 99.2 of the Current Report on Form 8-K filed on January 27, 2012 and Exhibit 99.1 of the Current Report on Form 8-K filed on January 30, 2012 was not prepared with a view toward complying with published guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. The prospective financial information has been prepared by, and is the responsibility of, Eastman's management. PricewaterhouseCoopers LLP (PwC) has neither examined, compiled, nor performed any procedures with respect to the prospective financial information and, accordingly, PwC does not express an opinion or any other



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form of assurance with respect thereto. PwC's report included in Eastman's 2011 Annual Report on Form 10-K incorporated by reference herein relates to Eastman's historical financial information, does not extend to the prospective financial information and should not be read to do so.

You may request a copy of these filings free of charge by writing or telephoning Eastman at:

Eastman Chemical Company

P.O. Box 431

Kingsport, Tennessee 37662

Attention: Investor Relations

Telephone: (423) 229-2000

**Solutia**

Solutia's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as amended by Amendment No. 1 to Solutia's Annual Report on Form 10-K for the fiscal year ended December 31, 2011;

Solutia's Proxy Statement on Schedule 14A, filed on March 4, 2011 in connection with Solutia's 2011 annual meeting of stockholders, held on April 18, 2011;

Solutia's Quarterly Report on Form 10-Q for the three months ended March 31, 2012; and

Solutia's Current Reports on Form 8-K filed on January 27, 2012, January 30, 2012 and March 8, 2012 (other than documents or portions of documents not deemed to be filed).

You may request a copy of these filings free of charge by writing or telephoning Solutia at:

Solutia Inc.

575 Maryville Centre Drive

St. Louis, Missouri 63141

Attention: Investor Relations

Telephone: (314) 674-1000

Any statements made in a document incorporated by reference in this proxy statement/prospectus are deemed to be modified or superseded for purposes of this proxy statement/prospectus to the extent that a statement in this proxy statement/prospectus or in any other subsequently filed document, which is also incorporated by reference, modifies or supersedes the statement. Any statements made in this proxy statement/prospectus are deemed to be modified or superseded to the extent a statement in any subsequently filed document, which is incorporated by reference in this proxy statement/prospectus, modifies or supersedes such statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this proxy statement/prospectus.

Solutia stockholders can obtain any document incorporated by reference into this proxy statement/prospectus from Solutia without charge, excluding all exhibits, except that if an exhibit has been specifically incorporated by reference into this proxy statement/prospectus, the exhibit

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will also be provided without charge by requesting it in writing or by telephone from Solutia at the following address and telephone number:

MacKenzie Partners, Inc.

105 Madison Avenue

New York, New York 10016

Call toll free: (800) 322-2885 or

call collect: (212) 929-5500

e-mail: [proxy@mackenziepartners.com](mailto:proxy@mackenziepartners.com)

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You should rely only on the information contained or incorporated by reference into this proxy statement/prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this proxy statement/prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this proxy statement/prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this proxy statement/prospectus does not extend to you. This proxy statement/prospectus is dated \_\_\_\_\_, 2012 and the information contained in this proxy statement/prospectus speaks only as of such date. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than that date. Neither the mailing of this statement/prospectus to Solutia stockholders nor the issuance of Eastman common stock in the merger create any implication to the contrary.



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**ANNEX A**

*This merger agreement has been included to provide you with information regarding the terms of the merger. The representations, warranties and covenants made in this merger agreement by Eastman, Solutia and Merger Sub were qualified and subject to important limitations agreed to by Eastman, Solutia and Merger Sub in connection with negotiating the terms of this merger agreement. In particular, in your review of the representations and warranties contained in this merger agreement, it is important to bear in mind that the representations and warranties were negotiated with the principal purposes of establishing the circumstances in which a party to this merger agreement may have the right not to close the merger if the representations and warranties of the other party prove to be untrue due to a change in circumstance or otherwise, and allocating risk between the parties to this merger agreement, rather than establishing matters as facts. Information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of the proxy statement/prospectus, may have changed since the date of this merger agreement and subsequent developments or new information qualifying a representation or warranty may have been included in the proxy statement/prospectus.*

**AGREEMENT AND PLAN OF MERGER**

**BY**

**AND**

**AMONG**

**SOLUTIA INC.,**

**EASTMAN CHEMICAL COMPANY**

**AND**

**EAGLE MERGER SUB CORPORATION**

**DATED JANUARY 26, 2012**

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**AGREEMENT AND PLAN OF MERGER**

AGREEMENT AND PLAN OF MERGER, dated January 26, 2012 (as may be amended, supplemented or otherwise modified from time to time in accordance with its terms, this Agreement ), by and among Solutia Inc., a Delaware corporation (the Company ), Eastman Chemical Company, a Delaware corporation ( Parent ), Eagle Merger Sub Corporation, a Delaware corporation and indirect Subsidiary of Parent ( Merger Sub ).

**RECITALS**

A. The Boards of Directors of the Company, Parent and Merger Sub have determined that it is in the best interests of their respective companies and stockholders to consummate the strategic business combination transaction provided for in this Agreement in which Merger Sub will, on the terms and subject to the conditions set forth in this Agreement, merge with the Company on the terms and subject to the conditions set forth in this Agreement (the Merger ), with the Company being the surviving corporation in the Merger.

B. The parties desire to make or enter into certain representations, warranties and covenants in connection with the Merger and also to prescribe certain conditions to the Merger.

C. In connection with the execution and delivery of this Agreement, and as a condition and inducement to the Company's willingness to enter into this Agreement, certain financial institutions have executed and delivered one or more commitment letters with respect to certain debt facilities, the proceeds of which, among other uses, will be used by Parent to fund the payment of a portion of the Merger Consideration (such commitment letters, the Debt Commitment Letters ).

D. In connection with the Transactions, the Company and the American Transfer & Trust Company, LLC (the Rights Agent ) will amend the Rights Agreement to make its provisions inapplicable to the Merger, the payments of the Merger Consideration, and the other transactions contemplated by this Agreement (the Transactions ) on the terms and subject to the conditions set forth in this Agreement.

The Company, Parent and Merger Sub hereby agree as follows:

**ARTICLE I THE MERGER**

Section 1.1 The Merger. On the terms and subject to the conditions set forth in this Agreement, and in accordance with the Delaware General Corporation Law (the DGCL ), Merger Sub will be merged with and into the Company at the Effective Time. At the Effective Time, the separate corporate existence of Merger Sub will cease, and the Company will continue as the surviving corporation (the Surviving Corporation ) and will succeed to and assume all the rights and obligations of Merger Sub in accordance with the DGCL.

Section 1.2 Closing. The closing (the Closing ) of the Merger will take place at the offices of Jones Day, 1420 Peachtree Street, N.E., Suite 800, Atlanta, Georgia 30309 at 10:00 a.m. local time on the second Business Day following the satisfaction or, to the extent permitted by Law, waiver of the conditions set forth in ARTICLE VII (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or, to the extent permitted by Law, waiver of those conditions at Closing) (the date of such satisfaction or waiver, the Condition Satisfaction Date ), but in the event that the Condition Satisfaction Date occurs prior to May 31, 2012, Parent may elect (by delivery of written notice to the Company by such date) to delay the Closing to a later date (but in no case later than 20 Business Days following the Condition Satisfaction Date) if Parent permanently and unconditionally waives any further reliance on any of the conditions to Closing set forth in either Section 7.1 or Section 7.2. In lieu of the foregoing, the Closing may occur at such other place, time and date as may be agreed in writing between Parent and the Company. The date on which the Closing occurs is referred to in this Agreement as the Closing Date.

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Section 1.3 **Effective Time**. On the Closing Date, Parent, Merger Sub and the Company will cause to be filed with the Secretary of State of the State of Delaware a certificate of merger or other appropriate documents (collectively, the **Certificate of Merger** ) executed in accordance with the relevant provisions of the DGCL and will make all other filings or recordings required under the DGCL. The Merger will become effective at such time as the Certificate of Merger is duly filed with such Secretary of State, or at such other time as Parent and the Company will agree and specify in the Certificate of Merger (the time the Merger becomes effective being the **Effective Time** ).

Section 1.4 **Effects**. The Merger will have the effects set forth in Section 259 of the DGCL.

Section 1.5 **Conversion of Securities**. (a) **Conversion of Company Common Stock**. At the Effective Time, by virtue of the Merger and without any action on the part of Parent, Merger Sub, the Company or the holders of the Company Common Stock, each share of Company Common Stock (each, a **Share** ) issued and outstanding immediately prior to the Effective Time (other than Dissenting Shares and any Shares to be cancelled pursuant to **Section 1.5(b)**) will be converted automatically into the right to receive, in accordance with the terms of this Agreement, (i) \$22.00 in cash (the **Cash Consideration** ), without interest, and (ii) 0.120 (the **Exchange Ratio** ) shares of validly issued, fully-paid and non-assessable shares of Parent Common Stock (the **Stock Consideration** ) and, together with the Cash Consideration, the **Merger Consideration** ), payable in the manner set forth in **Section 2.1**. Except as set forth in **Section 1.5(b)**, as a result of the Merger, each holder of a certificate or certificates that immediately prior to the Effective Time represented outstanding Shares (**Certificates** ) and each holder of Shares outstanding immediately prior to the Effective Time that are not represented by Certificates (**Book-Entry Shares** ) will thereafter cease to have any rights with respect to such Shares except (x) the right to receive the Merger Consideration, any dividends or other distributions pursuant to **Section 2.1(c)** and cash in lieu of any fractional shares payable pursuant to **Section 2.1(e)**, in each case to be issued or paid, without interest, in consideration therefor upon surrender of such Certificate or Book-Entry Shares in accordance with **Section 2.1(b)** (or in the case of a lost, stolen or destroyed Certificate, **Section 2.1(j)**) or (y) as provided by Law.

(b) **Cancellation of Certain Shares**. At the Effective Time, by virtue of the Merger and without any action on the part of Parent, Merger Sub or the Company, each Share held in the treasury of the Company immediately prior to the Effective Time will automatically be cancelled without any conversion thereof and no payment or distribution will be made with respect thereto.

(c) **Capital Stock of Merger Sub**. Each issued and outstanding share of capital stock of Merger Sub will be converted into and become one validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation.

Section 1.6 **Certificate of Incorporation; Bylaws**. (a) At the Effective Time, the Company's certificate of incorporation will, by virtue of the Merger, be amended and restated in its entirety to read as the certificate of incorporation of Merger Sub as in effect immediately prior to the Effective Time, except that the name of the Surviving Corporation will remain Solutia Inc. , and as so amended and restated will be the certificate of incorporation of the Surviving Corporation until thereafter amended as provided therein or by applicable Law.

(b) At the Effective Time, the Company's bylaws will, by virtue of the Merger, be amended and restated in their entirety to read as the bylaws of Merger Sub as in effect immediately prior to the Effective Time, except that the name of the Surviving Corporation will remain Solutia Inc. , and as so amended and restated will be the bylaws of the Surviving Corporation, until thereafter amended as provided therein or by applicable Law.

Section 1.7 **Directors**. At the Effective Time, the directors of Merger Sub immediately prior to the Effective Time will become the directors of the Surviving Corporation, until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

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Section 1.8 Officers. At the Effective Time, the officers of Merger Sub immediately prior to the Effective Time will become the officers of the Surviving Corporation, until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified, as the case may be.

**ARTICLE II DELIVERY OF MERGER CONSIDERATION**

Section 2.1 Exchange of Certificates. (a) Exchange Agent. Prior to the Effective Time, Parent will designate a commercial bank or trust company mutually acceptable to Parent and the Company to act as agent (the Exchange Agent ) for the purpose of exchanging shares of Company Common Stock for the Merger Consideration and enter into an agreement reasonably acceptable to the Company with the Exchange Agent relating to the services to be performed by the Exchange Agent. Parent will deposit or will cause to be deposited with the Exchange Agent (by instruction to Parent's transfer agent) at or prior to the Effective Time, (i) certificates representing the shares of Parent Common Stock issuable pursuant to Section 1.5(a) (or make appropriate alternative arrangements if uncertificated shares of Parent Common Stock represented by a book entry will be issued), (ii) cash in an amount sufficient to pay the aggregate Cash Consideration pursuant to Section 1.5(a) and (iii) cash in an amount sufficient to make all requisite payments of cash in lieu of fractional shares pursuant to Section 2.1(e) (such shares of Parent Common Stock and cash amounts so made available to the Exchange Agent are referred to collectively as the Exchange Fund ). The cash portion of the Exchange Fund will be invested by the Exchange Agent as directed by Parent. Any interest or other income from such investments will be paid to and become income of Parent. In the event of loss from such investments or in the event that the Exchange Fund will be insufficient to deliver the Merger Consideration, Parent will promptly deposit, or caused to be deposited, such additional Merger Consideration with the Exchange Agent in an amount which is equal to the deficiency in the amount required to make such delivery. Except as contemplated by Section 2.1(g), the Exchange Fund will not be used for any purpose other than as specified in this Section 2.1(a).

(b) Exchange Procedures. (i) As promptly as practicable after the Effective Time, and in any event not later than the fifth Business Day after the Effective Time, Parent will cause the Exchange Agent to mail to each Person who was, at the Effective Time, a holder of record of Shares entitled to receive the Merger Consideration pursuant to Section 1.5(a): (A) a letter of transmittal in customary form and containing such provisions as Parent may reasonably specify (including a provision confirming that delivery will be effected, and risk of loss and title will pass, only upon proper delivery of the Certificates to the Exchange Agent or, in the case of Book-Entry Shares, upon adherence to the procedures set forth in the letter of transmittal), and (B) instructions for use in effecting the surrender of such holder's Certificates and Book-Entry Shares pursuant to such letter of transmittal. Exchange of any Book-Entry Shares will be effected in accordance with the Exchange Agent's customary procedures with respect to securities represented by book entry.

(ii) Upon surrender of a Certificate or Book-Entry Share to the Exchange Agent for exchange, together with a duly executed letter of transmittal and such other documents as may be reasonably required by the Exchange Agent or Parent, (A) the holder of such Shares will be entitled to receive in exchange therefor (1) cash in the amount equal to the Cash Consideration that such holder has the right to receive pursuant to Section 1.5(a) and this ARTICLE II, (2) a certificate representing the number of whole shares of Parent Common Stock (or uncertificated shares of Parent Common Stock represented by a book entry) representing the Stock Consideration that such holder has the right to receive pursuant to Section 1.5(a) and this ARTICLE II after applying the Exchange Ratio, (3) cash in lieu of any fractional shares of Parent Common Stock such holder is entitled to receive pursuant to Section 2.1(e) and (4) any dividends or other distributions such holder is entitled to receive pursuant to Section 2.1(c); and (B) the Certificates or Book-Entry Shares so surrendered will forthwith be cancelled. Until surrendered as contemplated by Section 1.5(a) and this Section 2.1, each Certificate or Book-Entry Share will be deemed at all times after the Effective Time to represent only the right to receive upon such surrender, in each case, without interest, the Merger Consideration, cash in lieu of any fractional shares of Parent Common Stock the holder of such

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Certificate or Book-Entry Share is entitled to receive pursuant to Section 2.1(e) and any dividends or other distributions such holder is entitled to receive pursuant to Section 2.1(c).

(c) Distributions with Respect to Unexchanged Shares of Parent Common Stock. No dividends or other distributions declared or made with a record date after the Effective Time with respect to the Parent Common Stock (and no cash payment in lieu of fractional shares of Parent Common Stock pursuant to Section 2.1(e)) will be paid to the holder of any unsurrendered Certificate or Book-Entry Share until the holder of such Certificate or Book-Entry Share will surrender such Certificate or Book-Entry Share in accordance with Section 2.1(b). Subject to the effect of escheat, Tax or other applicable Laws, following surrender of any such Certificate or Book-Entry Share in accordance with Section 2.1(b), there will be paid to the record holder of shares of Parent Common Stock issued in exchange therefor, without interest, at the appropriate payment date (or, if previously paid, promptly), the amount of dividends or other distributions with a record date after the Effective Time but prior to surrender payable with respect to such shares of Parent Common Stock and the amount of any cash payable in lieu of fractional shares of Parent Common Stock pursuant to Section 2.1(e).

(d) No Further Rights in Company Common Stock. All Merger Consideration issued or paid upon surrender of Certificates or transfer of Book-Entry Shares in accordance with the terms of this ARTICLE II (including any cash paid pursuant to Section 2.1(c) or Section 2.1(e)) will be deemed to have been issued or paid, as the case may be, in full satisfaction of all rights pertaining to the Shares formerly represented by such Certificates or Book-Entry Shares.

(e) No Fractional Shares. No certificates or scrip representing fractional shares of Parent Common Stock or book-entry credit of the same will be issued upon the surrender or exchange of Certificates or Book-Entry Shares, and such fractional share interests will not entitle the owner thereof to vote or to any other rights (including the right to receive dividends or other distributions of Parent) of a stockholder of Parent. Each holder of a fractional share interest (rounded to three decimal places after applying the Exchange Ratio, and after taking into account all fractional share interests held by such holder) will receive, in lieu thereof, an amount in cash (without interest, rounded down to the nearest whole cent and subject to the amount of any withholding Taxes as contemplated in Section 2.1(i)) equal to the product obtained by multiplying (i) such fractional share interest to which such holder (after taking into account all fractional share interests then held by such holder) would otherwise be entitled by (ii) the Average Parent Stock Price. The parties hereto acknowledge that payment of the cash consideration in lieu of issuing fractional shares is not separately bargained-for consideration but merely represents a mechanical rounding off for purposes of avoiding the expense and inconvenience to Parent that would otherwise be caused by the issuance of fractional shares.

(f) Adjustments to Exchange Ratio. The Exchange Ratio will be adjusted to reflect appropriately the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities of a Subsidiary of Parent or the Company or of securities convertible into Parent Common Stock or Company Common Stock), extraordinary cash dividends (excluding regular quarterly dividends at the currently announced level), reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to Parent Common Stock or Company Common Stock with a record date occurring on or after the date hereof and prior to the Effective Time.

(g) Termination of Exchange Fund. Any portion of the Exchange Fund (including proceeds of any investment thereof) that remains undistributed to the holders of Shares on the date that is one year after the Effective Time will be delivered to Parent, upon demand, and any holders of Shares who have not theretofore complied with this ARTICLE II will thereafter look only to Parent for the Merger Consideration to which they are entitled pursuant to Section 1.5(a), any cash in lieu of fractional shares of Parent Common Stock to which they are entitled pursuant to Section 2.1(e) and any dividends or other distributions with respect to the Parent Common Stock to which they are entitled pursuant to Section 2.1(c).

(h) No Liability. None of the Exchange Agent, Parent or the Surviving Corporation will be liable to any holder of Shares for any Merger Consideration from the Exchange Fund (or dividends or distributions with

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respect to Parent Common Stock) or other cash delivered to a public official pursuant to any abandoned property, escheat or similar Law. Any portion of the Exchange Fund remaining unclaimed by holders of Shares as of a date that is immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity will, to the extent permitted by applicable Law, become the property of Parent free and clear of any claims or interest of any Person previously entitled thereto.

(i) Withholding Rights. Each of the Surviving Corporation, the Exchange Agent, Parent and Merger Sub will be entitled to deduct and withhold from any amounts otherwise payable pursuant to this Agreement such amount as it is required to deduct and withhold with respect to the making of such payment under the Code, the rules or regulations promulgated thereunder, any provision of applicable state, local or foreign Tax Law or any other Law. To the extent that amounts are so withheld, such withheld amounts will be treated for purposes of this Agreement as having been paid to the Person in respect of which such deduction and withholding was made.

(j) Lost Certificates. If any Certificate will have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if reasonably required by Parent, the posting by such Person of a bond, in such reasonable amount as Parent may direct, as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration with respect to the Shares formerly represented by such Certificate to which the holder thereof is entitled pursuant to Section 1.5(a), any cash in lieu of fractional shares of Parent Common Stock to which the holder thereof is entitled pursuant to Section 2.1(e) and any dividends or other distributions to which the holder thereof is entitled pursuant to Section 2.1(c).

Section 2.2 Stock Transfer Books. At the Effective Time, the stock transfer books of the Company will be closed and there will be no further registration of transfers of Shares thereafter on the records of the Company. On or after the Effective Time, any Certificates or Book-Entry Shares presented to the Exchange Agent or Parent for any reason will be cancelled and exchanged for the Merger Consideration with respect to the Shares formerly represented by such Certificates or Book-Entry Shares to which the holders thereof are entitled pursuant to Section 1.5(a), any cash in lieu of fractional shares of Parent Common Stock to which the holders of such Certificates or Book-Entry Shares are entitled pursuant to Section 2.1(e) and any dividends or other distributions to which the holders thereof are entitled pursuant to Section 2.1(c).

Section 2.3 Company Stock Options, Company Restricted Stock, Company RSUs, Company Performance Shares and Company Warrants.

(a) Company Stock Options. Each Company Stock Option which is outstanding immediately prior to the Effective Time (whether or not then vested or exercisable) will at the Effective Time be cancelled and terminated at the Effective Time in exchange for the right to receive a cash amount equal to the Option Consideration for each share of Company Common Stock then subject to the Company Stock Option. The Option Consideration will be paid by the Surviving Corporation on the Closing Date. For purposes of this Agreement, (i) Option Consideration means, with respect to any share of Company Common Stock issuable under a particular Company Stock Option, an amount, if any, by which (A) the Cash Out Amount exceeds (B) the exercise price payable in respect of such share of Company Common Stock issuable under such Company Stock Option and (ii) the Cash Out Amount is the sum of (A) the Cash Consideration and (B) the Average Parent Stock Price multiplied by the number of full and fractional shares of Parent Common Stock included in the Stock Consideration.

(b) Company Restricted Stock. As of the Effective Time, each outstanding restricted stock award granted under the Company Equity Incentive Plan ( Company Restricted Stock ) the restrictions on which have not lapsed immediately prior to the Effective Time will become fully vested and the holder thereof will be entitled to receive, without any interest thereon, the Merger Consideration in accordance with ARTICLES I and II hereof, less applicable withholding taxes, if any, required to be withheld with respect to such payment.

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(c) Restricted Stock Units. As of the Effective Time, each restricted stock unit with respect to shares of Company Common Stock that is outstanding immediately prior to the Effective Time (collectively, the Company RSUs ) will be converted into a vested right to receive cash in an amount equal to the Cash Out Amount, to be paid in accordance with the applicable terms and conditions of such Company RSU.

(d) Company Performance Shares. As of the Effective Time, each outstanding performance share or performance share unit award granted under the Company Equity Incentive Plan (a Company Performance Share ) the restrictions of which have not lapsed immediately prior to the Effective Time will vest according to the award provisions and therefore vest based on no greater than the performance results for the applicable performance period, and the holder thereof will be entitled to receive (i) in the case of Company Performance Shares in the form of restricted stock, the Merger Consideration, without any interest thereon, in accordance with ARTICLES I and II hereof, less applicable withholding taxes, if any, required to be withheld with respect to such payment and (ii) in the case of Company Performance Shares in the form of restricted stock units, cash in an amount equal to the Cash Out Amount, to be paid in accordance with the applicable terms and conditions of such Company Performance Share.

(e) Company Warrants. As of the Effective Time, each warrant issued pursuant to the Warrant Agreement (the Warrant Agreement ), dated February 28, 2008, between the Company and the Rights Agent, as warrant agent, (a Company Warrant ) outstanding as of the Effective Time, whether or not exercisable or vested, will be adjusted as necessary (including by way of amending the Warrant Agreement) to provide in accordance with Section 5.4(e) of the Warrant Agreement that, at the Effective Time, the obligations with respect to each Company Warrant outstanding immediately prior to the Effective Time will be assumed by Parent without any action on the part of the holder thereof and will be converted into a warrant of Parent to acquire upon exercise, on the same terms and conditions as were applicable under such Company Warrant immediately prior to the Effective Time other than changes that are immaterial to the holder of any such Company Warrant and are permitted by the Warrant Agreement, the per share Merger Consideration. Parent will notify the Company at least five Business Days prior to the date the Effective Time is expected to occur and deliver the notice contemplated in Section 5.4(g) of the Warrant Agreement. Following the Effective Time, Parent will reserve for issuance sufficient shares of Parent Common Stock to be issued upon exercise of the Company Warrants.

Section 2.4 Appraisal Rights. Notwithstanding anything in this Agreement to the contrary, any Shares that are issued and outstanding immediately prior to the Effective Time and are held by a stockholder (each, a Dissenting Stockholder ) who is entitled to exercise, and properly exercises, dissenter s rights with respect to such shares pursuant to, and who complies in all respects with, the provisions of Section 262 of the DGCL (collectively, the Dissenting Shares ) will not be converted into or exchangeable for or represent the right to receive the Merger Consideration (except as provided in this Section 2.4) and will entitle such Dissenting Stockholder only to payment of the fair value of such Dissenting Shares as may be determined to be due to the holder of such Dissenting Shares in accordance with Section 262 of the DGCL, unless and until such Dissenting Stockholder withdraws (in accordance with Section 262(k) of the DGCL) or effectively loses (through failure to perfect or otherwise) the right to appraisal. If any Dissenting Stockholder will have effectively withdrawn (in accordance with Section 262(k) of the DGCL) or lost (through failure to perfect or otherwise) the right to appraisal, then as of the later of the Effective Time or the occurrence of such event, the Dissenting Shares held by such Dissenting Stockholder will be cancelled and converted into and represent the right to receive, without any interest thereon, the Merger Consideration in accordance with ARTICLES I and II hereof, less applicable withholding taxes, if any, required to be withheld. From and after the Effective Time, Dissenting Shares will not be entitled to vote for any purpose or be entitled to the payment of dividends or other distributions (except dividends or other distributions payable to stockholders of record prior to the Effective Time). The Company will not, except with the prior written consent of Parent, voluntarily make (or cause or permit to be made on its behalf) any payment with respect to, or settle or make a binding offer to settle with (unless it results in the withdrawal of an appraisal demand), any Dissenting Stockholder regarding its exercise of dissenter s rights prior to the Effective Time. The Company will give Parent notice of any such demands prior to the Effective Time, and Parent will have the right to participate in all negotiations and proceedings with respect to any exercise by any stockholder of dissenter s rights.

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Section 2.5 **Tax Treatment**. Parent, Merger Sub and the Company agree and acknowledge that the Merger will be treated as a taxable purchase of the Shares for the Merger Consideration (and not as a reorganization described in Section 368(a) of the Code) for United States federal income tax purposes.

**ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE COMPANY**

Except (i) as set forth in a publicly available effective registration statement, prospectus, report, form, schedule or definitive proxy statement filed by the Company with the Securities and Exchange Commission (the SEC ) at any time on or after December 31, 2010 through the Measurement Date, but excluding any risk factor disclosure under the headings Risk Factors, Forward Looking Statements or any similar precautionary sections, and (ii) as disclosed in the disclosure letter (the Company Disclosure Letter ) delivered by the Company to Parent prior to the execution of this Agreement (which letter sets forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in this ARTICLE III, or to one or more of the Company's covenants contained in ARTICLE V, except that any information set forth in one section of the Company Disclosure Letter will be deemed to apply to all other sections or subsections thereof to the extent that it would be reasonably apparent that such information is applicable to such other section or subsection), the Company represents and warrants to Parent and Merger Sub as follows:

Section 3.1 **Corporate Organization**. (a) The Company is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware. The Company has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary, except where the failure to be so licensed or qualified would not have, individually or in the aggregate, a Material Adverse Effect on the Company.

(b) Copies of the certificate of incorporation of the Company, as amended and restated (the Company Charter ), and the bylaws of the Company, as amended and restated (the Company Bylaws ), as in effect as of the date of this Agreement, have previously been made available to Parent.

(c) Each Company Subsidiary (i) is duly organized and validly existing under the Laws of its jurisdiction of organization, (ii) is duly qualified to do business and in good standing in all jurisdictions (whether federal, state, local or foreign) where its ownership or leasing of property or the conduct of its business requires it to be so qualified, and (iii) has all the corporate or limited liability company power and authority to own or lease its properties and assets and to carry on its business as now conducted, in the case of clauses (ii) and (iii), except as would not have, individually or in the aggregate, a Material Adverse Effect on the Company. As used in this Agreement, the word Subsidiary when used with respect to any Person, means another Person, any amount of the voting securities, other voting rights or voting partnership interests of which is sufficient to elect at least a majority of its board of directors or other governing body or, if there are no such voting interests, more than 50% of the equity interests of which is owned directly or indirectly by such first Person, the terms Company Subsidiary and Parent Subsidiary mean any direct or indirect Subsidiary of the Company or Parent, respectively, and, in the case of Parent, will include (A) Merger Sub prior to the Effective Time and (B) the Surviving Corporation as of and after the Effective Time, and the term Surviving Corporation Subsidiary means any direct or indirect Subsidiary of the Surviving Corporation.

Section 3.2 **Capitalization**. (a) The authorized capital stock of the Company consists of (i) 500,000,000 shares of Company Common Stock, of which, as of January 25, 2012 (the Measurement Date ), 122,250,050 shares were issued and outstanding, and (ii) 100,000,000 shares of Company preferred stock, par value \$0.01 per share, of which 30,000 shares have been designated as Series A Participating Preferred Stock (together with the

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Company Common Stock, the Company Capital Stock ), of which, as of the Measurement Date, no shares were issued and outstanding. As of the Measurement Date, 1,247,183 shares of Company Common Stock were held in the Company's treasury. As of the Measurement Date, 10,840,000 shares of Company Common Stock were reserved for issuance under the Company Equity Incentive Plan, including shares that would be issued upon the exercise of Company Stock Options and Company RSUs, and 4,481,250 shares of Company Common Stock were reserved for issuance upon exercise of issued and outstanding Company Warrants. All of the issued and outstanding shares of Company Capital Stock have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights. The Company has provided Parent with a list of (i) each Company Stock Option outstanding and unexercised as of the date hereof pursuant to the Company Equity Incentive Plan, which list specifies (A) the name of the holder of such Company Stock Option, (B) the number of shares of Company Common Stock subject to such Company Stock Option, (C) the exercise price of such Company Stock Option, (D) the date on which such Company Stock Option was granted, (E) the applicable vesting schedule, and (F) the date on which such Company Stock Option expires, (ii) the aggregate number of all shares of Company Restricted Stock which list specifies (A) the name of the holder of such shares of Company Restricted Stock, (B) the number of shares of Company Restricted Stock, (C) the date on which such shares of Company Restricted Stock were granted, and (D) the applicable vesting schedule, (iii) the aggregate number of all Company Performance Shares which list specifies (A) the name of the holder of such Company Performance Shares, (B) the number of Company Performance Shares, (C) the date on which such Company Performance Shares were granted, and (D) the applicable vesting schedule, and (iv) the aggregate number of Company RSUs, which list specifies (A) the name of the holder of such Company RSUs, (B) the number of Company RSUs, (C) the date on which such Company RSUs were granted, and (D) the applicable vesting schedule, in each case of (i), (ii), (iii) and (iv), outstanding as of the Measurement Date; since the Measurement Date through the date of this Agreement, the Company has not issued or awarded any options, restricted stock, restricted stock units under the Company Equity Incentive Plan. Except pursuant to this Agreement, the Company Equity Incentive Plan or as set forth in this Section 3.2, as of the Measurement Date, the Company does not have and is not bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase, issuance or registration of any shares of Company Capital Stock or any other equity securities of the Company or any securities representing the right to purchase or otherwise receive any shares of Company Capital Stock.

(b) As of the Measurement Date, no bonds, debentures, notes or other indebtedness having the right to vote on any matters on which stockholders of the Company may vote are issued or outstanding as of the date of this Agreement.

(c) All of the issued and outstanding shares of capital stock or other equity ownership interests of each significant subsidiary (as such term is defined under Regulation S-X of the SEC) of the Company are owned by the Company, directly or indirectly, free and clear of any material liens, pledges, charges and security interests and similar encumbrances (Liens ), and all of such shares or equity ownership interests are duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights. No such significant subsidiary has or is bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase or issuance of any shares of capital stock or any other equity security of such subsidiary or any securities representing the right to purchase or otherwise receive any shares of capital stock or any other equity security of such subsidiary.

Section 3.3 Authority; No Violation. (a) The Company has full corporate power and authority to execute and deliver this Agreement and, subject to receiving the Company Stockholder Approval, to consummate the Transactions. The execution and delivery of this Agreement by the Company and the consummation of the Transactions have been duly and validly approved by the Board of Directors of the Company (the Company Board ). Subject to Section 6.10(d), the Company Board has determined that this Agreement and the Transactions are advisable and in the best interests of the Company and its stockholders and has directed that this Agreement and the Transactions be submitted to the Company's stockholders for adoption at the Company Stockholders Meeting and, except for the adoption of this Agreement and the Transactions by the affirmative



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vote of the holders of a majority of the outstanding shares of Company Common Stock entitled to vote at such meeting, voting together as a single class (the Company Stockholder Approval ), no other corporate proceedings on the part of the Company are necessary to approve this Agreement and to consummate the Transactions. This Agreement has been duly and validly executed and delivered by the Company and (assuming due authorization, execution and delivery by Parent and Merger Sub) constitutes the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws, now or hereafter in effect, relating to creditors' rights generally and remedies available.

(b) Neither the execution and delivery of this Agreement by the Company nor the consummation of the Transactions, nor compliance by the Company with any of the terms or provisions of this Agreement, will (i) violate any provision of the Company Charter or the Company Bylaws or (ii) assuming that the consents, approvals and filings referred to in Section 3.4 are duly obtained and/or made, (A) violate any order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition (an Injunction ) or any federal, state, local, municipal, foreign or other law, statute, constitution, principle of common law, resolution, ordinance, code, order, writ, edict, decree, rule, regulation, judgment, ruling, policy, guideline or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Entity (a Law ) applicable to the Company, any of the Company Subsidiaries or any of their respective properties or assets or (B) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien (other than a Permitted Lien) upon any of the respective properties or assets of the Company or any of the Company Subsidiaries under, any of the terms, conditions or provisions of any Company Material Contract or any Specified Contract, or by which they or any of their respective properties or assets may be bound or affected, except for such violations, conflicts, breaches or defaults referred to in clause (ii) that would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

Section 3.4 Consents and Approvals. Except for (i) the filing with the SEC of a proxy statement in definitive form relating to the Company Stockholders Meeting (the Proxy Statement ) and of Parent's registration statement on Form S-4 (the Form S-4 ) of which the Proxy Statement will form a part, and declaration of effectiveness of the Form S-4, (ii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware pursuant to the DGCL, (iii) any notices or filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act ) or with any foreign antitrust or competition Governmental Entity, (iv) the Company Stockholder Approval, and (v) the consents or approvals listed in Section 3.4 of the Company Disclosure Letter, no consents or approvals of or filings or registrations with any court, administrative agency or commission or other governmental authority or instrumentality (each a Governmental Entity ) are necessary in connection with (A) the execution and delivery by the Company of this Agreement and (B) the consummation by the Company of the Merger and the other Transactions, other than as would not reasonably be expected to have a Material Adverse Effect on the Company.

Section 3.5 Reports. (a) The Company and each of the Company Subsidiaries has filed with or furnished to the SEC, on a timely basis, all registration statements, reports and proxy statements required to be filed or furnished, as applicable, since January 1, 2010 (collectively, and in each case including all exhibits and schedules thereto and documents incorporated by reference therein, as such statements and reports may have been amended since the date of their filing, the Company Reports ). As of their respective effective dates (in the case of Company Reports that are registration statements filed pursuant to the requirements of the Securities Act of 1933 (the Securities Act )) and as of their respective filing or furnished dates, as applicable (in the case of all other Company Reports), or in the case of amendments thereto, as of the most recent such amendment, the Company Reports complied in all material respects with the requirements of the Securities Act, the Exchange Act and SOX, as the case may be, and the rules and regulations of the SEC thereunder, applicable to such Company Reports, and none of the Company Reports as of such respective dates (or, if amended, the date of the filing or

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furnishing, as applicable, of such amendment, with respect to the disclosures that are amended) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) No Company Reports filed pursuant to the Securities Act or filed or furnished pursuant to the Securities Exchange Act of 1934 (the Exchange Act ), and the respective rules and regulations thereunder, since December 31, 2010, as of the date of such Company Report (or, if amended prior to the date of this Agreement, as of the date of the last amendment and filing thereof), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. All Company Reports filed under the Securities Act and the Exchange Act since December 31, 2010, as of their respective dates, complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto.

(c) Each of the principal executive officer of the Company and the principal financial officer of the Company (or each former principal executive officer of the Company and each former principal financial officer of the Company, as applicable) has made all applicable certifications required by Rule 13a-14 or 15d-14 under the Exchange Act and Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (including the rules and regulations promulgated thereunder, SOX ) with respect to the Company Reports and the statements contained in such certifications are complete and accurate. For purposes of this Agreement, principal executive officer and principal financial officer have the meanings ascribed to such terms in SOX. Neither the Company nor any of the Company Subsidiaries has outstanding, or has since December 31, 2010 arranged any outstanding, extensions of credit to or for directors or executive officers of the Company in violation of Section 402 of SOX.

(d) The Company maintains a system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) sufficient to provide reasonable assurance (i) that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP, consistently applied, (ii) that receipts and expenditures are made only in accordance with the authorizations of management and directors and (iii) regarding prevention or timely detection of the unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

(e) The disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) utilized by the Company are reasonably designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that all such information required to be disclosed is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure and to enable the principal executive officer and principal financial officer of the Company to make the certifications required under the Exchange Act with respect to such reports.

(f) Since December 31, 2010, the Company has not received any written notification of any (i) significant deficiency or (ii) material weakness in the Company's internal controls over financial reporting. To the knowledge of the Company, there is no outstanding significant deficiency or material weakness that has not been appropriately and adequately remedied by the Company. For purposes of this Agreement, the terms significant deficiency and material weakness have the meanings assigned to them in Release 2004-001 of the Public Company Accounting Oversight Board, as in effect on the date of this Agreement.

(g) None of the Company Subsidiaries is, or at any time since December 31, 2010 has been, subject to the reporting requirements of Sections 13(a) or 15(d) of the Exchange Act.

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Section 3.6 Financial Statements. (a) The unaudited consolidated balance sheet of Company and the Company Subsidiaries as of September 30, 2011, and the related consolidated statements of income and cash flows of the three-month and nine-month periods then ended, as reported in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 (the Company Financial Statements), and all other balance sheets and statements of income and cash flows of the Company and the Company Subsidiaries filed with the SEC thereafter on Form 10-K or Form 10-Q, fairly present in all material respects the consolidated financial position of the Company and the Company Subsidiaries as of the date thereof, and fairly present in all material respects the results of the consolidated operations, changes in stockholders equity, cash flows and consolidated financial position of the Company and the Company Subsidiaries for the respective fiscal periods or as of the date therein set forth, except the Company Financial Statements are subject to normal year-end audit adjustments in amounts that are immaterial in amount and are consistent with past experience. Each of the Company Financial Statements (including the related notes, where applicable), as of their respective dates, complied in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto and each of such statements (including the related notes, where applicable) has been prepared, in all material respects, in accordance with GAAP consistently applied during the periods involved, except as indicated in such statements or in the notes thereto.

(b) Except for those liabilities that are reflected or reserved against on the September 30, 2011 consolidated balance sheet of the Company and the Company Subsidiaries included in the Company Financial Statements and for liabilities incurred in the ordinary course of business consistent with past practice since September 30, 2011 or as otherwise contemplated by this Agreement, neither the Company nor any of the Company Subsidiaries has incurred any liability of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether due or to become due and including any off-balance sheet financings, loans, indebtedness, make whole or similar liabilities or obligations) that would be required to be reflected in a consolidated balance sheet of the Company and the Company Subsidiaries, except for liabilities and obligations that would not, individually or in the aggregate, have a Material Adverse Effect on the Company and the Company Subsidiaries.

Section 3.7 Absence of Material Adverse Effect. Since September 30, 2011 through the date of this Agreement, no event or events have occurred that have had or would have, individually or in the aggregate, a Material Adverse Effect on the Company.

Section 3.8 Legal Proceedings. (a) Neither the Company nor any of the Company Subsidiaries is a party to any, and there are no pending or, to the knowledge of the Company, threatened, legal, administrative, arbitral or other proceedings, claims, actions, suits or governmental or regulatory investigations of any nature (each, an Action) as of the date hereof, or after the date hereof, outside of the ordinary course of business, against the Company or any of the Company Subsidiaries except as would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

(b) There is no non-environmental related Injunction or judgment imposed upon the Company, any of the Company Subsidiaries or the assets of the Company or any of the Company Subsidiaries that would, individually or in the aggregate, have a Material Adverse Effect on the Company.

Section 3.9 Taxes and Tax Returns. The Company and the Company Subsidiaries have duly filed all federal, state, foreign and local Tax Returns required to be filed by them on or prior to the date of this Agreement (all such returns being accurate and complete in all material respects) and have duly paid or made provision for the payment of all Taxes that have been incurred or are due or claimed to be due from them by federal, state, foreign or local taxing authorities other than (i) Taxes that are not yet delinquent or that are being contested in good faith, have not been finally determined and have been adequately reserved against or (ii) Tax Returns or Taxes as to which the failure to file, pay or make provision for would not, individually or in the aggregate, have a Material Adverse Effect on the Company. Any liability with respect to deficiencies asserted as a result of any audit of the Company or any Company Subsidiary Tax Return by the IRS or any other taxing authority is covered by

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adequate reserves in accordance with GAAP in the Company Financial Statements. There are no material disputes pending, or claims asserted in writing, for Taxes or assessments upon the Company or any of the Company Subsidiaries for which the Company does not have adequate reserves. Neither the Company nor any of the Company Subsidiaries is a party to or is bound by any material Tax sharing, allocation or indemnification agreement or arrangement (other than such an agreement or arrangement exclusively between or among the Company and the Company Subsidiaries). Within the past two years, the Company has not been a distributing corporation or a controlled corporation in a distribution intended to qualify under Section 355(a) of the Code. As of the date hereof and to the knowledge of the Company, the Company has not undergone an ownership change within the meaning of Section 382(g) of the Code subsequent to the ownership change that occurred in 2008 in connection with the Company's emergence from bankruptcy.

Section 3.10 Employee Benefit Plans; Labor. (a) Except as set forth in Section 3.10(a) of the Company Disclosure Letter, neither the Company nor any Company Subsidiary maintains or contributes to (i) any nonqualified deferred compensation or retirement plans for employees located in the United States, (ii) any qualified defined contribution plans (as such term is defined under Section 3(34) of ERISA), (iii) any qualified defined benefit plans (as such term is defined under Section 3(35) of ERISA) (the plans set forth in (ii) and (iii) are collectively referred to herein as the Pension Plans), (iv) any welfare benefit plans (as such term is defined under Section 3(1) of ERISA) (the Welfare Plans), or (v) any compensatory fringe benefit or stock option plans, including written individual contracts, employee agreements, plans, programs, or arrangements, whether funded or unfunded, whether or not a Non-U.S. DB Plan, that currently are, or within the past five fiscal years of the Company or any Company Subsidiary, as appropriate, have been maintained and sponsored in whole or in part, or contributed to by any of the Company, the Company Subsidiaries and the Company Commonly Controlled Entities, for the benefit of, providing any remuneration or benefits to, or covering any current or former employee or retiree, any dependent, spouse or other family member or beneficiary of such employee or retiree, or any director, independent contractor, member, officer, consultant of any of the Company, the Company Subsidiaries and the Company Commonly Controlled Entities, or under (or in connection with) which the Company or any Company Subsidiary may have any liability (collectively clauses (i)-(v) are referred to as Company Benefit Plans).

(b) Each Pension Plan that is intended to meet the requirements of a qualified plan under Sections 401(a) and 501(a) of the Code has either received a favorable determination letter from the IRS that such Pension Plan is so qualified or has requested such a favorable determination letter within the remedial amendment period of Section 401(b) of the Code. Each Company Benefit Plan, including any amendments thereto, that is eligible for approval by, and/or registration for and/or qualification for special Tax status with, the appropriate taxation, social security and/or supervisory authorities in the relevant country, state, territory or the like (each, an Approval) has received such Approval, or there remains a period of time in which to obtain such Approval retroactive to the date of any amendment or change in Law that has not previously received such Approval. Except as would not reasonably be expected to have a Material Adverse Effect, the Company Benefit Plans comply in form and in operation in all material respects with the requirements of the Code, ERISA, PPACA and all other applicable Laws, and none of the Company, the Company Subsidiaries and its Company Commonly Controlled Entities have received any notice from any Governmental Entity questioning or challenging such compliance that has not been resolved.

(c) Except as would not reasonably be expected to have a Material Adverse Effect, (i) to the knowledge of the Company, there have been no prohibited transactions (as that term is defined in Section 406 of ERISA or Section 4975 of the Code) and (ii) none of the assets of any Pension Plan or Welfare Plan trust is an employer security (within the meaning of Section 407(d)(1) of ERISA) or employer real property (within the meaning of Section 407(d)(2) of ERISA).

(d) Except as would not reasonably be expected to have a Material Adverse Effect, (i) neither the Company nor any other Person that, together with the Company or any Company Subsidiary, is treated as a single employer under Section 414(b), (c), (m) or (o) of the Code or any other applicable Law (a Company

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**Commonly Controlled Entity** ) (A) has sponsored, maintained or contributed to, or been obligated to maintain or contribute to, or has any liability under, any Pension Plan that is subject to Title IV of ERISA or Section 412 of the Code or is otherwise a defined benefit pension plan, (B) has any unsatisfied liability imposed under Title IV of ERISA or Section 412 of the Code or (C) has a Pension Plan with an accumulated funding deficiency (as defined in Section 302 of ERISA or Section 412 of the Code), whether or not waived, nor has any waiver of the minimum funding standards of Section 302 of ERISA or Section 412 of the Code been requested for such a Pension Plan and (ii) all contributions (including all employer contributions and employee salary reduction contributions) or insurance premiums that are due have been paid with respect to each Company Benefit Plan, and all contributions or insurance premiums for any period ending on or before the Closing Date that are not yet due have been paid with respect to each such Company Benefit Plan or accrued, in each case in accordance with the past custom and practice of the Company, and contributions to each Non-U.S. DB Plan have always been made in accordance with the recommendations of the actuary valuing such arrangement and applicable Law and guidance and (A) no Pension Plan or related trust has been terminated during the last five years and (B) there has been no reportable event (as defined in Section 4043 of ERISA), other than an event for which the 30-day notice period has been waived, with respect to any Pension Plan during the year.

(e) Except as would not reasonably be expected to have a Material Adverse Effect, neither the Company nor any Company Subsidiary has communicated a commitment (whether orally or in writing, whether as part of the collective bargaining process or not) generally to employees, any employee representation body or specifically to any employee regarding (i) any future increase of benefit levels (or creation of new benefits) with respect to the Company Benefit Plans beyond those reflected in such plans, or (ii) the adoption or creation of any new benefit plan.

(f) Except as would not reasonably be expected to have a Material Adverse Effect, (i) none of the Company, the Company Subsidiaries and the Company Commonly Controlled Entities contributes to or has any liability or potential liability with respect to any multiemployer plan (as defined in Section 3(37) of ERISA) during the five-year period ending as of the Closing Date, (ii) none of the Company, the Company Subsidiaries and the Company Commonly Controlled Entities is subject to any withdrawal or partial withdrawal liability within the contemplation of Section 4201 of ERISA and (iii) none of the Company, the Company Subsidiaries and the Company Commonly Controlled Entities has entered into any transaction which has or could subject the Company, any Company Subsidiary or any Company Commonly Controlled Entity to any such withdrawal or partial withdrawal liability.

(g) Except as would not reasonably be expected to have a Material Adverse Effect, none of the Welfare Plans obligates the Company or any Company Subsidiary to provide any Company Employee, current employee or former employee (or any dependent thereof) any life insurance or medical or health benefits after his or her termination of employment with the Company or any Company Subsidiary, other than as required under COBRA or any similar state Law.

(h) Except as would not reasonably be expected to have a Material Adverse Effect, no Company Benefit Plan (excluding for this purpose any individual employment agreement or arrangement) has a provision, and no commitment (whether oral or in writing) has been made, that restricts the Company or Company Subsidiaries from amending or terminating such Company Benefit Plan with respect to the accrual of future benefits; provided that the legal obligation to bargain over mandatory subjects of bargaining under any Law will not be considered such a restriction.

(i) Except as would not reasonably be expected to have a Material Adverse Effect, (i), no amounts payable under any Company Benefit Plan will fail to be deductible for federal income tax purposes by virtue of Section 280G of the Code or will fail to be deductible under any other applicable Law and (ii), consummation of the transactions contemplated by this Agreement will not (A) entitle any Company Employee, current employee, or former employee (or spouse, dependent or other family member of such employee) of the Company or Company Subsidiaries to severance pay, unemployment compensation, or any payment contingent upon a change

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in control or ownership of the Company or Company Subsidiaries, or (B) accelerate the time of payment or vesting, or increase the amount, of any compensation due to any such Company Employee, current employee, or former employee (or any spouse, dependent, or other family member of such employee).

(j) Except as would not reasonably be expected to have a Material Adverse Effect, (i) each Company Benefit Plan that is a nonqualified deferred compensation plan (within the meaning of Section 409A(d)(1) of the Code) subject to Section 409A of the Code is and has been in documentary and operational compliance with Section 409A of the Code and any guidance issued with respect thereto and (ii) no Company Stock Option is considered to be a non-qualified deferred compensation arrangement subject to Section 409A of the Code.

(k) Except as would not reasonably be expected to have a Material Adverse Effect, the Company and the Company Subsidiaries have correctly classified Persons engaged as consultants or independent contractors for employment purposes.

(l) Except as would not reasonably be expected to have a Material Adverse Effect, all amounts required to be included in the Company's most recent financial statements in respect of any plan that provides retirement benefits on a defined benefit basis (a Non-U.S. DB Plan) has been included.

(m) Except as would not reasonably be expected to have a Material Adverse Effect, the Company has complied with all Laws concerning employment rights and obligations. Section 3.10(m) of the Company Disclosure Letter lists each collective bargaining agreement to which the Company or a Company Subsidiary is a party in respect of the employees of the Company or a Company Subsidiary on the date of this Agreement, and any membership of the Company or a Company Subsidiary in any employers' organization which is entitled to conclude a collective bargaining agreement on behalf of its member companies, and any collective bargaining agreement which, although the Company or Company Subsidiary is not a party to it, applies due to standard reference in employment agreements or by state decree as a generally applicable collective bargaining agreement. No collective bargaining agreement or shop agreement is, as of the date of this Agreement, being negotiated or renegotiated in any material respect by the Company or any of the Company Subsidiaries. As of the date of this Agreement, there is no labor dispute or strike against the Company or any of the Company Subsidiaries pending or, to the knowledge of the Company, threatened which would interfere with the respective business activities of the Company or any of the Company Subsidiaries that would have a Material Adverse Effect on the Company. As of the date of this Agreement, to the Company's knowledge, neither the Company nor any of the Company Subsidiaries has committed during the three years prior to the date hereof any unfair labor practice in connection with the operation of the respective businesses of the Company or any of the Company Subsidiaries, and there is no charge or complaint against the Company or any of the Company Subsidiaries by the National Labor Relations Board or any comparable governmental agency or in relation to any labor rules and regulations or any other competent labor authority pending or threatened in writing, that would have a Material Adverse Effect on the Company.

Section 3.11 Compliance with Applicable Law. Other than with respect to Tax Laws (which are governed by Section 3.9), Environmental Matters (which are governed by Section 3.12), and matters related to Anti-Corruption Laws, Export Control Laws or anti-money laundering laws (which are governed by Section 3.17) the Company and each of the Company Subsidiaries hold all licenses, franchises, permits, variances, orders, approvals, certificates, notices, authorizations and rights of or with all Governmental Entities (Permits) necessary for the lawful conduct of their respective businesses under and pursuant to each, and during the two years prior to the date hereof have complied in all respects with and are not in default in any respect under any, applicable Law of any Governmental Entity relating to the Company or any of the Company Subsidiaries, except where the failure to hold such Permit or such noncompliance or default would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

Section 3.12 Environmental Matters. (a) Except in each case as would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect on the Company and the Company

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Subsidiaries taken as a whole: (i) the Cod-color:#ccee; padding-left:2px; padding-top:2px; padding-bottom:2px; padding-right:2px;">"

Interest expense

\$  
(1,477  
)

(59.104  
)%

\$  
(1,135  
)

(53.971  
)%

\$  
342

30.1  
%

Interest expense for the three months ended September 30, 2018 increased \$0.342 million, or 30.1% to \$1.5 million from \$1.1 million in 2017. The increase was related primarily to a greater usage of the Company's Trading Credit Facility, higher LIBOR interest rates that went in to effect subsequent to the Federal Reserve rate increases, and increased third-party loan servicing fees. As compared to the same year-ago period, the following interest expense components increased / (decreased) by (i) \$0.3 million or 31.7% related to Trading Credit Facility (including debt amortization costs), and (ii) \$0.1 million related to notes payable ((including debt amortization costs).

Selling, General and Administrative Expenses — Secured Lending

Three Months Ended September 30,	2018		2017		\$	%
in thousands	\$	% of interest income	\$	% of revenue	Increase/(decrease)	Increase/(decrease)
Selling, general and administrative expenses	\$ (345)	(13.806)%	\$ (383)	(18.212)%	\$ (38 )	(9.9 )%

Selling, general and administrative expenses for the three months ended September 30, 2018 decreased \$0.0 million, or (9.9)%, to \$0.3 million from \$0.4 million in 2017. The decrease was insignificant in comparison to the same year-ago period.

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Results of Operations — Direct Sales Segment

Overview of Results of Operations for the Three Months Ended September 30, 2018 and 2017

The Direct Sales segment was created on August 28, 2017 as a result of the Goldline acquisition. Accordingly, comparative prior period data only contains approximately one month of activity. The operating results of our Direct Sales segment for the three months ended September 30, 2018 are as follows:

in thousands, except performance metrics

Three Months Ended September 30,	2018	2017		\$	%		
Revenue	10,370	\$10,370	(a)	100.000	%	100.000	%
Gross profit	1,063	1,661	(b)	9.864	%	16.017	%
Selling, general and administrative expenses	(2,116)	(1,183)		(19.634)	%	(11.408)	%
Interest expense	(195)	(79)		(1.809)	%	(0.762)	%
Net income before provision for income taxes	\$(1,248)	\$399		(11.580)	%	3.848	%
Performance Metrics:							
Gold sold <sup>(1)</sup>	3,000	2,000				1,000	50.0
Silver sold <sup>(2)</sup>	264,000	20,000				244,000	1,220.0
Direct Sales ticket volume <sup>(3)</sup>	4,461	2,911				1,550	53.2

(a) Includes \$0.8 million of intercompany sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment.



- (b) Gross profit percentage, excluding intercompany sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment, is 10.06% for the three-month period.
- (c) Includes \$6.9 million of intercompany sales from the Direct Sales segment to the Wholesale Trading & Ancillary Services segment.
- (1) Gold ounces sold represents the ounces of gold product sold to third-party customers during the the three-month period.
- (2) Silver ounces sold represents the ounces of silver product sold to third-party customer during the the three-month period.
- (3) Direct Sales segment trading ticket volume represents the total number of product orders processed.

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Segment Results — Direct Sales

Revenues for the three months ended September 30, 2018 increased \$0.4 million, or 3.9%, to \$10.8 million from \$10.4 million in 2017. Gold ounces sold for the three months ended September 30, 2018 increased 1,000 ounces, or 50.0%, to 3,000 ounces from 2,000 ounces in 2017. Silver ounces sold for the three months ended September 30, 2018 increased 244,000 ounces, or 1,220.0%, to 264,000 ounces from 20,000 ounces in 2017.

Gross profit for the three months ended September 30, 2018 decreased by 0.6 million, or 36.0%, to \$1.1 million from \$1.7 million in 2017. The Company's profit margin percentage decreased by 36.0% to 9.9% from 16.0% in 2017.

Selling, general and administrative expenses for the three months ended September 30, 2018 increased \$0.9 million, or 78.9%, to \$2.1 million from \$1.2 million in 2017.

Interest expense for the three months ended September 30, 2018 increased \$0.1 million, or 146.8% to \$0.2 million from \$0.1 million in 2017.

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## LIQUIDITY AND FINANCIAL CONDITION

## Primary Sources and Uses of Cash

## Overview

Liquidity is defined as our ability to generate sufficient amounts of cash to meet all of our cash needs. Liquidity is of critical importance to us and imperative to maintain our operations on a daily basis.

A substantial portion of our assets are liquid. As of September 30, 2018, approximately 95% of our assets consisted of cash, customer receivables, derivative assets, secured loans receivables, precious metals held under financing arrangements and inventory, measured at fair value. Cash generated from the sales of our precious metals products is our primary source of operating liquidity.

Typically, the Company acquires its inventory by: (1) purchasing inventory from our suppliers by utilizing our own capital and lines of credit; (2) borrowing precious metals from our suppliers under short-term arrangements which may bear interest at a designated rate, and (3) repurchasing inventory at an agreed-upon price based on the spot price on the specified repurchase date.

In addition to selling inventory, the Company generates cash from earning interest income. Through CFC, the Company enters into secured loans and secured financing structures with its customers under which it charges interest. The Company offers a number of secured financing options to its customers to finance their precious metals purchases including consignments and other structured inventory finance products. The loans are secured by precious metals and numismatic material owned by the borrowers and held by the Company as security for the term of the loan.

Furthermore, our customers may enter into agreements whereby the customer agrees to repurchase our precious metals at the prevailing spot price for delivery of the product at a specific point in time in the future; interest income is earned from the contract date until the material is delivered and paid for in full.

We continually review our overall credit and capital needs to ensure that our capital base, both stockholders' equity and available credit facilities, can appropriately support our anticipated financing needs. The Company also continually monitors its current and forecasted cash requirements, and draws upon and pays down its lines of credit so as to minimize interest expense.

## Lines of Credit

in thousands

	September 30, 2018	June 30, 2018	September 30, 2018 Compared to June 30, 2018
Lines of credit	\$ 179,000	\$ 200,000	\$ (21,000 )

A-Mark has a borrowing facility ("Trading Credit Facility") with a syndicate of banks, Coöperatieve Rabobank U.A. ("Rabobank") acting as lead lender and administrative agent for the syndicate. As of September 30, 2018, the Trading Credit Facility provided the Company with access up to \$260.0 million, featuring a \$210.0 million base, with a \$50.0 million accordion option. The Trading Credit Facility is scheduled to mature on March 29, 2019. The Company believes that the Trading Credit Facility provides adequate means to capital for its operations (see Note 14).

## Debt Obligation (Related Party)

in thousands

	September 30, 2018	June 30, 2018	September 30, 2018 Compared to June 30, 2018
Debt Obligation - related party	\$ 7,257	\$ 7,226	\$ 31

The Company entered into a privately placed credit facility in the amount of \$7.5 million (the "Goldline Credit Facility") with various lenders (see Note 14). The outstanding principal and unpaid interest is due upon maturity

(August 28, 2020). Borrowings under the Goldline Credit Facility were used to finance a portion of the consideration payable pursuant to the Goldline acquisition (see [Note 1](#)).

Table of ContentsLiability on Borrowed Metals  
in thousands

	September 30, 2018	June 30, 2018	September 30, 2018 Compared to June 30, 2018
Liability on borrowed metals	\$227,198	\$280,346	\$(53,148 )

We borrow precious metals (usually in the form of pool metals) from our suppliers and customers under short-term arrangements using other precious metal from our inventory as collateral. Amounts under these arrangements require repayment either in the form of precious metals or cash. Liabilities also arise from unallocated metal positions held by customers in our inventory. Typically, these positions are due on demand, in a specified physical form, based on the total ounces of metal held in the position.

Product Financing Arrangements  
in thousands

	September 30, 2018	June 30, 2018	September 30, 2018 Compared to June 30, 2018
Product financing arrangements	\$53,126	\$113,940	\$(60,814 )

The Company has agreements with financial institutions and other third parties that allows the Company to transfer its gold and silver inventory to the third party at an agreed-upon price based on the spot price, which provides alternative sources of liquidity. During the term of the agreement both parties intend for inventory to be returned at an agreed-upon price based on the spot price on the termination (repurchase) date. The third parties charge monthly interest as a percentage of the market value of the outstanding obligation; such monthly charges are classified in interest expense. These transactions do not qualify as sales and therefore have been accounted for as financing arrangements and reflected in the condensed consolidated balance sheet as product financing arrangements. The obligation is stated at the amount required to repurchase the outstanding inventory. Both the product financing arrangements and the underlying inventory (which is entirely restricted) are carried at fair value, with changes in fair value included as a component of cost of sales.

Notes Payable  
in thousands

	September 30, 2018	June 30, 2018	September 30, 2018 Compared to June 30, 2018
Notes payable	\$ 87,056	\$ —	—\$ 87,056

On September 14, 2018, AM Capital Funding, LLC (“AMCF”), a wholly owned subsidiary of CFC, completed an issuance of Secured Senior Term Notes, Series 2018-1, Class A in the aggregate principal amount of \$72.0 million and Secured Subordinated Term Notes, Series 2018-1, Class B in the aggregate principal amount of \$28.0 million. The Class A Notes bear interest at a rate of 4.98% and the Class B Notes bear interest at a rate of 5.98%. The Notes have a maturity date of December 15, 2023.

As of September 30, 2018, the carrying balance of the Note was \$87.1 million (which excludes the \$10.0 million note that the Company retained), and the remaining unamortized loan cost balance was approximately \$2.9 million, which is amortized ratably through the maturity date (see [Note 14](#)).

Secured Loans  
in thousands

		September
		30, 2018
September 30,	September 30,	Compared
2018	2018	to June 30,
		2018

Secured loans \$81,891 \$110,424 \$(28,533 )

CFC is a California licensed finance lender that makes and acquires commercial loans secured by bullion and numismatic coins that affords our customers a convenient means of financing their inventory or collections (see [Note 5](#)). Most of the Company's secured loans are short-term in nature. The renewal of these instruments is at the discretion of the Company and, as such, provides us with some flexibility in regards to our capital deployment strategies.

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## Dividends

In fiscal 2015, the Board of Directors of the Company initiated a cash dividend policy that called for the payment of a quarterly cash dividend of \$0.05 per common share. In fiscal 2016, the Board of Directors modified the policy by increasing the quarterly cash dividend to \$0.07 per common share, and in fiscal 2017 the quarterly cash dividend was increased to \$0.08 per common share (see Note 16).

The Board of Directors determined to suspend the Company's quarterly dividend to increase its financial flexibility and strengthen its balance sheet. Going forward, the Board of Directors will re-assess its capital resources and may or may not determine to reinstate the dividend based on that assessment.

## Cash Flows

The majority of the Company's trading activities involve two day value trades under which payment is received in advance of delivery or product is received in advance of payment. The high volume, rapid rate of inventory turnover, and high average value per trade can cause material changes in the sources of cash used in or provided by operating activities on a daily basis. The Company manages these variances through its liquidity forecasts and counterparty limits by maintaining a liquidity reserve to meet the Company's cash needs. The Company uses various short-term financial instruments to manage the rapid cycle of our trading activities from customer purchase order to cash collections and product delivery, which can cause material changes in the amount of cash used in or provided by financing activities on a daily basis.

The following summarizes components of our condensed consolidated statements of cash flows for the three months ended September 30, 2018 and 2017:

in thousands

Three Months Ended	September 30, 2018	September 30, 2017	Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017
Net cash used in operating activities	\$(10,298)	\$ (34,321 )	\$ 24,023
Net cash provided by (used in) investing activities	\$ 21,499	\$ (5,192 )	\$ 26,691
Net cash provided by financing activities	\$ 5,222	\$ 34,811	\$ (29,589 )

Our principal capital requirements have been to fund (i) working capital and (ii) capital expenditures. Our working capital requirements fluctuate with market conditions, the availability of precious metals and the volatility of precious metals commodity pricing.

## Net cash used in operating activities

Operating activities used \$10.3 million and used \$34.3 million in cash for the three months ended September 30, 2018 and 2017, respectively, representing a \$24.0 million decrease in the use of cash compared to the three months ended September 30, 2017. This period over period decrease in the use of funds in operating activities was primarily due to changes in the balances of secured loans to Former Parent, derivative assets, precious metals held under financing arrangements, inventory, accounts payable, accrued liabilities, derivative liabilities, income taxes receivables; offset by changes in the balances of liability on borrowed metals, receivables and deferred income taxes.

## Net cash provided by (used in) investing activities

Investing activities provided \$21.5 million and used \$5.2 million in cash for the three months ended September 30, 2018 and 2017, respectively, representing a \$26.7 million increase in the source of cash compared to the three months ended September 30, 2017. This period over period increase in the source of cash is the result of the change in balance

of secured loans of \$16.9 million compared to the comparable prior period, and due to the prior fiscal year's acquisition activity of \$9.5 million.

Net cash provided by financing activities

Financing activities provided \$5.2 million and provided \$34.8 million in cash for the three months ended September 30, 2018 and 2017, respectively, representing a decrease of \$29.6 million in funds provided by financing activities compared to the three months ended September 30, 2017. This period over period decrease in funds provided by financing activities was primarily due to changes in the balance of product financing arrangements of \$50.3 million, change in the balances in the Trading Credit Facility of \$60.0 million and a related party debt obligation of \$7.5 million, offset by a \$90.0 million increase in funds from the proceeds from the issuance of notes payable.



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**CAPITAL RESOURCES**

We believe that our current cash availability under the Trading Credit Facility, product financing arrangements, financing derived from borrowed metals and the cash we anticipate to generate from operating activities will provide us with sufficient liquidity to satisfy our working capital needs, capital expenditures, investment requirements and commitments through at least the next twelve months.

**CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND COMMITMENTS**

**Counterparty Risk**

We manage our counterparty risk by setting credit and position risk limits with our trading counterparties. These limits include gross position limits for counterparties engaged in sales and purchase transactions and inventory consignment transactions with us. They also include collateral limits for different types of sale and purchase transactions that counterparties may engage in from time to time.

**Commodities Risk and Derivatives**

We use a variety of strategies to manage our risk including fluctuations in commodity prices for precious metals. Our inventories consist of, and our trading activities involve, precious metals and precious metal products, whose prices are linked to the corresponding precious metal commodity prices. Inventories purchased or borrowed by us are subject to price changes. Inventories borrowed are considered natural hedges, since changes in value of the metal held are offset by the obligation to return the metal to the supplier or deliver metals to the customer.

Open sale and purchase commitments in our trading activities are subject to changes in value between the date the purchase or sale price is fixed (the trade date) and the date the metal is received or delivered (the settlement date). We seek to minimize the effect of price changes of the underlying commodity through the use of forward and futures contracts. Our open sale and purchase commitments generally settle within 2 business days, and for those commitments that do not have stated settlement dates, we have the right to settle the positions upon demand.

Our policy is to substantially hedge our underlying precious metal commodity inventory position. We regularly enter into metals commodity forward and futures contracts with financial institutions to hedge price changes that would cause changes in the value of our physical metals positions and purchase commitments and sale commitments. We have access to all of the precious metals markets, allowing us to place hedges. However, we also maintain relationships with major market makers in every major precious metals dealing center, which allows us to enter into contracts with market makers. Our forwards contracts open at September 30, 2018 are scheduled to settle within 60 days. Futures positions do not have settlement dates, although the Company typically closes its future positions within a week.

The Company enters into these derivative transactions solely for the purpose of hedging our inventory holding risk, and not for speculative market purposes. Due to the nature of our hedging strategy, we are not using hedge accounting as defined under, Derivatives and Hedging Topic 815 of the Accounting Standards Codification ("ASC"). Unrealized gains or losses resulting from our futures and forward contracts are reported as cost of sales with the related amounts due from or to counterparties reflected as a derivative asset or liability. The Company adjusts the derivatives to fair value on a daily basis until the transactions are settled. When these contracts are net settled, the unrealized gains and losses are reversed and the realized gains and losses for forward contracts are recorded in revenue and cost of sales and the net realized gains and losses for futures and option contracts are recorded in cost of sales. The Company's net gains (losses) on derivative instruments for the three months ended September 30, 2018 and 2017, totaled \$(15.1) million and \$14.6 million, respectively. These net gains (losses) on derivative instruments were substantially offset by the changes in fair market value of the underlying precious metals inventory and open sale and purchase commitments, which is also recorded in cost of sales in the condensed consolidated statements of operations.

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The purpose of the Company's hedging policy is to substantially match the change in the value of the derivative financial instrument to the change in the value of the underlying hedged item. The following table summarizes the results of our hedging activities, showing the precious metal commodity inventory position, net of open sale and purchase commitments, which is subject to price risk, compared to change in the value of the derivative instruments as of September 30, 2018 and at June 30, 2018:

in thousands	September 30, June 30,	
	2018	2018
Inventory	\$ 289,805	\$280,116
Precious metals held under financing arrangements	232,476	262,566
	522,281	542,682
Less unhedgeable inventory:		
Commemorative coin inventory, held at lower of cost or market	(86	) (99
Premium on metals position	(3,970	) (3,530
Precious metal value not hedged	(4,056	) (3,629
	518,225	539,053
Commitments at market:		
Open inventory purchase commitments	264,037	342,287
Open inventory sales commitments	(215,464	) (138,022
Margin sale commitments	(5,674	) (5,988
In-transit inventory no longer subject to market risk	(1,334	) (1,060
Unhedgeable premiums on open commitment positions	910	541
Borrowed precious metals	(227,198	) (280,346
Product financing arrangements	(53,126	) (113,940
Advances on industrial metals	7,489	6,044
	(230,360	) (190,484
Precious metal subject to price risk	287,865	348,569
Precious metal subject to derivative financial instruments:		
Precious metals forward contracts at market values	197,419	274,994
Precious metals futures contracts at market values	90,828	72,421
Total market value of derivative financial instruments	288,247	347,415
Net precious metals subject to commodity price risk	\$ (382	) \$1,154

We are exposed to the risk of default of the counterparties to our derivative contracts. Significant judgment is applied by us when evaluating the fair value implications. We regularly review the creditworthiness of our major counterparties and monitor our exposure to concentrations. At September 30, 2018, we believe our risk of counterparty default is mitigated based on our evaluation of the creditworthiness of our major counterparties, the strong financial condition of our counterparties, and the short-term duration of these arrangements.

## Commitments and Contingencies

Refer to Note 15 of the Notes to Consolidated Financial Statements in the 2018 Annual Report for information relating Company's commitments and contingencies.

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## OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2018 and June 30, 2018, we had the following outstanding sale and purchase commitments and open forward and future contracts, which are normal and recurring, in nature:

in thousands	September 30, June 30,	
	2018	2018
Purchase commitments	\$ 264,037	\$342,287
Sales commitments	\$ (215,464 )	\$ (138,022 )
Margin sale commitments	\$ (5,674 )	\$ (5,988 )
Open forward contracts	\$ 197,419	\$274,994
Open futures contracts	\$ 90,828	\$72,421
Foreign exchange forward contracts	\$ 4,104	\$4,130

The notional amounts of the commodity forward and futures contracts and the open sales and purchase orders, as shown in the table above, are not reflected at the notional amounts in the condensed consolidated balance sheets. The Company records commodity forward and futures contracts at the fair value, which is the difference between the market price of the underlying metal or contract measured on the reporting date and the trade amount measured on the date the contract was transacted. The fair value of the open derivative contracts are shown as a component of derivative assets or derivative liabilities in the accompanying condensed consolidated balance sheets.

The Company enters into the derivative forward and future transactions solely for the purpose of hedging its inventory holding risk, and not for speculative market purposes. The Company's gains (losses) on derivative instruments are substantially offset by the changes in fair market value of the underlying precious metals inventory position, including our open sale and purchase commitments. The Company records the derivatives at the trade date, and any corresponding unrealized gains or losses are shown as a component of cost of sales in the condensed consolidated statements of operations. We adjust the carrying value of the derivatives to fair value on a daily basis until the transactions are physically settled (see [Note 11.](#))

## CRITICAL ACCOUNTING ESTIMATES

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). In connection with the preparation of our financial statements, we are required to make estimates and assumptions about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that we believe to be relevant at the time our condensed consolidated financial statements are prepared. On a regular basis, we review our accounting policies, assumptions, estimates and judgments to ensure that our condensed consolidated financial statements are presented fairly and in accordance with U.S. GAAP. However, because future events and their effects cannot be determined with certainty, actual results could materially differ from our estimates.

Our significant accounting policies are discussed in [Note 2](#) Summary of Significant Accounting Policies of the accompanying condensed consolidated financial statements. We believe that the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

## Revenue Recognition

The Company accounts for its metals and sales contracts using settlement date accounting. Pursuant to such accounting, the Company recognizes the sale or purchase of the metals at settlement date. During the period between the trade and settlement dates, the Company has entered into a forward contract that meets the definition of a derivative in accordance with the Derivatives and Hedging Topic 815 of the ASC. The Company records the derivative at the trade date with any corresponding unrealized gain (loss), shown as component of cost of sales in the condensed consolidated statements of operations. The Company adjusts the derivatives to fair value on a daily basis until the transactions are settled. When these contracts are settled, the unrealized gains and losses are reversed, and revenue is recognized for contracts that are physically settled. For contracts that are net settled, the realized gains and

losses are recorded in cost of sales, with the exception of forward contracts, where their associated realized gain and losses are recorded in revenue and cost of sales, respectively.

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## Inventories

The Company's inventories primarily include bullion and bullion coins, which are initially recorded at fair market value. The fair market value of the bullion and bullion coins is comprised of two components: (1) published market values attributable to the cost of the raw precious metal, and (2) a published premium paid at acquisition of the metal. The premium is attributable to the additional value of the product in its finished goods form and the market value attributable solely to the premium may be readily determined, as it is published by multiple reputable sources. The premium is included in the cost of the inventory, paid at acquisition, and is a component of the total fair market value of the inventory. The precious metal component of the inventory may be hedged through the use of precious metal commodity positions, while the premium component of our inventory is not a commodity that may be hedged.

The Company's inventories, except for certain lower of cost or market basis products (as described below), are subsequently recorded at their fair market values. The daily changes in the fair market value of our inventory are offset by daily changes in the fair market value of hedging derivatives that are taken with respect to our inventory positions; both the change in the fair market value of the inventory and the change in the fair market value of these derivative instruments are recorded in cost of sales in the condensed consolidated statements of operations.

While the premium component included in inventories is marked-to-market, our commemorative coin inventory, including its premium component, is held at the lower of cost or market, because the value of commemorative coins is influenced more by supply and demand determinants than on the underlying spot price of the precious metal content of the commemorative coins. Unlike our bullion coins, the value of commemorative coins is not subject to the same level of volatility as bullion coins because our commemorative coins typically carry a substantially higher premium over the spot metal price than bullion coins. Additionally, neither the commemorative coin inventory nor the premium component of our inventory is hedged.

Inventories include amounts borrowed from suppliers and customers arising from various arrangements including unallocated metal positions held by customers in the Company's inventory, amounts due to suppliers for the use of consigned inventory, metals held by suppliers as collateral on advanced pool metals, as well as shortages in unallocated metal positions held by the Company in the supplier's inventory. Unallocated or pool metal represents an unsegregated inventory position that is due on demand, in a specified physical form, based on the total ounces of metal held in the position. Amounts under these arrangements require delivery either in the form of precious metals or cash. The Company mitigates market risk of its physical inventories and open commitments through commodity hedge transactions (see Note 11.)

The Company enters into product financing agreements for the transfer and subsequent option to reacquire its gold and silver inventory at an agreed-upon price based on the spot price with a third party finance company. This inventory is restricted and is held at a custodial storage facility in exchange for a financing fee, charged by the third party finance company. During the term of the financing agreement, the third party company holds the inventory as collateral, and both parties intend for the inventory to be returned to the Company at an agreed-upon price based on the spot price on the termination (repurchase) date. The third party charges a monthly fee as percentage of the market value of the outstanding obligation; such monthly charge is classified as interest expense. These transactions do not qualify as sales and have been accounted for as financing arrangements in accordance with ASC 470-40 Product Financing Arrangements, and are reflected in the condensed consolidated balance sheets as product financing arrangements. The obligation is stated at the amount required to repurchase the outstanding inventory. Both the product financing and the underlying inventory (which is restricted) are carried at fair value, with changes in fair value included in cost of sales in the condensed consolidated statements of operations.

The Company periodically loans metals to customers on a short-term consignment basis. Such inventories are removed at the time the customer elects to price and purchase the metals, and the Company records a corresponding sale and receivable.

The Company enters into financing arrangements with certain customers under which A-Mark purchases precious metals products that are subject to repurchase by the customer at the fair value of the product on the repurchase date. The Company or the counterparty may typically terminate any such arrangement with 14 days' notice. Upon termination the customer's rights to repurchase any remaining inventory is forfeited.

Goodwill and Other Purchased Intangible Assets

We evaluate goodwill and other indefinite-lived intangibles for impairment annually in the fourth quarter of the fiscal year (or more frequently if indicators of potential impairment exist) in accordance with the Intangibles - Goodwill and Other Topic 350 of the ASC. Other finite-lived intangible assets are evaluated for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be recoverable. We may first qualitatively assess whether relevant events and circumstances make it more likely than not that the fair value of the reporting unit's goodwill is less than its carrying value. If, based on this qualitative assessment, we determine that goodwill is more likely than not to be impaired, a quantitative impairment test is performed. This step requires us to determine the fair value of the business, and compare the calculated fair value of a reporting unit with its carrying amount, including goodwill. If through this quantitative analysis the Company determines the fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is considered not to be impaired. If the Company concludes that the fair value of the reporting unit is less than its carrying value, a goodwill impairment will be recognized

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for the amount by which the carrying amount exceeds the reporting unit's fair value.

The Company also performs impairment reviews on its indefinite-lived intangible assets (i.e., trademarks and trade-names). In assessing its indefinite-lived intangible assets for impairment, the Company has the option to first perform a qualitative assessment to determine whether events or circumstances exist that lead to a determination that it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying amount. If the Company determines that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, the Company is not required to perform any additional tests in assessing the asset for impairment. However, if the Company concludes otherwise or elects not to perform the qualitative assessment, then it is required to perform a quantitative analysis to determine if the fair value of an indefinite-lived intangible asset is less than its carrying value. If through a quantitative analysis the Company determines the fair value of an indefinite-lived intangible asset exceeds its carrying amount, the indefinite-lived intangible asset is considered not to be impaired. If the Company concludes that the fair value of an indefinite-lived intangible asset is less than its carrying value, an impairment will be recognized for the amount by which the carrying amount exceeds the indefinite-lived intangible asset's fair value.

Income Taxes

As part of the process of preparing its condensed consolidated financial statements, the Company is required to estimate its provision for income taxes in each of the tax jurisdictions in which it conducts business, in accordance with the Income Taxes Topic 740 of the ASC ("ASC 740"). The Company computes its annual tax rate based on the statutory tax rates and tax planning opportunities available to it in the various jurisdictions in which it earns income. Significant judgment is required in determining the Company's annual tax rate and in evaluating uncertainty in its tax positions. The Company recognizes a benefit for tax positions that it believes will more likely than not be sustained upon examination. The amount of benefit recognized is the largest amount of benefit that the Company believes has more than a 50% probability of being realized upon settlement. The Company regularly monitors its tax positions and adjusts the amount of recognized tax benefit based on its evaluation of information that has become available since the end of its last financial reporting period. The annual tax rate includes the impact of these changes in recognized tax benefits. When adjusting the amount of recognized tax benefits, the Company does not consider information that has become available after the balance sheet date, but does disclose the effects of new information whenever those effects would be material to the Company's condensed consolidated financial statements. The difference between the amount of benefit taken or expected to be taken in a tax return and the amount of benefit recognized for financial reporting represents unrecognized tax benefits. These unrecognized tax benefits are presented in the condensed consolidated balance sheets principally within accrued liabilities.

The Company accounts for uncertainty in income taxes under the provisions of ASC 740. These provisions clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, and prescribe a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The provisions also provide guidance on de-recognition, classification, interest, and penalties, accounting in interim periods, disclosure, and transition. The potential interest and/or penalties associated with an uncertain tax position are recorded in provision for income taxes on the condensed consolidated statements of operations. Please refer to Note 12 for further discussion regarding these provisions. Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of the net deferred tax assets will not be realized. The factors used to assess the likelihood of realization include the Company's forecast of the reversal of temporary differences, future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings. Based on our assessment it appears

more likely than not that all of the net deferred tax assets will be realized through future taxable income. The Company's condensed consolidated financial statements recognized the current and deferred income tax consequences that result from the Company's activities during the current and preceding periods, as if the Company were a separate taxpayer prior to the date of the Distribution of the company when it was a member of the consolidated income tax return group of its Former Parent (Spectrum Group International, Inc.) Following its spin-off, the Company files federal and state income tax filings that are separate from the Former Parent's tax filings. The Company recognizes current and deferred income taxes as a separate taxpayer for periods ending after the date of Distribution.



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The Company evaluates each purchase transaction to determine whether the acquired assets meet the definition of a business. The Company accounts for business combinations by applying the acquisition method in accordance with “ASC 805, Business Combinations. Transaction costs related to acquisition of a business are expensed as incurred and excluded from the fair value of consideration transferred. The identifiable assets acquired, liabilities assumed and non-controlling interests, if any, in an acquired entity are recognized and measured at their estimated fair values. The excess of the fair value of consideration transferred over the fair values of identifiable assets acquired, liabilities assumed and non-controlling interests, if any, in an acquired entity, net of fair value of any previously held interest in the acquired entity, is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets and liabilities.

**Contingent Earn-out Liability**

Contingent consideration is classified as a liability or equity, as applicable. Contingent consideration in connection with the acquisition of a business is measured at fair value on acquisition date, and unless classified as equity, is remeasured at fair value each reporting period thereafter until the consideration is settled, with changes in fair value included in net income.

We record an estimate of the fair value of contingent consideration, related to the earn-out obligations to SilverTowne LP related to SilverTowne Mint transaction. On a quarterly basis, we revalue the liability and record increases or decreases in the fair value as an adjustment to earnings. Changes to the contingent consideration liability can result from adjustments to the discount rate, or from changes to the estimates of future throughput activity of AMST, which are considered Level 3 inputs (see Note 3). Consequentially, the assumptions used in estimating fair value require significant judgment. The use of different assumptions and judgments could result in a materially different estimate of fair value.

**RECENT ACCOUNTING PRONOUNCEMENTS**

For a description of accounting changes and recent accounting standards, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see Note 2.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable to smaller reporting companies.

**ITEM 9A. CONTROLS AND PROCEDURES****Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on the foregoing, our Certifying Officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Certifying Officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II — OTHER INFORMATION****ITEM 3. LEGAL PROCEEDINGS**

We are not currently a party to any material legal proceedings.

**ITEM 1A. RISK FACTORS**



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Risks Relating to Our Business Generally

Our business is heavily dependent on our credit facility.

Our business depends substantially on our ability to obtain financing for our operations. The Trading Credit Facility (as further described and defined below) provides the Company with the liquidity to buy and sell billions of dollars of precious metals annually. The Trading Credit Facility is an uncommitted demand facility provided by a syndicate of financial institutions (the “Trading Credit Lenders”), and is currently scheduled to mature on March 29, 2019. A-Mark routinely uses funds drawn under the Trading Credit Facility to purchase metals from its suppliers and for operating cash flow purposes. Our CFC subsidiary also uses the funds drawn under the Trading Credit Facility to finance its lending activities.

Pursuant to the terms of the Trading Credit Facility, each Trading Credit Lender may, at any time in its sole discretion (subject to certain notice requirements), decline to make loans to us. If we are unable to access funds under the Trading Credit Facility, we may be limited in the manner in which we conduct our business and we may be unable to engage in favorable business activities or finance future operations or capital needs.

The Trading Credit Facility requires us to maintain certain financial ratios and to comply with various operational and other covenants. Upon the occurrence of an event of default under the Trading Credit Facility that was not cured or waived pursuant to the terms of the Trading Credit Facility, the Trading Credit Lenders could elect to declare all amounts outstanding under the Trading Credit Facility to be due and payable immediately. Further, Trading Credit Lenders holding 50% or more of the indebtedness under the Trading Credit Facility may require us to repay all outstanding indebtedness under the Trading Credit Facility at any time, even if we are in compliance with the financial and other covenants under the Trading Credit Facility.

We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments, including the Trading Credit Facility, upon demand or acceleration, or at maturity, or that we would be able to refinance or restructure the payments under the Trading Credit Facility. The failure of A-Mark to renew or replace the Trading Credit Facility under such circumstances would reduce the financing available to us and could limit our ability to conduct our business, including the lending activity of our CFC subsidiary. There can be no assurance that we could procure replacement financing on commercially acceptable terms on a timely basis, or at all. We have pledged a significant portion of our assets as collateral under the Trading Credit Facility, and if we were unable to repay the amounts outstanding thereunder, the administrative agent under the Trading Credit Facility could proceed against the collateral granted to secure such indebtedness.

We are subject to fluctuations in interest rates based on the variable interest terms of the Trading Credit Facility and we may not be able to pass along to our customers and borrowers some or any part of an increase in the interest that we are required to pay under the Trading Credit Facility. Amounts under the Trading Credit Facility bear interest based on one month LIBOR plus (i) 2.50% for revolving credit line loans and (ii) 4.50% for loans extended in excess of the then-available revolving credit line. The LIBOR was approximately 2.26% as of September 30, 2018.

In addition to the Trading Credit Facility, we have incurred the Goldline Credit Facility to finance the Goldline acquisition. The obligations of the Company and Goldline pursuant to the Goldline Credit Facility are subordinated to the obligations of the Company pursuant to the Trading Credit Facility as set forth in certain subordination agreements executed in connection with the Goldline Credit Facility (the “Goldline Subordination Agreements”), and the Goldline Credit Facility requires us to comply with various operational and other covenants. Upon the occurrence of an event of default under the Goldline Credit Facility that is not cured or waived pursuant to the terms of the Goldline Credit Facility, the lenders holding a majority of the loans under the Goldline Credit Facility then outstanding could elect to declare all amounts outstanding under the Goldline Credit Facility to be due and payable immediately, subject to the requirements of the Goldline Subordination Agreements, as applicable. We have pledged substantially all of the assets of Goldline as collateral under the Goldline Credit Facility, and if we were unable to repay the amounts outstanding thereunder, the lenders under the Goldline Credit Facility could proceed against the collateral granted to secure such indebtedness, subject to the Goldline Subordination Agreements, as applicable. We cannot assure you that the assets or cash flow available to Goldline would be sufficient to fully repay the borrowings under the Goldline Credit Facility, upon demand or acceleration, or at maturity, or that we would be able to refinance or restructure the payments under the Goldline Credit Facility. Further, the incurrence of the Goldline Credit Facility increases the risks as a result of our

leverage.

We could suffer losses with our financing operations.

We engage in a variety of financing activities with our customers:

Receivables from our customers with whom we trade in precious metal products are effectively short-term, non-interest bearing extensions of credit that are, in certain cases, secured by the related products maintained in the Company's possession or by a letter of credit issued on behalf of the customer. On average, these receivables are outstanding for periods of between 8 and 9 days.

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The Company operates a financing business through CFC that makes secured loans at loan-to-value ratios—principal loan amount divided by the liquidation value, as conservatively estimated by management, of the collateral—of, in most cases, 50% to 85%. These loans are both variable and fixed interest rate loans, with some maturities on-demand and others from three to twelve months.

We make advances to our customers on unrefined metals secured by materials received from the customer. These advances are limited to a portion of the materials received.

The Company makes unsecured, short-term, non-interest bearing advances to wholesale metals dealers and government mints.

The Company periodically extends short-term credit through the issuance of notes receivable to approved customers at interest rates determined on a customer-by-customer basis.

Our ability to minimize losses on the credit that we extend to our customers depends on a variety of factors, including: our loan underwriting and other credit policies and controls designed to assure repayment, which may prove inadequate to prevent losses;

our ability to sell collateral upon customer defaults for amounts sufficient to offset credit losses, which can be affected by a number of factors outside of our control, including (i) changes in economic conditions, (ii) increases in market rates of interest and (iii) changes in the condition or value of the collateral; and

the reserves we establish for loan losses, which may prove inadequate.

CFC May in Certain Circumstances Be Required to Repurchase Loans that It Has Securitized.

CFC has entered into a securitization financing whereby it has transferred, and may continue from time to time to transfer, to its subsidiary AMCF loans secured by precious metal coins or bullion. AMCF has issued 4.98% Class A Notes due 2023 and 5.98% Class B Notes due 2023 which are secured by these loans and related assets. While the notes are not recourse to the Company or CFC, CFC is required to provide certain warranties concerning the loans and the security interest in the metals collateral securing the loans. In the event the warranties made with respect to any loan are breached and the breach materially and adversely affects the interests of the noteholders, CFC is required to either cure the breach or repurchase the loan within specified a timeframe. If CFC were to default on its repurchase obligations, this could materially adversely affect the business of CFC, and could adversely affect the Company's future ability to access the credit markets.

CFC and the Company have exposure to the performance of AM Capital Funding.

Regulation RR of the SEC requires the sponsor of an asset-backed securitization transaction, or certain of its affiliates, to retain an economic interest in the transaction. In compliance with this rule, CFC retained the equity interest in AMCF and the Company purchased \$10,000,000 of Class B Notes, which are subordinated to the Class A Notes. In addition, CFC and the Company may, from time to time, also contribute cash or sell precious metals to AMCF in exchange for subordinated, deferred payment obligations from AMCF. If the performance of AMCF were to suffer such that AMCF were unable to service its notes, CFC and the Company could lose part or all of their investments in AMCF.

Under the terms of the servicing arrangements for the precious metals loan securitization, CFC may be required to liquidate the collateral securing securitized loans, even if this would impair relationships with its customers.

CFC is the servicer for the loans transferred to AMCF in the securitization transaction. If, under certain circumstances, the equity levels of the obligors on particular loans falls below a specified level and those obligors fail to pay in additional equity, CFC is required to liquidate the metals collateral securing those loans within a specified time period. CFC does not have the flexibility to defer or refrain from the liquidation, even if CFC were to determine that it would be in its best interests to do so. This requirement could impair valuable relationships that the Company may otherwise have with its customers whose loans have been securitized.

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Our business is dependent on a concentrated customer base.

One of A-Mark's key assets is its customer base. This customer base provides deep distribution of product and makes A-Mark a desirable trading partner for precious metals product manufacturers, including sovereign mints seeking to distribute precious metals coinage or large refiners seeking to sell large volumes of physical precious metals. Two customers represented 40.3% of A-Mark's revenues for the three months ended September 30, 2018. Those same two customers represented 48.5% of A-Mark's revenues for the three months ended September 30, 2017. If our relationship with these customers deteriorated, or if we were to lose these customers, our business would be materially adversely affected.

The loss of a government purchaser/distributorship arrangement could materially adversely affect our business. A-Mark's business is heavily dependent on its purchaser/distributorship arrangements with various governmental mints. Our ability to offer numismatic coins and bars to our customers on a competitive basis is based on the ability to purchase products directly from a government source. The arrangements with the governmental mints may be discontinued by them at any time. The loss of an authorized purchaser/distributor relationship, including with the U.S. Mint could have a material adverse effect on our business.

The materials held by A-Mark are subject to loss, damage, theft or restriction on access.

A-Mark has significant quantities of high-value precious metals on site, at third-party depositories and in transit. There is a risk that part or all of the gold and other precious metals held by A-Mark, whether on its own behalf or on behalf of its customers, could be lost, damaged or stolen. In addition, access to A-Mark's precious metals could be restricted by natural events (such as an earthquake) or human actions (such as a terrorist attack). Although we maintain insurance on terms and conditions that we consider appropriate, we may not have adequate sources of recovery if our precious metals inventory is lost, damaged, stolen or destroyed, and recovery may be limited. Among other things, our insurance policies exclude coverage in the event of loss as a result of terrorist attacks or civil unrest. In addition, with the establishment of our Logistics facility and the transfer of our wholesale storage operations from third party depositories to that facility, we are assuming greater potential liability for any loss suffered in connection with the stored inventory. Among other things, our insurance, rather than the third-party depository's, is now the primary risk policy. While we believe we have adequate insurance coverage covering these operations, in the event of any loss in excess of our coverage, we may be held liable for that excess.

Our business is subject to the risk of fraud and counterfeiting.

The precious metals (particularly bullion) business is exposed to the risk of loss as a result of "materials fraud" in its various forms. We seek to minimize our exposure to this type of fraud through a number of means, including third-party authentication and verification, reliance on our internal experts and the establishment of procedures designed to detect fraud. However, there can be no assurance that we will be successful in preventing or identifying this type of fraud, or in obtaining redress in the event such fraud is detected.

Our business is influenced by political conditions and world events.

The precious metals business is especially subject to global political conditions and world events. Precious metals are viewed by some as a secure financial investment in times of political upheaval or unrest, particularly in developing economies, which may drive up pricing. The volatility of the commodity prices for precious metals is also likely to increase in politically uncertain times. Conversely, during periods of relative international calm precious metal volatility is likely to decrease, along with demand, and the prices of precious metals may retreat. Because our business is dependent on the volatility and pricing of precious metals, we are likely to be influenced by world events more than businesses in other economic sectors.

We have significant operations outside the United States.

We derive about 5% to 15% of our revenues from business outside the United States, including from customers in developing countries. Business operations outside the U.S. are subject to political, economic and other risks inherent in operating in foreign countries. These include risks of general applicability, such as the need to comply with multiple regulatory regimes; trade protection measures and import or export licensing requirements; and fluctuations in equity, revenues and profits due to changes in foreign currency exchange rates. Currently, we do not conduct substantial business with customers in developing countries. However, if our business in these areas of the world were to increase, we would also face risks that are particular to developing countries, including the difficulty of enforcing

agreements, collecting receivables, protecting inventory and other assets through foreign legal systems, limitations on the repatriation of earnings, currency devaluation and manipulation of exchange rates, and high levels of inflation.

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We try to manage these risks by monitoring current and anticipated political, economic, legal and regulatory developments in the countries outside the United States in which we operate or have customers and adjusting operations as appropriate, but there can be no assurance that the measures we adopt will be successful in protecting the Company's business interests.

We are dependent on our key management personnel and our trading experts.

Our performance is dependent on our senior management and certain other key employees. We have employment agreements with Greg Roberts, our CEO, and Thor Gjerdrum, our President, which expire on June 30, 2020 and June 30, 2019, respectively. These and other employees have expertise in the trading markets, have industry-wide reputations, and perform critical functions for our business. We cannot offer assurance that we will be able to negotiate acceptable terms for the renewal of the employment agreements or otherwise retain our key employees. Also, there is significant competition for skilled precious metals traders and other industry professionals. The loss of our current key officers and employees, without the ability to replace them, would have a materially adverse effect on our business.

We are focused on growing our business, but there is no assurance that we will be successful.

We expect to grow both organically and through opportunistic acquisitions. We have devoted considerable time, resources and efforts over the past few years to our growth strategy. We may not be successful in implementing our growth initiatives, which could adversely affect our business.

Liquidity constraints may limit our ability to grow our business.

To accomplish our growth strategy, we will require adequate sources of liquidity to fund both our existing business and our expansion activity. Currently, our main sources of liquidity are the cash that we generate from operations, our borrowing availability under the Trading Credit Facility and the proceeds from our securitization transaction through AMCF. There can be no assurance that these sources will be adequate to support the growth that we are hoping to achieve or that additional sources of financing for this purpose, in the form of additional debt or equity financing, will be available to us, on satisfactory terms or at all. Also, the Trading Credit Facility contains, and any future debt financing is likely to contain, various financial and other restrictive covenants. The need to comply with these covenants may limit our ability to implement our growth initiatives.

We expect to grow in part through acquisitions, but an acquisition strategy entails risks.

We expect to grow in part through acquisitions. We will consider potential acquisitions of varying sizes and may, on a selective basis, pursue acquisitions or consolidation opportunities involving other public companies or privately held companies. However, it is possible that we will not realize the expected benefits from our acquisitions or that our existing operations will be adversely affected as a result of acquisitions. Acquisitions entail certain risks, including: unrecorded liabilities of acquired companies that we fail to discover during our due diligence investigations; difficulty in assimilating the operations and personnel of the acquired company within our existing operations or in maintaining uniform standards; loss of key employees of the acquired company; and strains on management and other personnel time and resources both to research and integrate acquisitions.

We expect to pay for future acquisitions using cash, capital stock, notes and/or assumption of indebtedness. To the extent that our existing sources of cash are not sufficient to fund future acquisitions, we will require additional debt or equity financing and, consequently, our indebtedness may increase or shareholders may be diluted as we implement our growth strategy.

Our Logistics depository is subject to authorization.

Our Trading Credit Lenders have approved our Logistics facility as an authorized depository. If that approval were to be withdrawn for any reason, we would no longer be able to keep inventory at that location, which would substantially limit our ability to conduct business from that facility.

We are subject to laws and regulations.

We are subject to various laws, litigation, regulatory matters and ethical standards, and our failure to comply with or adequately address developments as they arise could adversely affect our reputation and operations. Our policies, procedures and practices and the technology we implement are designed to comply with federal, state, local and foreign laws, rules and regulations, including those imposed by the SEC and other regulatory agencies, the marketplace, the banking industry and foreign countries, as well as responsible business, social and environmental



practices, all of which may change from time to time. Significant legislative changes, including those that relate to employment matters and health care reform, could impact our relationship with our workforce, which could increase our expenses and adversely affect our operations. In addition, if we fail to comply with applicable laws and regulations or implement responsible business, social and environmental practices, we could be subject to damage to our reputation, class action lawsuits, legal and settlement costs, civil and criminal liability, increased cost of regulatory compliance, restatements of our financial statements, disruption of our business and loss of customers. Any required changes to our employment practices could result in the loss of employees, reduced sales, increased employment costs, low employee morale and harm to our business and results of operations. In addition, political and economic factors could lead to unfavorable changes

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in federal and state tax laws, which may increase our tax liabilities. An increase in our tax liabilities could adversely affect our results of operations. We are also regularly involved in various litigation matters that arise in the ordinary course of business. Litigation or regulatory developments could adversely affect our business and financial condition. There are various federal, state, local and foreign laws, ordinances and regulations that affect our trading business. For example, we are required to comply with the Foreign Corrupt Practices Act and a variety of anti-money laundering and know-your-customer rules in response to the USA Patriot Act.

The SEC has promulgated rules mandated by the Dodd-Frank Act regarding disclosure, on an annual basis, of the use of tin, tantalum, tungsten and gold, known as conflict minerals, in products manufactured by public companies. These rules require due diligence to determine whether such minerals originated from the Democratic Republic of Congo (the "DRC") or an adjoining country and whether such minerals helped finance the armed conflict in the DRC.

The Company has concluded that it is not currently subject to the conflict minerals rules because it is not a manufacturer of conflict minerals under the definitions set forth in the rules. Depending on developments in the Company's business, it could become subject to the rules at some point in the future. In that event, there will be costs associated with complying with these disclosure requirements, including costs to determine the origin of gold used in our products. In addition, the implementation of these rules could adversely affect the sourcing, supply and pricing of gold used in our products. Also, we may face disqualification as a supplier for customers and reputational challenges if the due diligence procedures we implement do not enable us to verify the origins for the gold used in our products or to determine that the gold is conflict free.

CFC operates under a California Finance Lenders License issued by the California Department of Corporations. CFC is required to submit a finance lender law annual report to the state which summarizes certain loan portfolio and financial information regarding CFC. The Department of Corporations may audit the books and records of CFC to determine whether CFC is in compliance with the terms of its lending license.

There can be no assurance that the regulation of our trading and lending businesses will not increase or that compliance with the applicable regulations will not become more costly or require us to modify our business practices.

The recently passed Tax Cuts and Jobs Act is expected to have a significant impact on us.

Significant judgment is required in determining our provision for income taxes. Various internal and external factors may have favorable or unfavorable effects on our future provision for income taxes, income taxes receivable, and our effective income tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, including the Tax Cuts and Jobs Act. The Tax Act significantly changes how the U.S. taxes corporations. The Tax Act requires complex computations to be performed, significant judgments to be made in interpretation of the provisions of the Tax Act and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our interpretation. Further, subsequent adjustments, if any, related to our application of the Tax Act may become necessary as we finalize our analysis.

We operate in a highly competitive industry.

The business of buying and selling precious metals is global and highly competitive. The Company competes with precious metals trading firms and banks throughout North America, Europe and elsewhere in the world, some of whom have greater financial and other resources, and greater name recognition, than the Company. We believe that, as a full service firm devoted exclusively to precious metals trading, we offer pricing, product availability, execution, financing alternatives and storage options that are attractive to our customers and allow us to compete effectively. We also believe that our purchaser/distributorship arrangements with various governmental mints give us a competitive advantage in our coin distribution business. However, given the global reach of the precious metals trading business, the absence of intellectual property protections and the availability of numerous, evolving platforms for trading in precious metals, we cannot assure you that A-Mark will be able to continue to compete successfully or that future developments in the industry will not create additional competitive challenges.

We rely extensively on computer systems to execute trades and process transactions, and we could suffer substantial damages if the operation of these systems were interrupted.

We rely on our computer and communications hardware and software systems to execute a large volume of trading transactions each year. It is therefore critical that we maintain uninterrupted operation of these systems, and we have invested considerable resources to protect our systems from physical compromise and security breaches and to maintain backup and redundancy. Nevertheless, our systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, including breaches of our transaction processing or other systems, catastrophic events such as fires, tornadoes and hurricanes, and usage errors by our employees. If our systems are breached, damaged or cease to

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function properly, we may have to make a significant investment to fix or replace them, we may suffer interruptions in our ability to provide quotations or trading services in the interim, and we may face costly litigation.

If our customer data were breached, we could suffer damages and loss of reputation.

By the nature of our business, we maintain significant amounts of customer data on our systems. Moreover, certain third party providers have access to confidential data concerning the Company in the ordinary course of their business relationships with the Company. In recent years, various companies, including companies that are significantly larger than us, have reported breaches of their computer systems that have resulted in the compromise of customer data. Any compromise or breach of customer or company data held or maintained by either the Company or our third party providers could significantly damage our reputation and result in costs, lost trades, fines and lawsuits. The regulatory environment related to information security and privacy is increasingly rigorous, with new and constantly changing requirements applicable to our business, and compliance with those requirements could result in additional costs.

There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches.

Compliance with the new General Data Protection Regulation in the EU could increase our costs and expose the Company to possible sanctions for violation.

In 2016, the EU adopted a comprehensive overhaul of its data protection regime from the current national legislative approach to a single European Economic Area Privacy Regulation, the General Data Protection Regulation (“GDPR”), which went into effect in May 2018. The EU data protection regime expands the scope of the EU data protection law to all foreign companies processing personal data of EU residents, imposes a strict data protection compliance regime with severe penalties of up to the greater of 4% of worldwide turnover or €20 million, and includes new rights such as the “portability” of personal data. Although the GDPR will apply across the EU without a need for local implementing legislation, EU member states have the ability to interpret the GDPR opening clauses, which permit region-specific data protection legislation and have the potential to create inconsistencies on a country-by-country basis.

The Company has a trading office in Vienna, Austria and also markets to customers in the EU. Although our European operations are currently modest compared to our business in the United States, our European business could grow over time. We have evaluated the new regulation and its requirements, and believe we are currently in compliance with the GDPR in all material respects. Going forward, however, the expansion of our European operations could require us to change our business practices and may increase the costs and complexity of compliance. Also, a violation by the Company of the new regulation could expose us to penalties and sanctions under the regulation.

Our implementation of a new enterprise resource planning (“ERP”) system may adversely affect our business and results of operations or the effectiveness of internal controls over financial reporting.

We are currently implementing a new ERP system. ERP implementations are complex and time-consuming projects that involve substantial expenditures on system software and implementation activities over a significant period of time. If we do not effectively implement the ERP system or if the system does not operate as intended, it could adversely affect our financial reporting systems and our ability to produce financial reports, the effectiveness of internal controls over financial reporting, and our business, financial condition, results of operations and cash flows. We have in the past engaged, and continue to engage, in transactions with Stack’s Bowers, an affiliate of the Company, which could be perceived as not being made at arms-length.

Stack’s-Bowers Numismatics LLC (“Stack’s Bowers”), which is primarily engaged in the business of auctions of high-value and rare coins and in coin retailing, is a wholly-owned subsidiary of SGI, our former parent. We have engaged in the past, and continue to engage, in transactions with Stack’s Bowers, some of which are presently on-going. These transactions include secured lending transactions in which Stack’s Bowers is the borrower, and other transactions involving the purchase and sale of rare coins. The Company and SGI have two officers and a director in common. In addition, a majority of the board of directors of the Company has retained an ownership interest in SGI that in the aggregate represents a controlling interest in SGI. All transactions between the Company and Stack’s Bowers are approved by our Audit Committee, and we believe that all such transactions are on terms no less favorable to the Company than would be obtained from an unaffiliated third party. Nonetheless, these transactions could be perceived as being conflicted.

Risks Related to Our Acquisition of the Goldline Assets

We expect that our acquisition of the assets of Goldline, LLC will grow our business and create opportunities from cross-selling, but there is no assurance that this will be the case.

On August 28, 2017, we consummated the acquisition of the assets of Goldline, LLC, a leading direct retailer of precious metals to the investor community. We believe that the acquisition represents an attractive opportunity to expand our suite of integrated precious metals businesses into the direct-to-client space. We also believe that the acquisition has provided an opportunity

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to cross-sell our products and services to Goldline's broad, high-end customer base, for example utilization of our precious coin and metal storage services at our secured Las Vegas, Nevada facility. Nevertheless, there is no assurance that we will be successful in conducting a retail bullion business. For example, the success of this business will require that we continue to maintain the loyalty of a large, widely disseminated customer base, and could depend on our ability to anticipate and appropriately respond to changing attitudes of consumers to investment in precious metals. There also can be no assurance that we will be successful in our efforts to cross-sell other products and services to the Goldline client base. If the Goldline business does not succeed as we anticipate, or if we are required to make significant additional investment in the Goldline business in order to maintain or expand the business, our results of operation and liquidity could be adversely affected, which could in turn cause us to be in violation of one or more covenants under the Trading Credit Facility.

The Company may incur unanticipated costs integrating the Goldline business into our operations.

In order to fully achieve the anticipated benefits and synergies of our acquisition of the assets of Goldline, LLC, we will need to continue to integrate the Goldline business, which is now being conducted through a separate subsidiary of the Company, with our existing operations. This integration process may take longer, may be more costly, and may require more time and attention of senior management than we anticipate. If that were the case, the benefits that we hope to achieve from the acquisition may not be realized in the time frame we anticipate or at all.

Goldline's prior marketing practices could generate adverse publicity for the Company.

In 2011, Goldline and a number of its executives were the subject to a criminal complaint in Santa Monica, California regarding the company's marketing practices and in February 2012, Goldline settled the action against it by agreeing to refund \$4.5 million to its customers. Key members of management were replaced at about the time of the settlement, and, as required by the terms of a related injunction, Goldline eliminated the offending aspects of its sales operations that were the subject of the legal action against it. The injunction expired in early 2017. We believe that in the five years since the criminal action was settled, Goldline has reestablished its reputation as a trusted, premier retailer of precious metals. Nonetheless, it is possible that Goldline's past businesses issues may continue to have reputational consequences for the Goldline business, and following our acquisition of Goldline, could generate adverse publicity for the Company.

#### Risks Relating to Commodities

A-Mark's business is heavily influenced by volatility in commodities prices.

A primary driver of A-Mark's profitability is volatility in commodities prices, which leads to wider bid and ask spreads. Among the factors that can impact the price of precious metals are supply and demand of precious metals; political, economic, and global financial events; movement of the U.S. dollar versus other currencies; and the activity of large speculators such as hedge funds. If commodity prices were to stagnate, there would likely be a reduction in trading activity, resulting in less demand for the services A-Mark provides, which could materially adversely affect our business, liquidity and results of operations.

This volatility may drive fluctuation of our revenues, as a consequence of which our results for any one period may not be indicative of the results to be expected for any other period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our business is exposed to commodity price risks, and our hedging activity to protect our inventory is subject to risks of default by our counterparties.

A-Mark's precious metals inventories are subject to market value changes created by change in the underlying commodity price, as well as supply and demand of the individual products the Company trades. In addition, open sale and purchase commitments are subject to changes in value between the date the purchase or sale is fixed (the trade date) and the date metal is delivered or received (the settlement date). A-Mark seeks to minimize the effect of price changes of the underlying commodity through the use of financial derivative instruments, such as forward and futures contracts. A-Mark's policy is to remain substantially hedged as to its inventory position and its individual sale and purchase commitments. A-Mark's management monitors its hedged exposure daily. However, there can be no assurance that these hedging activities will be adequate to protect the Company against commodity price risks associated with A-Mark's business activities.

Furthermore, even if we are fully hedged as to any given position, there is the risk of default by our counterparties to the hedge. Any such default could have a material adverse effect on our financial position and results of operations.

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Increased commodity pricing could limit the inventory that we are able to carry.

We maintain a large and varied inventory of precious metal products, including bullion and coins, in order to support our trading activities and provide our customers with superior service. The amount of inventory that we are able to carry is constrained by the borrowing limitations and working capital covenants under the Trading Credit Facility. If commodity prices were to rise substantially, and we were unable to modify the terms of the Trading Credit Facility to compensate for the increase, the quantity of product that we could finance, and hence maintain in our inventory, would fall. This would likely have a material adverse effect on our operations.

We rely on the efficient functioning of commodity exchanges around the world, and disruptions on these exchanges could adversely affect our business.

The Company buys and sells precious metals contracts on commodity exchanges around the world, both in support of its customer operations and to hedge its inventory and transactional exposure against fluctuations in commodity prices. The Company's ability to engage in these activities would be compromised if the exchanges on which the Company trades or any of their clearinghouses were to discontinue operations or to experience disruptions in trading, due to computer problems, unsettled markets or other factors. The Company may also experience risk of loss if futures commission merchants or commodity brokers with whom the Company deals were to become insolvent or bankrupt.

**Risks Relating to Our Common Stock**

Failure to achieve and maintain effective internal controls in accordance with Section 404 of Sarbanes-Oxley could have a material adverse effect on our business.

As a public company, we are required to document and test our internal control over financial reporting in order to satisfy the requirements of Section 404 of Sarbanes-Oxley, which requires annual management assessments of the effectiveness of our internal control over financial reporting.

We are required to implement standalone policies and procedures to comply with the requirements of Section 404. During the course of our testing of our internal controls and procedures, we may identify deficiencies which we may not be able to remediate in time to comply with Section 404. Testing and maintaining internal controls can divert our management's attention from other matters that are also important to the operation of our business. We also expect that these regulations will continue to increase our legal and financial compliance costs and make some activities more difficult, time consuming and costly. We may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. If we are unable to conclude that we have effective internal controls over financial reporting, then investors could lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our common stock. In addition, if we do not maintain effective internal controls, we may not be able to accurately report our financial information on a timely basis, which could harm the trading price of our common stock, impair our ability to raise additional capital, or jeopardize our continued listing on the NASDAQ Global Select Market or any other stock exchange on which common stock may be listed.

We have suspended our dividend payments and may not be able to continue to pay dividends.

Effective March 2, 2015, the Board of Directors approved a cash dividend policy calling for the payment of a quarterly cash dividend of \$0.05 per common share. The policy was amended on February 2, 2016 to provide for a quarterly cash dividend of \$0.07 per common share, and then on January 26, 2017 to provide for a quarterly cash dividend of \$0.08 per common share.

The Board of Directors has determined to suspend the Company's quarterly dividend in order to increase its financial flexibility and strengthen its balance sheet. Going forward, the Board of Directors will re-assess its capital resources and may or may not determine to reinstate the dividend based on that assessment.

The declaration of cash dividends in the future is subject to the determination each quarter by the Board of Directors, based on a number of factors, including the Company's financial performance, available cash resources, cash requirements, bank covenants, and alternative uses of cash that the Board of Directors may conclude would represent an opportunity to generate a greater return on investment for the Company. Accordingly, there can be no assurance that the Company will resume paying dividends on a regular basis. If the Board of Directors were to determine not to pay dividends in the future, shareholders would not receive any further return on an investment in our capital stock in



the form of dividends, and may obtain an economic benefit from the common stock only after an increase in its trading price and only by selling the common stock.

Provisions in our Certificate of Incorporation and Bylaws and of Delaware law may prevent or delay an acquisition of the Company, which could decrease the trading price of our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws and Delaware law contain certain anti-takeover provisions that could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company without negotiating with our board of directors. Such provisions could

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limit the price that certain investors might be willing to pay in the future for the Company's securities. Certain of such provisions allow the Company to issue preferred stock with rights senior to those of the common stock, impose various procedural and other requirements which could make it more difficult for Shareholders to effect certain corporate actions and set forth rules regarding how shareholders may present proposals or nominate directors for election at shareholder meetings.

We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our Board of Directors and by providing our Board of Directors with more time to assess any acquisition proposal. However, these provisions apply even if an acquisition offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our Board of Directors determines is not in the best interests of our Company and our Shareholders. Accordingly, in the event that our board determines that a potential business combination transaction is not in the best interests of our Company and our Shareholders, but certain shareholders believe that such a transaction would be beneficial to the Company and its Shareholders, such Shareholders may elect to sell their shares in the Company and the trading price of our common stock could decrease. Your percentage ownership in the Company could be diluted in the future.

Your percentage ownership in A-Mark potentially could be diluted in the future because of additional equity awards that we expect will be granted to our directors, officers and employees. We have established an equity incentive plan that provides for the grant of common stock-based equity awards to our directors, officers and other employees. In addition, we may issue equity in order to raise capital or in connection with future acquisitions and strategic investments, which could dilute your percentage ownership.

Our board and management beneficially own a sizeable percentage of our common stock and therefore have the ability to exert substantial influence as shareholders.

Members of our board and management beneficially own approximately 40% of our outstanding common stock. Acting together in their capacity as shareholders, the board members and management could exert substantial influence over matters on which a shareholder vote is required, such as the approval of business combination transactions. Also because of the size of their beneficial ownership, the board members and management may be in a position effectively to determine the outcome of the election of directors and the vote on shareholder proposals. The concentration of beneficial ownership in the hands of our board and management may therefore limit the ability of our public shareholders to influence the affairs of the Company.

If the Company's spinoff from SGI is determined to be taxable for U.S. federal income tax purposes, our shareholders could incur significant U.S. federal income tax liabilities.

In connection with the spinoff, SGI received the written opinion of Kramer Levin Naftalis & Frankel LLP ("Kramer Levin") to the effect that the spinoff qualified as a tax-free transaction under Section 355 of the Internal Revenue Code, and that for U.S. federal income tax purposes (i) no gain or loss was recognized by SGI upon the distribution of our common stock in the spinoff, and (ii) no gain or loss was recognized by, and no amount was included in the income of, holders of SGI common stock upon the receipt of shares of our common stock in the spinoff. The opinion of tax counsel is not binding on the Internal Revenue Service or the courts, and there is no assurance that the IRS or a court will not take a contrary position. In addition, the opinion of Kramer Levin relied on certain representations and covenants delivered by SGI and us. If, notwithstanding the conclusions included in the opinion, it is ultimately determined that the distribution does not qualify as tax-free for U.S. federal income tax purposes, each SGI shareholder that is subject to U.S. federal income tax and that received shares of our common stock in the distribution could be treated as receiving a taxable distribution in an amount equal to the fair market value of such shares. In addition, if the distribution were not to qualify as tax-free for U.S. federal income tax purposes, then SGI would recognize a gain in an amount equal to the excess of the fair market value of our common stock distributed to SGI shareholders on the date of the distribution over SGI's tax basis in such shares. Also, we could have an indemnification obligation to SGI related to its tax liability.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Regulation

S-K

Exhibit Description of Exhibit

Table

Item No.

31 .1	* <u>Certification Under Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31 .2	* <u>Certification Under Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32 .1	* <u>Certification Under Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32 .2	* <u>Certification Under Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101 .INS	* XBRL Instance Document.
101 .SCH	* XBRL Taxonomy Extension Calculation Schema Document.
101 .CAL	* XBRL Taxonomy Extension Calculation Linkbase Document.
101 .DEF	* XBRL Taxonomy Extension Definition Linkbase Document.
101 .LAB	* XBRL Taxonomy Extension Label Linkbase Document.
101 .PRE	* XBRL Taxonomy Extension Presentation Linkbase Document.

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\* Filed herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

A-MARK PRECIOUS METALS, INC.

Date: November 9, 2018 By: /s/ Gregory N. Roberts  
Name: Gregory N. Roberts  
Title: Chief Executive Officer  
(Principal Executive Officer)

A-MARK PRECIOUS METALS, INC.

Date: November 9, 2018 By: /s/ Cary Dickson  
Name: Cary Dickson  
Title: Chief Financial Officer  
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title(s)	Date
/s/ Gregory N. Roberts Gregory N. Roberts	Chief Executive Officer and Director (Principal Executive Officer)	November 9, 2018
/s/ Cary Dickson Cary Dickson	Chief Financial Officer (Principal Financial Officer)	November 9, 2018