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EASTMAN CHEMICAL CO  
Form DEFR14A  
November 09, 2001

SCHEDULE 14A  
(RULE 14A-101)

SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Filed by the Registrant  [X]

Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

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

EASTMAN CHEMICAL COMPANY

-----  
(Name of Registrant as Specified in Its Charter)

N/A

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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- [ ] No fee required.
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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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EASTMAN LOGO

November 9, 2001

Dear Fellow Shareowner:

The board of directors of Eastman Chemical Company has approved a spin-off which would result in Eastman Chemical becoming two independent, publicly-traded companies:

- Eastman Company, which will be a global manufacturer of specialty chemicals and plastics, including the coatings, adhesives, specialty polymers and inks, performance chemicals and intermediates and specialty plastics businesses of Eastman Chemical, and which will continue Eastman Chemical's strategic initiatives in less capital intensive businesses; and
- Voridian Company, which will be a global manufacturer of polyethylene terephthalate polymers, or PET polymers, acetate fibers and polyethylene products.

The separation of these businesses will be accomplished through a pro rata distribution of 100% of the outstanding common stock of Eastman Company to shareowners of Eastman Chemical, which we refer to as the Distribution, on the record date for the Distribution. As a result of the Distribution, each Eastman Chemical shareowner will:

- receive one share of Eastman Company common stock for every share of Eastman Chemical common stock they own; and
- retain their shares in Eastman Chemical (whose name will be changed to Voridian Company).

We are seeking your approval, as a shareowner of Eastman Chemical, of the Distribution. We believe that the Distribution will allow the management of the two companies, which have distinctly different businesses and operational and

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strategic requirements, to better focus on the strategic considerations, growth opportunities and resource needs of each respective company. The Distribution will also result in shareowners holding two distinct investments, each with its own investment profile and characteristics. Your board of directors has unanimously approved and recommended, and is seeking your approval of, the Distribution.

The special meeting of shareowners will be held at the Toy F. Reid Employee Center, 400 South Wilcox Drive, Kingsport, Tennessee 37660, on December 18, 2001, at 11:00 a.m., eastern time, to consider and vote upon the Distribution. Details of this proposal are explained in the accompanying proxy statement.

YOUR VOTE IS VERY IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. SIGNING AND RETURNING A PROXY CARD OR SUBMITTING YOUR PROXY VIA THE INTERNET OR BY TELEPHONE WILL NOT PREVENT YOU FROM ATTENDING THE SPECIAL MEETING AND VOTING IN PERSON, BUT WILL ASSURE THAT YOUR VOTE IS COUNTED IF YOU ARE UNABLE TO ATTEND THE MEETING. WHETHER YOU CHOOSE TO VOTE BY PROXY CARD, INTERNET OR TELEPHONE, IT WOULD HELP IF YOU VOTED AS SOON AS POSSIBLE. IF YOU DO NOT SUBMIT A PROXY OR VOTE IN PERSON, IT WILL HAVE THE EFFECT OF A VOTE AGAINST THE DISTRIBUTION.

This proxy statement is dated November 9, 2001 and is first being mailed and delivered electronically to shareowners, and made available on the Internet, on or about November 9, 2001. If you are a record holder of shares, an admission ticket for the special meeting is included with your proxy card. If you received our proxy materials from a broker or bank and do not have an admission ticket but you wish to attend the meeting, please call (423) 229-4647.

Sincerely,

/s/ EARNEST W. DEAVENPORT, JR.

Earnest W. Deavenport, Jr.  
Chairman and Chief Executive Officer  
Eastman Chemical Company

EASTMAN CHEMICAL COMPANY  
100 NORTH EASTMAN ROAD  
KINGSPORT, TENNESSEE 37660  
(423) 229-2000

-----  
NOTICE OF SPECIAL MEETING OF SHAREOWNERS  
TO BE HELD ON DECEMBER 18, 2001  
-----

To Our Shareowners:

A special meeting of shareowners of Eastman Chemical Company will be held at the Toy F. Reid Employee Center, 400 South Wilcox Drive, Kingsport, Tennessee 37660, on December 18, 2001, at 11:00 a.m., eastern time, for the following purposes:

1. to consider and vote upon a proposal to approve a special dividend to the owners of the outstanding shares of Eastman Chemical common stock of all of the outstanding shares of common stock of Eastman Company, a wholly-owned subsidiary of Eastman Chemical, on a pro rata basis, to be completed in accordance with the terms of a distribution agreement entered into between Eastman Chemical and Eastman Company, referred to as the Distribution; and

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2. to transact any other business as may properly come before the special meeting.

Eastman Chemical's board of directors has unanimously approved the Distribution and determined that it is in the best interests of Eastman Chemical's shareowners, and unanimously recommends that you vote FOR the Distribution.

Only shareowners of record at the close of business on November 2, 2001 are entitled to notice of, and to vote at, the special meeting. IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AND VOTED AT THE SPECIAL MEETING. Please vote by proxy in one of these ways:

- USE THE TOLL-FREE TELEPHONE NUMBER shown on your proxy card or voting instruction form (if you received the proxy materials by mail from a broker or bank);
- BY INTERNET at the web address shown on your proxy card or voting instruction form; or
- MARK, SIGN, DATE AND PROMPTLY RETURN YOUR PROXY CARD OR VOTING INSTRUCTION FORM in the postage-paid envelope provided.

Signing and returning the proxy card or submitting your proxy via the Internet or by telephone does not affect your right to vote in person if you attend the special meeting.

By order of the Board of Directors

/s/ Theresa K. Lee

Theresa K. Lee  
General Counsel and Secretary  
Eastman Chemical Company

November 9, 2001

### JOINT PROXY STATEMENT/INFORMATION STATEMENT

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement/information statement, which is referred to as the proxy statement, contains statements relating to the future results of Eastman Chemical Company and, giving effect to the Distribution, Voridian Company and Eastman Company, including projections and business trends that are "forward-looking" in nature as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements made in this proxy statement relate to matters such as planned capacity increases and utilization; anticipated capital spending; expected depreciation and amortization; environmental matters; legal proceedings; effects of hedging raw material and energy costs and foreign currencies; global and regional economic conditions; competition; growth opportunities; markets for common stock; supply and demand; volume, price, cost, margin and sales; earnings, cash flow, dividends and other expected financial conditions; expectations and strategies for individual products, segments and businesses, as well as for Eastman Company and Voridian, each as a whole; cash requirements and uses of available cash; financing plans; cost reduction targets; development, production, commercialization and acceptance of new products, services and technologies; and assets and product portfolio changes.

Forward-looking statements include all statements that are not historical facts, and can be identified by the words "believe," "anticipate," "hope," "estimate," "project," "intend" or "expect," or the negative of these terms or similar expressions. Any forward-looking statements contained in this proxy statement should not be relied upon as predictions of future events. No assurance can be given that the expectations expressed in these forward-looking statements will prove to be correct. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions or expectations proves to be inaccurate or is unrealized. Some important factors that could cause actual results to differ materially from those in the forward-looking statements are included with such forward-looking statements and in the section entitled "Risk Factors" in this proxy statement.

Readers are cautioned not to place undue reliance on the forward-looking statements contained in this proxy statement, which represent Eastman Chemical's management's best judgment as of the date hereof. Except as required by law, neither Eastman Chemical nor, giving effect to the Distribution, Voridian or Eastman Company undertakes responsibility to update these forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further public disclosures made by any of the companies, such as filings made with the Securities and Exchange Commission or press releases, on related subjects.

AmberGuard(TM), Aqua(TM), Chromspun(R), DuraStar(R), Eastar(R), Eastar Bio(R), Eastotac(R), Elegante(TM), Embrace(TM), Energx(SM), EpB(R), Epolene(R), Estrobond(R), Estron(R), Heatwave(TM), Hifor(TM), Kelvx(TM), Mxsten(R), Provista(R), Spectar(R), Texanol(R), Titan(TM) and VersaTray(R) are currently trademarks or registered trademarks of Eastman Chemical Company. In connection with the Distribution, trademarks related to the business of Eastman Company will be transferred to Eastman Company.

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### QUESTIONS AND ANSWERS ABOUT THE DISTRIBUTION

Q: WHAT IS THE DISTRIBUTION?

A: The Distribution is the method by which Eastman Chemical will be separated into two independent, publicly-traded companies:

- Eastman Company, which will be a global manufacturer of specialty chemicals and plastics, including the coatings, adhesives, specialty polymers and inks, performance chemicals and intermediates and specialty plastics businesses of Eastman Chemical, and which will continue Eastman Chemical's strategic initiatives in less capital intensive businesses; and
- Voridian Company, which will be the new name of Eastman Chemical after the Distribution, will be a global manufacturer of polyethylene terephthalate polymers, or PET polymers, acetate fibers and polyethylene products.

As part of the Distribution, Eastman Chemical will distribute to its shareowners one share of Eastman Company common stock for every share of Eastman Chemical common stock they own on the record date for the Distribution. Immediately after the Distribution, Eastman Chemical's shareowners will still own all of Eastman Chemical's current businesses, but they will do so through ownership of separate investments in Voridian and Eastman Company.

Q: WHAT IS EASTMAN COMPANY?

A: Eastman Company is currently a subsidiary of Eastman Chemical and will be spun-off if the Distribution is completed. Eastman Company will own the specialty chemicals and plastics businesses currently operated by Eastman Chemical, which include the following business segments:

- coatings, adhesives, specialty polymers and inks;
- performance chemicals and intermediates; and
- specialty plastics.

Eastman Company will also include Eastman Chemical's strategic investments, including its investment in Genencor International, Inc., and ShipChem, Inc. The businesses that will be owned and operated by Eastman Company are referred to as the Eastman Company Business throughout this proxy statement.

Q: WHAT IS VORIDIAN COMPANY?

A: Voridian Company will be the name of Eastman Chemical after the Distribution. Voridian will continue to manufacture PET polymers, acetate fibers and polyethylene products. The businesses that will be owned and operated by Voridian after the Distribution are referred to as the Voridian Business throughout this proxy statement.

Q: WHY IS EASTMAN CHEMICAL SEPARATING ITS BUSINESSES?

A: Eastman Chemical believes that separating its businesses will result in greater long-term value for each company because:

- the two businesses are substantially different;
- the Distribution should allow each company to more effectively tailor its



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capital resources toward its individual operating needs; and

- each company will be able to pursue unique, focused corporate strategies and incentives.

Eastman Chemical further expects that the separation into two publicly-traded companies will enhance investor choices by offering investment opportunities in two highly-focused entities.

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Q: WHY IS THIS TRANSACTION STRUCTURED AS A DISTRIBUTION?

A: Eastman Chemical believes that the Distribution is an effective and tax-efficient way to separate Eastman Chemical's distinctly different businesses. Eastman Chemical has received a ruling from the Internal Revenue Service, or IRS, that, for federal income tax purposes, the Distribution will be tax-free to Eastman Chemical and its shareowners.

Q: WHEN AND WHERE IS THE SPECIAL MEETING?

A: The special meeting will take place at the Toy F. Reid Employee Center, 400 South Wilcox Drive, Kingsport, Tennessee 37660, on December 18, 2001 at 11:00 a.m., eastern time.

Q: WHAT WILL EASTMAN CHEMICAL SHAREOWNERS RECEIVE IN THE DISTRIBUTION?

A: In the Distribution, Eastman Chemical shareowners will receive one share of Eastman Company common stock for every share of Eastman Chemical common stock they own. At that time, Eastman Chemical will be renamed Voridian Company. Immediately after the Distribution, Eastman Chemical's shareowners will own shares of both Voridian and Eastman Company common stock, which will continue to comprise all of Eastman Chemical's businesses, but they will own them as two separate investments.

Q: WHAT WILL HAPPEN TO MY "OLD" EASTMAN CHEMICAL SHARE CERTIFICATES?

A: After the Distribution, certificates representing the "old" Eastman Chemical common stock will represent Voridian common stock.

Q: WHAT DO I NEED TO DO NOW?

A: After reviewing this proxy statement, you should submit your proxy in one of the following ways so that your shares will be represented at the special meeting:

- use the toll-free telephone number shown on your proxy card or voting instruction form (if you received the proxy materials by mail from a broker or bank);
- by Internet at the web address shown on your proxy card or voting instruction form; or
- mark, sign, date and promptly return your proxy card or voting instruction form in the postage-paid envelope provided.

If a proxy card is signed and returned without an indication of how you would like to vote, the proxy will be voted FOR the Distribution.

Q: IF MY SHARES ARE HELD IN "STREET NAME" BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?

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A: Your broker will only be permitted to vote your shares if you provide instructions to your broker on how to vote. You should follow the procedures provided by your broker regarding the voting of your shares and be sure to provide your broker with instructions on how to vote your shares. If you do not give voting instructions to your broker, you will, in effect, be voting against the Distribution.

Q: WHAT IF I WANT TO REVOKE MY PROXY OR CHANGE MY VOTE AFTER I HAVE MAILED MY SIGNED PROXY CARD OR VOTED VIA THE INTERNET OR BY TELEPHONE?

A: You can revoke your proxy or change your vote by sending in a later-dated, signed proxy card or a written revocation to Eastman Chemical Company, P.O. Box 511, Kingsport, Tennessee 37662-5075, Attention: Secretary, so that it is received before the special meeting. Or you can submit a later-dated proxy via the Internet or by telephone before the special meeting, or attend the special meeting in person and vote. Your attendance at the special meeting will not, by itself, revoke your proxy. If you have instructed a broker to vote your shares, you must follow the directions received from your broker to change those voting instructions.

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Q: WHAT HAPPENS IF I DO NOT VOTE IN PERSON OR BY PROXY, IF I DO NOT INSTRUCT MY BROKER TO VOTE MY SHARES OR IF I ABSTAIN FROM VOTING?

A: If you do not vote in person or by proxy, or do not instruct your broker to vote your shares, or if you abstain from voting, it will have the same effect as a vote against the Distribution.

Q: WHEN WILL THE DISTRIBUTION BE COMPLETED?

A: Assuming the Distribution is approved by our shareowners and that all of the other conditions are met or waived, we expect that the Distribution will be completed on or about December 31, 2001.

Q: WHERE CAN I GET MORE INFORMATION?

A: Eastman Chemical shareowners with additional questions related to the Distribution should contact shareowner services at Eastman Chemical Company, P. O. Box 511, Kingsport, Tennessee 37662, telephone number: (423) 229-4647.

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### SUMMARY

This summary and the preceding question and answer section highlight some of the information in this proxy statement but may not contain all of the information that is important to you. To better understand the terms of the Distribution and the matter you are being asked to vote upon, you should read this entire proxy statement carefully, as well as the additional documents referred to in this summary and elsewhere. In this proxy statement, "Eastman Chemical" refers to Eastman Chemical Company on or prior to the date of the Distribution, "Eastman Company" refers to the entity named Eastman Company whose shares will be distributed to Eastman Chemical shareowners in the Distribution, and "Voridian" refers to Voridian Company, which will be the name of Eastman Chemical following the Distribution. Unless otherwise indicated, this proxy statement assumes that the Eastman Company Business has been operated by Eastman Company during applicable time periods.

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### PARTIES INVOLVED IN THE DISTRIBUTION

Eastman Chemical Company (to be renamed Voridian Company following the Distribution)  
100 North Eastman Road  
Kingsport, Tennessee 37660  
(423) 229-1000

Eastman Chemical currently owns and operates the businesses that will be owned and operated by Voridian and Eastman Company following the Distribution. As part of the Distribution, Eastman Chemical will distribute to its shareowners 100% of the outstanding shares of Eastman Company common stock and change its name to Voridian. Following the Distribution, the Voridian Business will consist of the following business segments of Eastman Chemical:

- polymers, which manufactures a broad line of PET polymers and polyethylene products; and
- fibers, which manufactures acetate tow, Estrobond triacetin plasticizers, acetate yarn, acetate flake and acetyl raw materials.

Building on Eastman Chemical's market-leading PET polymers business, Voridian expects to remain a market and cost position leader in PET polymers. Additionally, its fibers business is characterized by stable cash flows and long-term customer relationships based on superior customer service.

Eastman Company  
Building 280  
200 South Wilcox Drive  
Kingsport, Tennessee 37660  
(423) 229-2000

The Eastman Company Business will include the following business segments of Eastman Chemical:

- coatings, adhesives, specialty polymers and inks;
- performance chemicals and intermediates; and
- specialty plastics.

Eastman Company will also include Eastman Chemical's strategic investments, including its investment in Genencor, and ShipChem. Eastman Company believes it maintains a sales leadership position across the specialty chemicals and plastics industry and intends to continue its emphasis on providing innovative customer solutions. In addition, Eastman Company intends to continue to reduce its cost structure and take advantage of growth opportunities in less capital intensive businesses.

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### DATE, TIME AND PLACE OF THE SPECIAL MEETING (PAGE 27)

The special meeting of shareowners will be held at the Toy F. Reid Employee Center, 400 South Wilcox Drive, Kingsport, Tennessee 37660, on December 18, 2001, at 11:00 a.m., eastern time.

### THE PROPOSAL (PAGE 29)

At the special meeting, the board of directors of Eastman Chemical will ask

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you to vote FOR the proposal to approve a special dividend to the owners of the outstanding shares of Eastman Chemical common stock of all of the outstanding shares of common stock of Eastman Company, a wholly-owned subsidiary of Eastman Chemical, on a pro-rata basis, to be completed in accordance with the terms of a distribution agreement entered into between Eastman Chemical and Eastman Company.

### SPECIAL MEETING RECORD DATE (PAGE 27)

The board of directors of Eastman Chemical has fixed the close of business on November 2, 2001 as the record date for determining the holders of record of Eastman Chemical common stock entitled to receive notice of, and to vote at, the special meeting.

### VOTING RIGHTS; VOTE REQUIRED (PAGE 27)

Each Eastman Chemical shareowner of record is entitled to one vote for each share they hold as of the special meeting record date. Approval of the Distribution requires the affirmative vote of the holders of a majority of the shares of Eastman Chemical common stock outstanding. Abstentions and broker non-votes will have the same effect as votes against the Distribution.

### REASONS FOR THE DISTRIBUTION (PAGE 29)

The board of directors of Eastman Chemical, after consulting with, among others, its financial advisors, determined that in order to increase management focus and allow its business units to pursue independent strategies, it should explore strategic alternatives. Eastman Chemical's board of directors determined that it is in the best interests of shareowners to separate its businesses into two independent companies based on the following primary reasons:

- the businesses of Voridian and Eastman Company are substantially different, with different customers, growth plans and competitive characteristics;
- the Distribution should allow Voridian and Eastman Company to more effectively tailor each company's capital resources towards its individual operating needs; and
- Voridian and Eastman Company will each be able to pursue unique, focused corporate strategies and incentives.

### DISTRIBUTION OF EASTMAN COMPANY SHARES (PAGE 33)

The Distribution is the method by which Eastman Chemical will be separated into two independent, publicly-traded companies, Voridian and Eastman Company. As part of the Distribution, Eastman Chemical will distribute to its shareowners one share of Eastman Company common stock for each share of Eastman Chemical common stock they own on the record date for the Distribution, and will change its name to Voridian. Immediately after the Distribution, Eastman Chemical's shareowners will own shares of both Voridian and Eastman Company common stock, which will continue to comprise all of Eastman Chemical's businesses, but they will own them as two separate investments.

### EFFECT ON SHAREOWNERS (PAGE 33)

Upon the Distribution, each Eastman Chemical shareowner will retain his or her shares of Eastman Chemical common stock and, for each share of Eastman Chemical common stock owned by that

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shareowner on the record date for the Distribution, will receive one share of Eastman Company common stock.

Following the Distribution, certificates representing the "old" Eastman Chemical common stock will represent Voridian common stock.

### RECOMMENDATION OF THE BOARD (PAGE 29)

The Eastman Chemical board of directors believes that the Distribution is in the best interests of Eastman Chemical shareowners, has unanimously approved the Distribution and recommends that shareowners vote FOR this proposal.

### MATERIAL FEDERAL INCOME TAX CONSEQUENCES (PAGE 34)

Eastman Chemical has received from the IRS a ruling that the Distribution will be tax-free to Eastman Chemical and its shareowners for United States federal income tax purposes. Eastman Chemical expects that its shareowners will apportion their tax basis in Eastman Chemical common stock held immediately before the Distribution among the Voridian common stock and the Eastman Company common stock to be received in the Distribution based on the relative fair market values of each stock.

### NO APPRAISAL RIGHTS

Under Delaware law and Eastman Chemical's certificate of incorporation, Eastman Chemical shareowners have no right of appraisal of the value of their shares in connection with the Distribution.

### CONDITIONS TO THE DISTRIBUTION (PAGE 37)

Eastman Chemical's obligation to complete the Distribution is dependent upon a number of conditions, including:

- the approval of the Distribution by Eastman Chemical shareowners;
- the receipt of a solvency opinion from a qualified valuation firm; and
- the receipt of a ruling from the IRS that the Distribution will be tax-free to Eastman Chemical and its shareowners.

The distribution agreement also provides that Eastman Chemical may terminate and abandon, or defer, the Distribution at any time prior to its completion, either before or after approval by its shareowners, if, in the opinion of Eastman Chemical's board of directors, such action would be in the best interests of Eastman Chemical and its shareowners.

### DIVIDENDS AFTER THE DISTRIBUTION (PAGE 116)

Following the Distribution, based upon an assumed distribution ratio of one for one, Voridian intends to pay an initial annual cash dividend of between \$0.28 and \$0.32 per share, and Eastman Company intends to pay an initial annual cash dividend of between \$0.80 and \$0.88 per share, which, taken together, will be substantially less than the annual rate of the cash dividends currently paid on Eastman Chemical common stock of \$1.76 per share. Because many factors can contribute to a limitation on the ability to pay, or advisability of paying, dividends, the payment and level of any cash dividends by Voridian or Eastman Company after the Distribution will ultimately be subject to the discretion of each company's board of directors.

### LISTING OF VORIDIAN AND EASTMAN COMPANY COMMON STOCK (PAGE 36)

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Voridian's common stock (i.e., the "old" Eastman Chemical common stock) will continue to trade on the New York Stock Exchange, but, because Eastman Chemical will change its name to Voridian as part of the Distribution, the symbol under which it trades will change from "EMN" to "VR." As a result of

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the Distribution, the trading market for Voridian's common stock may be significantly different from that of Eastman Chemical's common stock before the Distribution.

There is currently no public trading market for Eastman Company's common stock. Eastman Company has applied to list its shares of common stock on the New York Stock Exchange under the symbol "EMN," which is the current trading symbol of Eastman Chemical.

RISK FACTORS (PAGE 13)

You should carefully evaluate the matters set forth under "Risk Factors," in addition to the other information in this proxy statement, when deciding whether to vote for the Distribution.

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### EASTMAN COMPANY

#### SUMMARY FINANCIAL DATA

The following summary historical financial data of Eastman Company, as of December 31, 2000 and 1999 and for the three years ended December 31, 2000 have been derived from the consolidated financial statements of Eastman Company, which have been audited by PricewaterhouseCoopers LLP, independent accountants, and are included elsewhere in this proxy statement. The summary historical financial data of Eastman Company as of and for the six months ended June 30, 2001 and 2000 are derived from the unaudited consolidated financial statements of Eastman Company, which, in the opinion of management, include all adjustments necessary for a fair presentation of such data in conformity with accounting principles generally accepted in the United States of America. Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be achieved for the year ending December 31, 2001.

The following summary pro forma consolidated financial and other data as of and for the six months ended June 30, 2001 and for the year ended December 31, 2000 have been derived by the application of pro forma adjustments to Eastman Company's historical consolidated financial statements included elsewhere in this proxy statement.

These data should be read in conjunction with, and are qualified in their entirety by, the information under "Eastman Company Selected Consolidated Financial Data," "Eastman Company Management's Discussion and Analysis of Financial Condition and Results of Operations," "Eastman Company Unaudited Consolidated Pro Forma Financial Information" and Eastman Company's consolidated financial statements and the related notes, which are included elsewhere in this proxy statement.

FOR THE YEAR ENDED  
DECEMBER 31,

SIX M

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	HISTORICAL			PRO FORMA	PRO FORMA
	2000	1999	1998	2000	2001
(IN MILLIONS, EXCEPT PER SHARE AMO					
COMBINED STATEMENT OF EARNINGS (LOSS)					
DATA:					
Sales.....	\$3,665	\$3,187	\$2,987	\$3,654	\$1,909
Net earnings (loss).....	162	70	180	172	(34)
UNAUDITED PRO FORMA EARNINGS (LOSS) PER					
SHARE:					
Basic.....	\$ 2.11	\$ 0.91	\$ 2.35	\$ 2.24	\$ (0.44)
Diluted.....	2.10	0.91	2.33	2.23	(0.44)
Shares used in calculating unaudited pro					
forma earnings (loss) per share:					
Basic(1).....	76.7	76.7	76.7	76.7	76.7
Diluted(1).....	77.3	77.3	77.3	77.3	76.7

	AS OF DECEMBER 31, HISTORICAL		AS OF JUNE 30,	
	2000	1999	PRO FORMA	HISTO
(IN MILLIONS)				
CONSOLIDATED BALANCE SHEET DATA:				
Working capital.....	\$ 170	\$ 161	\$ 429	\$
Total assets.....	4,415	3,952	4,575	4,
Total debt.....	--	--	1,300	
Eastman Chemical equity.....	2,858	2,634	1,869	3,

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	FOR THE YEAR ENDED DECEMBER 31,			SIX M	
	HISTORICAL			PRO FORMA	PRO FORMA
	2000	1999	1998	2000	2001
(IN MILLIONS)					
OTHER DATA:					
EBITDA excluding nonrecurring					
charges (2) (3).....	\$ 623	\$ 524	\$ 584	\$ 636	\$ 226
EBIT excluding nonrecurring					
charges (2) (3).....	335	272	356	348	76
Cash flows provided by (used in) operating					
activities.....	462	467	578	--	--
Cash flows used in investing activities...	(390)	(588)	(385)	--	--
Cash flows provided by (used in) financing					
activities.....	(72)	121	(193)	--	--

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Capital expenditures.....	156	191	358	156	80
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- (1) Shares used in calculating basic pro forma earnings per share is based on the number of shares expected to be outstanding at the date of distribution (assumed to be equal to the 76.7 million shares of Eastman Chemical common stock outstanding on June 30, 2001). Shares used in calculating diluted earnings per share is based on the number of shares expected to be issued in the Distribution and the dilutive effect of stock options and other stock-based instruments of Eastman Company expected to be issued in the Distribution.
- (2) Nonrecurring charges for the first six months of 2001 include charges related to asset impairments and restructurings; the write-off of a prepaid asset related to a supply agreement; and the write-off of in-process research and development related to the Hercules acquisition. Nonrecurring charges for 2000 include charges related to the phase-out of operations at Eastman Company's plants at Rochester, New York and Chocolate Bayou, Texas; write-off of in-process research and development related to the McWhorter acquisition; certain litigation; and a gain on the initial public offering of common stock of Genencor. Nonrecurring charges for 1999 include charges related to employee separations; the phase-out of operations at Eastman Company's plants at Rochester, New York and Chocolate Bayou, Texas; discontinued capital projects; write-off of in-process research and development related to the Lawter acquisition; certain litigation; and reimbursement of previously expensed pension costs related to Holston Defense Corporation. Nonrecurring charges for 1998 include charges related to certain underperforming assets and discontinued capital projects and a fine paid for a violation of the Sherman Act. These items are more fully described in notes 6, 7, 14, 15 and 19 to Eastman Company's consolidated financial statements, contained elsewhere in this proxy statement.
- (3) EBITDA excluding nonrecurring charges is defined as earnings before deducting net interest expense (interest expense less interest income), income taxes, depreciation, amortization and other income (charges), net, and adding back any applicable nonrecurring charges as discussed in the note above. EBIT excluding nonrecurring charges is defined as earnings before deducting net interest expense (interest expense less interest income), income taxes, and other income (charges), net, and adding back any applicable nonrecurring charges as discussed in the note above. Although EBITDA and EBIT are not measures of performance calculated in accordance with accounting principles generally accepted in the United States of America, Eastman Company's management believes that they are useful to an investor in evaluating Eastman Company because they are widely used in the chemicals industry as measures to evaluate a company's operating performance before its debt expense and cash flow. EBITDA and EBIT do not purport to represent cash generated by operating activities and should not be considered in isolation or as a substitute for measures of performance in accordance with accounting principles generally accepted in the United States of America. In addition, because EBITDA and EBIT are not calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies. Management's discretionary use of funds depicted by EBITDA and EBIT may be limited by working capital, debt service and capital expenditure requirements and by restrictions related to legal requirements, commitments and uncertainties. On a pro forma basis, Eastman Company had amortization expense of \$25 million and \$35 million for the first six months of 2001 and for the year ended December 31, 2000, respectively. In connection with the Distribution, all of Eastman Chemical's goodwill and other intangible assets will be contributed to Eastman Company.



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## EASTMAN CHEMICAL (TO BE RENAMED VORIDIAN)

### SUMMARY FINANCIAL DATA

The following summary historical financial data of Eastman Chemical, as of December 31, 2000 and 1999 and for the three years ended December 31, 2000 have been derived from the consolidated financial statements of Eastman Chemical which have been audited by PricewaterhouseCoopers LLP, independent accountants, and are included elsewhere in this proxy statement. The summary historical financial data of Eastman Chemical as of and for the six months ended June 30, 2001 and 2000 are derived from the unaudited consolidated financial statements of Eastman Chemical, which, in the opinion of management, include all adjustments necessary for a fair presentation of such data in conformity with accounting principles generally accepted in the United States of America. Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be achieved for the year ending December 31, 2001.

The following summary pro forma consolidated financial and other data as of and for the six months ended June 30, 2001 and for the years ended December 31, 2000, 1999 and 1998 have been derived by the application of pro forma adjustments to Eastman Chemical's historical consolidated financial statements included elsewhere in this proxy statement.

These data should be read in conjunction with, and are qualified in their entirety by, the information under "Eastman Chemical Selected Consolidated Financial Data," "Eastman Chemical Management's Discussion and Analysis of Financial Condition and Results of Operations," "Eastman Chemical Unaudited Consolidated Pro Forma Financial Information" and Eastman Chemical's consolidated financial statements and the related notes, which are included elsewhere in this proxy statement.

	FOR THE YEAR ENDED DECEMBER 31,			FOR THE YEAR ENDED DECEMBER 31,			S
	----- HISTORICAL -----			----- PRO FORMA -----			----- FORM -----
	2000	1999	1998	2000	1999	1998	200
	(IN MILLIONS, EXCEPT PER SHARE AMOUNT)						
CONSOLIDATED STATEMENT OF EARNINGS (LOSS) DATA:							
Sales.....	\$5,292	\$4,590	\$4,481	\$2,406	\$2,103	\$2,174	\$1,2
Net earnings (loss).....	303	48	249	132	(16)	84	(
EARNINGS (LOSS) PER SHARE:							
Basic.....	\$ 3.95	\$ 0.61	\$ 3.15	\$ 1.72	\$(0.20)	\$ 1.06	\$(0.
Diluted.....	3.94	0.61	3.13	1.71	(0.20)	1.06	(0.
Shares used in calculating earnings (loss) per share:							
Basic.....	76.8	78.2	78.9	76.8	78.2	78.9	76
Diluted.....	77.0	78.4	79.5	77.0	78.2	79.5	76

AS OF

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	DECEMBER 31,		JUNE 30, 2001	
	HISTORICAL		PRO FORMA	HISTORIC
	2000	1999		
	(IN MILLIONS)			
CONSOLIDATED BALANCE SHEET DATA:				
Working capital.....	\$ 265	\$ (119)	\$ 71	\$ 509
Total assets.....	6,550	6,303	1,904	6,434
Total debt.....	2,020	2,105	1,064	2,364
Shareowners' equity (deficit).....	1,812	1,759	(268)	1,610

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	FOR THE YEAR ENDED DECEMBER 31,			FOR THE YEAR ENDED DECEMBER 31,			SIX MONTHS	
	HISTORICAL			PRO FORMA			PRO FORMA	2001
	2000	1999	1998	2000	1999	1998		
	(IN MILLIONS)							
OTHER DATA:								
EBITDA excluding nonrecurring charges (1) (2).....	\$1,002	\$699	\$832	\$367	\$175	\$248	\$183	\$ 4
EBIT excluding nonrecurring charges (1) (2).....	584	316	478	237	44	122	119	1
Cash flows provided by operating activities.....	831	744	731	--	--	--	--	
Cash flows used in investing activities.....	(465)	(715)	(545)	--	--	--	--	(3)
Cash flows provided by (used in) financing activities.....	(451)	128	(186)	--	--	--	--	2
Capital expenditures.....	226	292	500	91	125	167	35	1

(1) Nonrecurring charges for the first six months of 2001 include charges related to asset impairments and restructurings; the write-off of a prepaid asset related to a supply agreement; and the write-off of in-process research and development related to the Hercules acquisition. Nonrecurring charges for 2000 include charges related to the phase-out of operations at Rochester, New York and Chocolate Bayou, Texas; write-off of in-process research and development related to the McWhorter acquisition; certain litigation; and a gain on the initial public offering of common shares of Genencor. Nonrecurring charges for 1999 include charges related to employee separations; the phase-out of operations at Rochester, New York and Chocolate Bayou, Texas; discontinued capital projects; write-off of in-process research and development related to the Lawter acquisition; certain litigation; and reimbursement of previously expensed pension costs related to Holston Defense. In addition, a charge for the write-off of construction in progress related to a PTA plant project is described in note 8 to Eastman Chemical's consolidated financial statements, included elsewhere in this proxy statement. Nonrecurring charges for 1998 included

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charges related to certain underperforming assets and discontinued capital projects and a fine paid for a violation of the Sherman Act. These items are more fully described in notes 6, 7, 14, 15 and 19 to Eastman Company's consolidated financial statements, included elsewhere in this proxy statement.

- (2) EBITDA excluding nonrecurring charges is defined as earnings before deducting net interest expense (interest expense less interest income), income taxes, depreciation, amortization and other income (charges), net, and adding back any applicable nonrecurring charges as discussed in the note above. EBIT excluding nonrecurring charges is defined as earnings before deducting net interest expense (interest expense less interest income), income taxes and other income (charges), net, and adding back any applicable nonrecurring charges as discussed in the note above. Although EBITDA and EBIT are not measures of performance calculated in accordance with accounting principles generally accepted in the United States of America, Eastman Chemical's management believes that they are useful to an investor in evaluating Eastman Chemical because they are widely used in the chemicals industry as measures to evaluate a company's operating performance before its debt expense and cash flow. EBITDA and EBIT do not purport to represent cash generated by operating activities and should not be considered in isolation or as a substitute for measures of performance in accordance with accounting principles generally accepted in the United States of America. In addition, because EBITDA and EBIT are not calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies. Management's discretionary use of funds depicted by EBITDA and EBIT may be limited by working capital, debt service and capital expenditure requirements and by restrictions related to legal requirements, commitments and uncertainties. On a pro forma basis, Voridian has no amortization expense for any of the periods presented as all goodwill and other intangibles will be contributed to Eastman Company in connection with the Distribution.

### RECENT DEVELOPMENTS

On October 25, 2001, Eastman Chemical announced its financial results for the quarter ended September 30, 2001. Sales revenue for the quarter was \$1.4 billion, a decrease of 1% from the quarter ended September 30, 2000. This decrease in revenue was due to lower selling prices in all of Eastman Chemical's business segments, partially offset by revenue from recent acquisitions.

Earnings for the quarter ended September 30, 2001 were \$0.55 per diluted share excluding nonrecurring items, as compared to \$1.05 per diluted share excluding nonrecurring items in the comparable period in 2000. Including nonrecurring items, earnings for the quarter ended September 30, 2001 were \$0.31 per diluted share as compared to \$1.27 per diluted share in the comparable period in 2000. This decline in earnings was due to lower capacity utilization as a result of weaker global demand, an unfavorable product mix and higher expenses related to the integration of acquisitions and costs related to ShipChem. Nonrecurring items for the third quarter primarily related to the closure of the Moundville, Alabama, plant, charges related to the ongoing restructuring of Eastman Chemical's fine chemicals product line, costs related to the Distribution and the adjustment of a previously recognized write-off of in-process research and development in connection with a recent acquisition.

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### RISK FACTORS

Eastman Chemical shareowners should consider the following factors, as well as the other information described in this proxy statement, before voting on the Distribution.

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### RISKS RELATING TO THE DISTRIBUTION

AFTER THE DISTRIBUTION, VORIDIAN AND EASTMAN COMPANY WILL HAVE SUBSTANTIAL BUSINESS ARRANGEMENTS WITH ONE ANOTHER, WHICH MAY ADVERSELY IMPACT THE BUSINESS OF EITHER OR BOTH COMPANIES.

Following the Distribution, Eastman Company will supply significant amounts of raw materials and energy and significant services to Voridian, and Eastman Company will derive a substantial portion of its revenues from Voridian for the provision of these products and services. The contracts governing these relationships generally have terms of two years. If and when these contracts expire or are otherwise terminated, or if there is otherwise any unfavorable development in the business of either Voridian or Eastman Company so that these obligations cannot be met, there can be no assurance that the other company will be able to find comparable or replacement customers or comparable sources of raw materials, energy or services. This inability to obtain raw materials or services necessary to produce the products or energy or services necessary to run the plant sites, or the inability to sell inventory or provide services, would have an adverse impact on the results of operations of both companies.

AFTER THE DISTRIBUTION, VORIDIAN WILL OWN FACILITIES LOCATED WITHIN PLANT SITES OWNED BY EASTMAN COMPANY, WHICH MAY ADVERSELY IMPACT THE BUSINESS OF EITHER COMPANY OR BOTH.

Due to the significant levels of production integration and physical proximity within some of the plant sites owned by Eastman Chemical, after the Distribution Voridian will own facilities located within plant sites owned by Eastman Company. Eastman Company will own a majority of the facilities and real estate at the Kingsport, Tennessee and Longview, Texas plant sites. The remaining facilities located within those plant sites will be owned by Voridian, and Voridian and Eastman Company will establish easements, restrictions and other arrangements designed to provide both parties with access to, and the ability to operate, their businesses at each location, and will enter into operating agreements to ensure the provision of some fundamental services. If these provisions or agreements are ineffective for any reason, there can be no assurance that Voridian or Eastman Company will be able to fully access or conduct operations at its facilities. The inability to gain effective access to, or to operate, all or any portion of these facilities could have an adverse impact on the results of operations of either or both companies.

NEITHER VORIDIAN NOR EASTMAN COMPANY HAS AN OPERATING HISTORY AS A SEPARATE ENTITY, WHICH MAKES IT DIFFICULT TO ASSESS HISTORICAL PERFORMANCE, AND MAY MAKE IT DIFFICULT TO ACCURATELY FORECAST THEIR FUTURE REVENUES AND OTHER OPERATING RESULTS.

Following the Distribution, Voridian and Eastman Company will operate as separate, publicly-traded companies. Neither of these companies has an operating history as a separate entity, and each has historically been able to rely on the results of operations, assets and cash flow of the other's business segments. Because the financial information does not reflect changes that are expected to occur as a result of the Distribution, and contains assumptions about Voridian's expenses that may change in the future, neither the historical nor the pro forma financial information included in this proxy statement necessarily reflect the results of operations and financial condition that would have been achieved had the companies operated as independent companies during the periods presented nor are they necessarily indicative of what the companies' future results of operations will be. Their lack of operating histories as separate entities may make it difficult or impossible for analysts or investors to accurately forecast their future revenues and other operating results, which could result in lower stock prices.

AFTER THE DISTRIBUTION, VORIDIAN AND EASTMAN COMPANY WILL BE SMALLER, LESS DIVERSIFIED COMPANIES THAN EASTMAN CHEMICAL WAS PRIOR TO THE DISTRIBUTION, WHICH MAY RESULT IN FLUCTUATIONS IN RESULTS OF OPERATIONS AND MAY ADVERSELY IMPACT THE BUSINESS OF EITHER COMPANY.

The Distribution will separate Eastman Chemical's historical businesses into the Voridian Business and the Eastman Company Business. As a result, each of Voridian and Eastman Company will be less diversified and have a narrower business focus than that of Eastman Chemical before the Distribution. This narrow focus means each company will be more dependent on its own, more limited business segments, and will be more vulnerable to changing market conditions, which could have an adverse impact on the business of either company.

AFTER THE DISTRIBUTION, VORIDIAN AND EASTMAN COMPANY WILL EACH HAVE LESS FINANCIAL STRENGTH, FLEXIBILITY AND PURCHASING POWER THAN EASTMAN CHEMICAL HAD PRIOR TO THE DISTRIBUTION, WHICH MAY RESULT IN INCREASED BORROWING COSTS OR LESS FAVORABLE RAW MATERIAL CONTRACTS.

After the Distribution, Voridian and Eastman Company may each seek to obtain financing in the bank and/or commercial paper markets, or through public or private issuances of debt securities. These markets are volatile and rates, terms and availability fluctuate based on conditions in the markets and lenders' perceptions of a company's business and financial stability. As smaller, less diversified companies, Voridian and Eastman Company will each have less financial strength and flexibility due to potential increased volatility in earnings and cash flow. These financial risks may result in higher borrowing costs for Voridian or Eastman Company.

In addition, as separate companies, Voridian and Eastman Company will independently negotiate contracts for raw materials. Each company will be smaller than Eastman Chemical was before the Distribution and will most likely purchase smaller quantities of raw materials than Eastman Chemical did. This lessened purchasing power may result in Voridian or Eastman Company receiving less favorable raw material contracts and paying higher prices for raw materials, which may adversely impact that company's results of operations.

THE MARKET PRICE OF VORIDIAN'S AND EASTMAN COMPANY'S COMMON STOCK MAY EXPERIENCE FLUCTUATIONS AND VOLATILITY FOLLOWING THE DISTRIBUTION.

There is currently no public market for Eastman Company common stock, and there can be no assurance as to its trading prices following the Distribution. Until Eastman Company common stock is fully distributed, receives adequate securities research analyst coverage and an orderly trading market develops, its price may fluctuate significantly. There can be no assurance, however, that Eastman Company common stock will receive adequate, or any, research analyst coverage or that an orderly trading market will develop.

Because of the significant changes that will take place as a result of the Distribution, the trading market for Voridian common stock after the Distribution may be significantly different from that of Eastman Chemical common stock prior to the Distribution. The market may view Voridian as a "new" company after the Distribution, and it may not be covered by research analysts in the same manner as Eastman Chemical has been. There can be no assurance of the market price of Voridian common stock before or after the Distribution and, until an orderly trading market in Voridian common stock is restored following the Distribution, its common stock price may fluctuate significantly. There can, however, be no assurance that an orderly trading market will develop for Voridian common stock.

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Market prices for each of Voridian and Eastman Company common stock will be determined in the marketplace and may be influenced by many factors, including:

- the depth and liquidity of the market for each company's shares;
- each company's results of operations;
- investors' evaluations of the future prospects for each company and their respective industries;

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- each company's dividend policy; and
- general economic and market conditions.

THERE MAY BE SUBSTANTIAL CHANGES IN THE SHAREOWNER BASE OF THE TWO NEW COMPANIES, WHICH MAY CAUSE THE PRICE OF EACH COMPANY'S COMMON STOCK TO DECREASE.

Investors holding Eastman Chemical common stock may hold that common stock because of a decision to invest in a company that operates in multiple markets within the chemicals industry, that pays dividends with a requisite yield or that is included in broad stock market indices, such as the Standard & Poor's 500 Index. Following the Distribution, shares of Eastman Chemical common stock (which will become Voridian common stock) will represent an investment in a smaller company with its business concentrated in PET polymers and acetate fibers. Similarly, shares of Eastman Company will represent an investment in primarily a specialty chemicals company. It is expected that the aggregate dividend to be paid by Voridian and Eastman Company will be substantially lower than the historical dividend paid by Eastman Chemical. These changes may not match some holders' investment strategies or meet minimum criteria for inclusion in stock market indices, which could cause investors to sell the shares of either company's common stock. Excessive selling pressure could cause the market price of each company's common stock to decrease.

THERE ARE TAX RISKS RELATING TO THE DISTRIBUTION, WHICH COULD HARM THE FINANCIAL CONDITION, OPERATIONS AND CASH FLOWS OF VORIDIAN AND/OR EASTMAN COMPANY AND CAUSE SHAREOWNERS OF VORIDIAN AND/OR EASTMAN COMPANY TO INCUR TAX LIABILITIES.

Eastman Chemical has received from the IRS a ruling that the Distribution will qualify as a tax-free spin-off under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code of 1986, as amended, or the Code.

The IRS ruling is based on certain representations that have been made by Eastman Chemical. The ruling may not be relied upon if those representations are incorrect or incomplete in any material respect.

If the Distribution does not qualify as a tax-free spin-off, then, in general, a federal corporate tax (which would be very substantial) would be payable by Eastman Chemical. This corporate tax would be based on the excess, if any, of the fair market value of Eastman Company's common stock at the time of the Distribution over Eastman Chemical's tax basis for the common stock. This tax, if incurred, would harm the financial condition, operations and cash flows of Voridian and/or Eastman Company, depending on how the companies allocate the burden of the tax.

In addition, if the Distribution fails to qualify for tax-free treatment for the shareowners, each Eastman Chemical shareowner who receives Eastman Company's common stock in the Distribution would generally be treated as

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receiving a taxable distribution in an amount equal to the fair market value of the common stock of Eastman Company received. That distribution would be taxable as a dividend to the extent of Eastman Chemical's current and accumulated earnings and profits.

Even if the Distribution otherwise qualifies for tax-free treatment under Sections 355 and 368(a)(1)(D) of the Code, the Distribution may become taxable to Eastman Chemical under Section 355(e) of the Code if 50% or more of the stock of Voridian or Eastman Company is acquired, directly or indirectly, as part of a plan or series of related transactions that include the Distribution. For this purpose, acquisitions (including acquisitions which are neither planned nor accepted or recommended by the management of the company whose stock is acquired) of Voridian's or Eastman Company's stock within two years before or after the Distribution are presumed to be part of this plan, although Voridian or Eastman Company may be able to rebut that presumption. If an acquisition of Voridian's or Eastman Company's stock triggers the application of Section 355(e), Eastman Chemical would recognize taxable gain to the extent that the fair market value of Eastman Company's stock at the time of the Distribution exceeded Eastman Chemical's tax basis for that stock.

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Although any United States federal income taxes imposed in connection with the Distribution generally would be imposed on Eastman Chemical and its shareowners, Voridian and Eastman Company may be liable for all or a portion of these taxes. First, as part of the Distribution, Voridian and Eastman Company will enter into a tax matters agreement. This agreement will generally allocate between the companies the taxes and liabilities relating to a failure of the Distribution to be tax-free. Further, aside from the tax matters agreement, under United States federal income tax laws, Voridian and Eastman Company would be jointly and severally liable for Eastman Chemical's federal income taxes resulting from the Distribution being taxable. This means that even if Eastman Company indemnifies Voridian for a part of the tax liability, either company may still be held liable for the whole amount if the other company fails to fund its share of the entire tax liability.

VORIDIAN AND/OR EASTMAN COMPANY MAY NOT PAY OR MAY REDUCE DIVIDENDS ON THEIR RESPECTIVE COMMON STOCK, WHICH COULD RESULT IN A DECREASE IN THE PRICE OF EACH COMPANY'S COMMON STOCK. ALTERNATIVELY, THE CONTINUED PAYMENT OF DIVIDENDS MAY REDUCE THE CASH AVAILABLE TO FUND OTHER OPPORTUNITIES.

The initial annual cash dividends to be paid by Voridian and Eastman Company, in the aggregate, are anticipated to be between \$1.08 and \$1.20 per share, which is substantially less than the amount historically paid to shareowners of Eastman Chemical. Of this amount, Voridian intends to pay an initial annual cash dividend of between \$0.28 and \$0.32 per share, and Eastman Company intends to pay an initial annual cash dividend of between \$0.80 and \$0.88 per share. However, there can be no guarantee that these, or any, dividends will be paid by either company following the Distribution. Each company will continue to evaluate its own dividend policy following the Distribution, recognizing its particular needs to finance its future plans. The actual amount of any dividends will depend on the companies' respective operating results, financial requirements and other factors as they develop over time. Investors may invest in the common stock of Voridian and Eastman Company because of each company's desire and ability to pay dividends. If either company is unwilling or unable to maintain its anticipated dividend in the future, some investors may choose to sell their shares of that company's common stock, which could result in a decrease in the market price of that company's common stock.

VORIDIAN AND/OR EASTMAN COMPANY MAY NOT BE ABLE TO SATISFY THEIR INDEMNIFICATION OBLIGATIONS RELATED TO THE DISTRIBUTION, WHICH COULD RESULT IN

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THE OTHER COMPANY INCURRING ADDITIONAL COSTS OF THE DISTRIBUTION AND COULD HARM EACH COMPANY'S FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS.

The distribution agreement and other agreements related to the Distribution entered into between Eastman Chemical and Eastman Company allocate responsibility between Voridian and Eastman Company for various debts, liabilities and obligations. The distribution agreement provides that Eastman Company will indemnify Voridian for the liabilities assumed by Eastman Company under these agreements (including specified liabilities related to the Eastman Company Business which will be contingent liabilities of Voridian by virtue of the structure of the Distribution) and Voridian will indemnify Eastman Company with respect to the liabilities retained by Voridian. However, the availability of any indemnities will depend upon the future financial strength of the indemnifying party. No assurance can be given that either company will be in a financial position to fund its indemnity obligations. If either company is forced to pay costs that otherwise should have been covered by the indemnity obligation of the other, the financial condition, results of operations and cash flows of the paying company could be harmed.

THERE ARE TAX RISKS ARISING FROM THE DISTRIBUTION THAT COULD DELAY OR PREVENT A SUBSEQUENT CHANGE OF CONTROL OR ACQUISITION OF VORIDIAN OR EASTMAN COMPANY.

Under Section 355(e) of the Code, the Distribution would be treated as a taxable transaction to Voridian if one or more persons acquire directly or indirectly 50% or more of Eastman Company or Voridian common stock, measured by vote or value, as part of a plan that includes the Distribution. For this purpose, any acquisitions of Voridian's or Eastman Company's stock within two years before or after the Distribution are presumed to be part of that plan, although this presumption is rebuttable. If an acquisition of Eastman Company triggers the application of Section 355(e), under the tax matters

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agreement, Eastman Company would be required to indemnify Voridian for all or part of the resulting tax. This tax risk and the related indemnification obligation might discourage, delay or prevent a change of control of either company that the shareowners may otherwise consider favorable.

### RISKS RELATING TO EASTMAN COMPANY

EASTMAN COMPANY'S MARKETS ARE HIGHLY COMPETITIVE AND REQUIRE EASTMAN COMPANY TO CONTINUALLY UPDATE ITS PRODUCTS AND SERVICES THROUGH EXPENDITURES IN RESEARCH AND DEVELOPMENT, WHICH EXPENDITURES MAY NOT PROVE TO BE SUCCESSFUL AND MAY ADVERSELY IMPACT ITS RESULTS OF OPERATIONS.

The specialty chemicals and plastics markets in which Eastman Company operates are highly competitive, dominated by a number of multinational companies and are characterized by substantial investments in research and development, technological change, new product introductions, evolving industry standards and changing customer needs. Eastman Company expects intense competition to continue in its markets, presenting significant challenges to its ability to achieve strong growth rates and acceptable profit margins. In order to remain competitive, Eastman Company must continually innovate, providing customers with new value-added solutions in a timely manner. These projects carry the risks associated with any research and development effort, including cost overruns, delays in delivery and performance problems. Any performance issue that arises with a new product or service could result in loss of customers and may have an adverse impact on Eastman Company's credibility and reputation in the marketplace, as well as result in increased expenses or a loss of revenues.



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IF EASTMAN COMPANY'S MARKETS BECOME MORE PRICE SENSITIVE OR IF IT IS UNSUCCESSFUL IN ENTERING NEW MARKETS AND DEVELOPING NEW SOURCES OF REVENUE, ITS RESULTS OF OPERATIONS MAY SUFFER AND ITS COMMON STOCK PRICE MAY DECLINE.

To the extent Eastman Company fails to differentiate its products from those of its competitors, it will be forced to compete primarily on price rather than product performance, which may decrease product prices and revenues and adversely affect its results of operations.

In addition, Eastman Company's growth depends, in significant part, on its ability to successfully enter new markets and develop new sources of revenues to complement its core chemicals business. Eastman Company's strategy includes integrating recently-acquired technologies and products into its existing product lines as well as internally developing new value-added products and services. If Eastman Company is unsuccessful in these initiatives, its results of operations may be adversely impacted and its common stock price may decline.

SOME OF THE MARKETS IN WHICH EASTMAN COMPANY COMPETES ARE CYCLICAL, WHICH EXPOSES EASTMAN COMPANY TO POTENTIALLY SIGNIFICANT FLUCTUATIONS IN ITS FINANCIAL CONDITION AND COMMON STOCK PRICE.

Eastman Company sells some of its products into markets that are generally cyclical, and therefore experiences significant fluctuations in prices due to factors beyond Eastman Company's control, such as the amount of industry capacity and the related utilization rates. Eastman Company may not be able to increase or maintain its levels of revenues in periods where incremental capacity additions are not offset by corresponding increases in demand. As a result, Eastman Company is exposed to potentially significant fluctuations in its results of operations, which in turn could adversely affect its financial condition and common stock price.

EASTMAN COMPANY MAY NOT REALIZE ANY ADDITIONAL BENEFITS FROM ITS COST SAVINGS INITIATIVES AND/OR PRICE INCREASES.

Eastman Company has undertaken, and will continue to undertake, productivity and cost reduction initiatives related to its recent acquisitions and organizational restructurings to improve performance and generate cost savings. There can be no assurance that these will be completed as planned or that the estimated cost savings from these activities will be realized.

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In addition to cost reduction initiatives, Eastman Company is striving to improve margins on its products through price increases, where warranted and accepted by the market; however, Eastman Company's earnings could be negatively impacted should these increases be unrealized, be insufficient to cover increased raw materials costs or have a negative impact on demand and volume.

THE LOSS OF VORIDIAN AS A CUSTOMER, OR ANY OTHER OF EASTMAN COMPANY'S SIGNIFICANT CUSTOMERS, COULD HAVE AN ADVERSE IMPACT ON ITS REVENUES AND RESULTS OF OPERATIONS.

Although Eastman Company has an extensive customer base, it relied on its largest 35 customers for approximately 40% of its historical sales in 2000, excluding sales to Voridian. Sales to Voridian represented approximately 17% of Eastman Company's historical sales in 2000. The loss of Voridian as a customer would adversely affect revenues and results of operations, and the loss of any other significant customers could adversely affect revenues and results of operations unless and until the lost business is replaced. Eastman Company believes that it is unlikely that it could replace Voridian as a customer, particularly with respect to the sale of ethylene.

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AS A RESULT OF THE DISTRIBUTION, EASTMAN COMPANY WILL BE REQUIRED TO ENTER INTO NEW FINANCIAL ARRANGEMENTS PRIOR TO THE DISTRIBUTION AND, IF THE NEW ARRANGEMENTS ARE UNFAVORABLE, EASTMAN COMPANY'S RESULTS OF OPERATIONS OR FINANCIAL CONDITION MAY BE ADVERSELY IMPACTED.

Upon the Distribution, Eastman Company will be required to secure new financing to fund its working capital needs after the Distribution. Based on this need, Eastman Company is in the process of obtaining a revolving credit facility, which is expected to be implemented simultaneously with the Distribution. If Eastman Company executes an agreement on terms that are generally less favorable than are generally available through Eastman Chemical's current financing arrangements, Eastman Company's results of operations or financial condition may be adversely affected.

FOLLOWING THE DISTRIBUTION, EASTMAN COMPANY WILL BE MORE LEVERAGED THAN EASTMAN CHEMICAL WAS PRIOR TO THE DISTRIBUTION, WHICH MAY RESULT IN GREATER RISK OF FINANCIAL DISTRESS AND/OR INSTABILITY.

Assuming the Distribution had occurred on June 30, 2001, on a pro forma basis Eastman Company would have had total long-term debt of \$1.3 billion. On a pro forma basis, Eastman Company's annual net interest expense would have been \$86 million in fiscal 2000 had the Distribution occurred on January 1, 2000. Following the Distribution, Eastman Company will be more leveraged on a relative basis than Eastman Chemical was prior to the Distribution, which may subject Eastman Company to greater risk of financial distress and/or instability.

EASTMAN COMPANY MAY NOT BE ABLE TO PROTECT ITS INTELLECTUAL PROPERTY, WHICH IS INTEGRAL TO ITS MAINTAINING A COMPETITIVE ADVANTAGE.

Eastman Company invests significant resources in developing and protecting intellectual property assets, including patents and trademarks such as Spectar and DuraStar copolyesters, which Eastman Company believes provide it with significant competitive advantages. Eastman Company primarily relies on United States and foreign intellectual property laws to protect its intellectual property assets, but these laws provide only limited protection, and in many foreign countries where intellectual property laws are not well developed or poorly enforced, Eastman Company may not be able to adequately protect these rights. If Eastman Company is unable to protect its intellectual property assets, for whatever reason, it may lose its competitive position in the markets in which it competes and its results of operations may be harmed.

BECAUSE A SIGNIFICANT PERCENTAGE OF EASTMAN COMPANY'S REVENUES COMES FROM SALES OUTSIDE THE UNITED STATES, EASTMAN COMPANY IS SUBJECT TO MARKET FLUCTUATIONS IN FOREIGN CURRENCIES, WHICH COULD HARM RESULTS OF OPERATIONS.

Eastman Company has manufacturing and marketing operations throughout the world, with approximately 31% of its 2000 historical sales attributable to sales outside the United States. Economic

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factors, including foreign currency exchange rates, could cause products to become relatively more expensive for customers outside of the United States and reduce demand for products, which could affect its revenues and results of operations. Although Eastman Company utilizes risk management tools to mitigate market fluctuations in foreign currencies, any changes in strategy with regard to risk management tools could also affect results of operations, and there can be no assurance that any measures will result in cost savings or that all market fluctuation exposure will be eliminated.

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EASTMAN COMPANY IS SUBJECT TO A NUMBER OF RISKS SPECIFIC TO THE INTERNATIONAL MARKETS IN WHICH IT OPERATES, WHICH COULD HARM EASTMAN COMPANY'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Eastman Company's businesses are subject to risks specific to the international markets in which it operates, such as changing economic and political conditions, many of which are beyond Eastman Company's control. In particular, the specialty chemicals and plastics businesses are global and are affected by market conditions outside of the United States. These businesses are often subject to, among other matters, foreign government policies and regulations, embargoes, United States government policies relating to international markets and international hostilities. In addition, changes in laws, regulations, or other political factors, such as unexpected changes in regulatory requirements, changes in import or export licensing requirements or political instability in any of the countries in which Eastman Company operates could affect business in that country or region. Although Eastman Company tries to reduce exposure to uncertain international market conditions, it is unable to completely predict or control its amount and mix of business and revenues. To the extent that international businesses are affected by unexpected international market conditions, Eastman Company's results of operations and financial condition could be adversely affected.

In addition, sales to international markets carry risks in that Eastman Company may face difficulty in enforcing its rights and agreements through foreign legal systems. In particular, Eastman Company faces reduced protection for intellectual property rights in some countries. Further, Eastman Company may face longer accounts receivable collection periods and difficulties and costs of staffing and managing foreign operations. Each of these factors exposes Eastman Company to risk and could increase Eastman Company's costs or reduce its revenues from international sales, which would harm Eastman Company's results of operations.

EASTMAN COMPANY MAY SUFFER SIGNIFICANT LOSSES RESULTING FROM GENERAL PRODUCT LIABILITY, WHICH MAY HARM EASTMAN COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

As a manufacturer of specialty chemicals and plastics, Eastman Company is at risk for potentially significant product liability and associated losses. Eastman Company cannot predict or protect against all potential losses or liabilities that may arise relating to its products. Eastman Company maintains insurance against many, but not all, potential losses and liabilities, in accordance with customary industry practice and in amounts it believes to be prudent. If any losses or liabilities are not covered by insurance, or if the insurance is insufficient, Eastman Company would be required to satisfy these losses and liabilities and Eastman Company's financial condition and results of operations may be adversely affected.

EASTMAN COMPANY'S OPERATIONS ARE SUBJECT TO MANY ENVIRONMENTAL, SAFETY AND HEALTH LAWS, REGULATIONS AND REQUIREMENTS THAT ARE CONTINUALLY CHANGING, AND COMPLIANCE MAY REQUIRE ADDITIONAL EXPENSE, WHICH COULD ADVERSELY AFFECT EASTMAN COMPANY'S RESULTS OF OPERATIONS.

Eastman Company's facilities and businesses are subject to complex health, safety and environmental laws and regulations relating to the use, storage, handling, generation, transportation, emission, discharge, disposal and remediation of, and exposure to, hazardous and non-hazardous substances and wastes in all of the countries in which it does business. The nature of Eastman Company's existing and historical operations exposes it to the risk of liabilities or claims with respect to environmental matters, including on-site and off-site releases and emissions of hazardous and non-hazardous substances and wastes. These liabilities or claims may include costs associated with environmental investigations and remediation

activities, as well as plant closure and restoration projects. Further, these liabilities or claims may include capital and other costs associated with environmental compliance matters at its numerous facilities.

These laws and regulations require, and will continue to require, significant expenditures to remain in compliance, both currently and in the future. Ongoing operations can be affected by unanticipated government enforcement action, which in turn is influenced by the nature of an allegation and the complexity of the site. Likewise, changes in chemical control regulations and testing requirements can increase costs or result in product discontinuation. Remedial requirements at contaminated sites are dependent on the nature of the remedy, the outcome of negotiations with regulatory agencies and other potentially responsible parties at multi-party sites, as well as the number and financial viability of other potentially responsible parties. While Eastman Company and Voridian have agreed to indemnification arrangements that apply to environmental matters, Eastman Company cannot be assured that any claim, if asserted, would be enforceable or that Voridian could pay, which could further increase its costs and obligations.

Further, it is impossible to predict the nature and impact of future judicial, legislative or regulatory developments relating to the environmental protection, health and safety requirements applicable to Eastman Company's operations. Changes in existing laws or regulations, or the discovery of additional environmental liabilities associated with Eastman Company's existing or historical operations, could require Eastman Company to incur material costs or could otherwise significantly harm Eastman Company's business, results of operations or financial condition. The requirements to be met, as well as the technology and length of time available to meet those requirements, continue to develop and change. To the extent that the costs associated with meeting any of these requirements are substantial and not adequately provided for, there could be a material adverse effect on Eastman Company's results of operations and financial condition.

EASTMAN COMPANY'S STRATEGIC INITIATIVES MAY NOT ACHIEVE THE COMPANY'S OBJECTIVES OR MAY LOSE VALUE.

As a result of the Distribution, Eastman Company will own some assets in the form of equity investments in other companies, including joint ventures, alliances and other investments. These initiatives, some of which are minority investments in companies that are not managed or controlled by Eastman Company, are subject to all of the risks associated with changes in value of investments, including the market valuation of those companies whose shares are publicly traded. Eastman Company intends to continue its strategic initiatives, including the formation of joint ventures and alliances and to invest in additional businesses, in order to broaden its business capabilities. Additional objectives in pursuing these initiatives are to obtain access to new technologies and service methodologies or an expanded customer base, but these objectives may fail due to undercapitalization, ineffective technology or other factors. There can be no assurance that any of these initiatives will achieve Eastman Company's objectives or that they will benefit Eastman Company's results of operations.

UNCERTAINTY IN RAW MATERIAL COSTS COULD RESULT IN HIGHER MANUFACTURING EXPENSES AND LOWER REVENUES AND NET INCOME FOR EASTMAN COMPANY.

Eastman Company relies on strategic raw materials for its operations and utilizes risk management tools, including hedging, as appropriate, to mitigate short-term market fluctuations in raw materials costs. Eastman Company expects to continue to enter into contracts for the purchase of raw materials at prices

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that are designed to protect it against raw material price increases during their term. These hedging arrangements and purchase contracts could cause Eastman Company to incur higher total costs related to its raw materials than would otherwise be incurred at the time it utilizes the raw materials, and there can be no assurance that any of these measures will result in cost savings or that all market fluctuation exposure will be eliminated. Further, Eastman Company expects to purchase a substantial portion of its raw materials from Voridian and through long-term contracts with a limited number of other suppliers. While Eastman Company plans to take measures to ensure that it maintains an adequate supply of raw materials, there can be no assurance that this supply of raw materials will not be delayed or interrupted, which may result in production delays and decreased revenues.

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EASTMAN COMPANY MAY NOT BE ABLE TO FULLY INTEGRATE ANY OR ALL OF ITS RECENT ACQUISITIONS IN A COST-EFFICIENT MANNER, WHICH MAY ADVERSELY AFFECT ITS RESULTS OF OPERATIONS.

Over the past three years, Eastman Chemical has made acquisitions as part of its growth strategy, which have added new business operations to the Eastman Company Business. Eastman Company expects to continue to integrate these acquired businesses into its processes to take advantage of cost-saving and synergy opportunities. However, the process of integrating these acquisitions may take significant time and resources and there can be no assurance that any acquired company or technology will be successfully integrated on a timely and cost-efficient basis or that the acquired company or technology will achieve projected operating earnings targets.

DELAWARE LAW CONTAINS, AND EASTMAN COMPANY'S CERTIFICATE OF INCORPORATION, BYLAWS AND RIGHTS PLAN WILL CONTAIN, PROVISIONS THAT COULD DELAY OR PREVENT A CHANGE IN CONTROL OF EASTMAN COMPANY.

Provisions of Eastman Company's certificate of incorporation, bylaws and rights plan, and provisions of applicable Delaware law, may discourage, delay or prevent a merger or other change of control that shareowners may consider favorable. The provisions of Eastman Company's certificate of incorporation and bylaws, among other things, will:

- provide for a classified board of directors, with members of each class to be elected in staggered three-year terms;
- prevent Eastman Company's shareowners from acting without a meeting;
- regulate how shareowners may present proposals or nominate directors for election at annual meetings; and
- authorize Eastman Company's board of directors to issue up to 50,000,000 shares of preferred stock with rights, preferences, privileges and restrictions, including voting rights, that could be senior to those of its common stock, without shareowner approval.

These provisions may make some corporate actions more difficult and might delay or prevent a change in control of Eastman Company or may make acquiring control of Eastman Company more difficult.

In addition, Eastman Company's rights plan is designed to protect Eastman Company shareowners in the event of an unsolicited offer and other takeover tactics, which in the opinion of Eastman Company's board of directors could impair the board of directors' ability to represent the interests of shareowners. The provisions of the rights plan may make an unsolicited tender offer more difficult or less likely to occur, or might delay, deter or prevent a

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takeover. Eastman Company is also subject to provisions of Delaware law, which may restrict or deter a change in control. For a discussion of the applicable provisions of Delaware law, please refer to "Description of Eastman Company Capital Stock -- Anti-Takeover Provisions of Eastman Company's Certificate of Incorporation and Bylaws and Delaware Law" in this proxy statement.

### RISKS RELATING TO VORIDIAN

VORIDIAN WILL INCUR ADDITIONAL COSTS AND EXPENSES TO DEVELOP INTERNAL HUMAN RESOURCES AND ADMINISTRATIVE FUNCTIONS AFTER THE DISTRIBUTION, WHICH MAY ADVERSELY IMPACT ITS RESULTS OF OPERATIONS, AND IF THESE EFFORTS ARE UNSUCCESSFUL OR DELAYED, VORIDIAN'S REPUTATION IN THE MARKETPLACE MAY BE HARMED.

Although Eastman Chemical has operated as a public company, a significant portion of its management and employees will become employees of Eastman Company after the Distribution. Voridian will be required to incur additional costs and expenses associated with developing the necessary internal human resources and administrative functions to address the needs of its customers and employees and the requirements of its public company status. If Voridian is unsuccessful or delayed in developing these resources, it may lose credibility in the marketplace.

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In addition, except as provided for in agreements between Eastman Chemical and Eastman Company relating to the Distribution, Eastman Company will not be required to provide assistance or services to Voridian. Some of this assistance or these services are only being provided for short periods of time and may be terminated upon the occurrence of specified events. When this assistance or these services are no longer available from Eastman Company, Voridian must obtain them from its own personnel or third parties. This assistance or these services may not be available or, if available, may result in additional costs and expenses to Voridian.

VORIDIAN WILL NOT HAVE THE RIGHT TO USE THE EASTMAN NAME EXCEPT DURING A BRIEF TRANSITION PERIOD, WHICH WILL REQUIRE VORIDIAN TO MAKE SUBSTANTIAL INVESTMENTS IN MARKETING AND BRAND NAME DEVELOPMENT, WHICH MAY NOT PROVE TO BE SUCCESSFUL.

Voridian has previously had the benefit of the Eastman name and reputation in marketing its products and in dealing with government officials. One of the challenges facing Voridian will be to develop an identity for itself that is independent of the Eastman name. Voridian will have to make additional advertising and promotion expenditures to position its new name in its markets and cannot predict whether the substitution of a new name will adversely affect its acquisition and retention of customers, its relations with governmental agencies or its financial performance.

AS A RESULT OF THE DISTRIBUTION, VORIDIAN WILL BE REQUIRED TO ENTER INTO NEW FINANCIAL ARRANGEMENTS PRIOR TO THE DISTRIBUTION, AND IF THE NEW ARRANGEMENTS ARE UNFAVORABLE, VORIDIAN'S RESULTS OF OPERATIONS OR FINANCIAL CONDITION MAY BE ADVERSELY IMPACTED.

Upon the Distribution, Voridian will be required to secure new financing to retire debt of Eastman Chemical and to fund its working capital needs after the Distribution. Based on this need, Eastman Chemical is in the process of negotiating new credit arrangements for Voridian, which are expected to be implemented in connection with the Distribution. If Voridian enters into arrangements on terms that are significantly less favorable than the current financing terms, Voridian's results of operations or financial condition may be adversely affected.

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FOLLOWING THE DISTRIBUTION, VORIDIAN WILL BE SUBSTANTIALLY MORE LEVERAGED THAN EASTMAN CHEMICAL WAS PRIOR TO THE DISTRIBUTION, WHICH MAY RESULT IN GREATER RISK OF FINANCIAL DISTRESS AND/OR INSTABILITY.

Assuming the Distribution had occurred on June 30, 2001, on a pro forma basis Voridian would have had total debt of \$1.064 billion and negative shareowners' equity of \$302 million. On a pro forma basis, Voridian's annual net interest expense would have been \$49 million in fiscal 2000 had the Distribution occurred on January 1, 2000. Following the Distribution, Voridian will be substantially more leveraged on a relative basis than Eastman Chemical was prior to the Distribution, which may subject Voridian to greater risk of financial distress and/or instability.

THE LOSS OF EASTMAN COMPANY, OR ANY OTHER OF VORIDIAN'S SIGNIFICANT CUSTOMERS, COULD HAVE AN ADVERSE IMPACT ON ITS REVENUES AND RESULTS OF OPERATIONS.

Voridian relied on its largest 15 customers for approximately 40% of the total sales attributable to the Voridian Business in 2000, excluding sales to Eastman Company. Sales to Eastman Company represented approximately 5% of the total sales attributable to the Voridian Business in 2000. The loss of any one of these customers, including Eastman Company, could adversely affect its financial condition and results of operations until that business is replaced.

THE PET POLYMERS MARKET IS CYCLICAL, WHICH EXPOSES VORIDIAN TO POTENTIALLY SIGNIFICANT FLUCTUATIONS IN ITS RESULTS OF OPERATIONS.

The PET polymers market is cyclical and experiences periods of incremental increased capacity which are greater than corresponding incremental increases in demand. These periods result in fluctuations in industry capacity utilization and other factors beyond Voridian's control. Voridian may not be able to

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maintain its prices and level of overall PET polymers sales in periods of excess capacity. Voridian expects this trend to continue in the near future. As a result, Voridian may be unable to maintain sales volumes at desired price levels, which in turn could adversely affect Voridian's financial condition, results of operations and common stock price.

VORIDIAN'S MARKETS ARE HIGHLY COMPETITIVE AND REQUIRE VORIDIAN TO CONTINUALLY UPDATE ITS PRODUCTS AND SERVICES THROUGH EXPENDITURES IN RESEARCH AND DEVELOPMENT, WHICH EXPENDITURES MAY NOT PROVE TO BE SUCCESSFUL AND MAY ADVERSELY IMPACT ITS RESULTS OF OPERATIONS.

The PET polymers market in which Voridian competes is characterized by technological change, new product introductions, evolving industry standards and changing customer needs and preferences. In order to remain competitive, Voridian must continually be innovative. These projects carry the risks associated with any research and development effort, including cost overruns, delays in delivery and performance problems. Any performance issue that arises with a new product or service, particularly in the PET polymers market where reliability of supply is a major competitive factor, could result in loss of customers and may have an adverse impact on Voridian's credibility and reputation in the marketplace, as well as result in a loss of revenues.

VORIDIAN MAY NOT REALIZE ANY ADDITIONAL BENEFITS FROM ITS COST SAVINGS INITIATIVES AND/OR PRICE INCREASES.

Voridian has undertaken, and will continue to undertake, productivity and cost reduction initiatives and organizational restructurings to improve

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performance and generate cost savings. There can be no assurance that these will be completed as planned or that the estimated cost savings from these activities will be realized.

In addition to cost reduction initiatives, Voridian is striving to improve margins on its products through price increases, where warranted and accepted by the market; however, Voridian's earnings could be negatively impacted should these increases be unrealized, not be sufficient to cover increased raw materials costs or have a negative impact on demand and volume.

VORIDIAN MAY NOT BE ABLE TO PROTECT ITS OWNED OR LICENSED INTELLECTUAL PROPERTY, WHICH IS INTEGRAL TO ITS MAINTAINING A COMPETITIVE ADVANTAGE.

Voridian invests significant resources in developing and protecting, and procuring licenses for, intellectual property assets which it believes provide it with significant competitive advantages. Voridian primarily relies on United States and foreign intellectual property laws to protect its intellectual property assets, but these laws provide only limited protection, and in many foreign countries where intellectual property laws are not well developed or poorly enforced, Voridian may not be able to adequately protect these rights. If Voridian is unable to protect its intellectual property assets, for whatever reason, or is unable to obtain or maintain licenses, it may lose its competitive position in the markets in which it competes and its results of operations may be harmed.

UNCERTAINTY IN RAW MATERIAL COSTS COULD RESULT IN HIGHER MANUFACTURING EXPENSES AND LOWER REVENUES AND NET INCOME FOR VORIDIAN.

Voridian relies on strategic raw materials for its operations and utilizes risk management tools, including hedging, as appropriate, to mitigate short-term market fluctuations in raw material costs. Voridian expects to continue to enter into contracts for the purchase of raw materials at prices that are designed to protect it against raw material price increases during their term. These hedging arrangements and purchase contracts could cause Voridian to incur higher total costs related to its raw materials than would otherwise be incurred at the time it utilizes the raw materials and there can be no assurance that any of these measures will result in cost savings or that all market fluctuation exposure will be eliminated. Further, Voridian purchases a substantial portion of its raw materials from a limited number of suppliers, including Eastman Company, which will be Voridian's largest supplier, primarily with respect to ethylene for polyethylene. While Voridian takes measures to ensure that it maintains an adequate supply of raw

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materials, there can be no assurance that supply of raw materials will not be delayed or interrupted, resulting in production delays and decreased revenues.

VORIDIAN MAY SUFFER SIGNIFICANT LOSSES RESULTING FROM GENERAL PRODUCT LIABILITY, WHICH MAY HARM VORIDIAN'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Voridian is at risk for potentially significant product liability and associated losses. Voridian cannot predict or protect against all potential losses or liabilities that may arise relating to its products. Voridian maintains insurance against many, but not all, potential losses and liabilities, in accordance with customary industry practice and in amounts it believes to be prudent. If any losses or liabilities are not covered by insurance, or if the insurance is insufficient, Voridian would be required to satisfy these losses and liabilities and Voridian's financial condition and results of operations would be adversely affected.



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VORIDIAN'S OPERATIONS ARE SUBJECT TO MANY ENVIRONMENTAL, SAFETY AND HEALTH LAWS, REGULATIONS AND REQUIREMENTS THAT ARE CONTINUALLY CHANGING, AND COMPLIANCE MAY REQUIRE ADDITIONAL EXPENSE, WHICH COULD ADVERSELY AFFECT VORIDIAN'S RESULTS OF OPERATIONS.

Voridian's facilities and businesses are subject to complex health, safety and environmental laws and regulations relating to the use, storage, handling, generation, transportation, emission, discharge, disposal and remediation of, and exposure to, hazardous and non-hazardous substances and wastes in all of the countries in which it does business. The nature of Voridian's existing and historical operations exposes it to the risk of liabilities or claims with respect to environmental matters, including on-site and off-site releases and emissions of hazardous and non-hazardous substances and wastes. These liabilities or claims may include costs associated with environmental investigations and remediation activities, as well as plant closure and restoration projects. Further, these liabilities or claims may include capital and other costs associated with environmental compliance matters at its numerous facilities.

These laws and regulations require, and will continue to require, significant expenditures to remain in compliance, both currently and in the future. Ongoing operations can be affected by unanticipated government enforcement action, which in turn is influenced by the nature of an allegation and the complexity of the site. Likewise, changes in chemical control regulations and testing requirements can increase costs or result in product discontinuation. Remedial requirements at contaminated sites are dependent on the nature of the remedy, the outcome of negotiations with regulatory agencies and other potentially responsible parties at multi-party sites, as well as the number and financial viability of other potentially responsible parties. While Voridian and Eastman Company have agreed to indemnification arrangements that apply to environmental matters, Voridian cannot be assured that any claim, if asserted, would be enforceable or that Eastman Company could pay, which could further increase its costs and obligations.

Further, it is impossible to predict the nature and impact of future judicial, legislative or regulatory developments relating to the environmental protection, health and safety requirements applicable to Voridian's operations. Changes in existing laws or regulations, or the discovery of additional environmental liabilities associated with Voridian's existing or historical operations, could require Voridian to incur material costs or could otherwise significantly harm Voridian's business, results of operations or financial condition. The requirements to be met, as well as the technology and length of time available to meet those requirements, continue to develop and change. To the extent that the costs associated with meeting any of these requirements are substantial and not adequately provided for, there could be a material adverse effect on Voridian's results of operations and financial condition.

BECAUSE A SIGNIFICANT PERCENTAGE OF VORIDIAN'S REVENUES COMES FROM SALES OUTSIDE THE UNITED STATES, VORIDIAN IS SUBJECT TO MARKET FLUCTUATIONS IN FOREIGN CURRENCIES, WHICH COULD HARM RESULTS OF OPERATIONS.

Voridian has manufacturing and marketing operations throughout the world, with approximately 53% of the total sales attributable to the Voridian Business in 2000 derived from sales outside the United

States. Economic factors, including foreign currency exchange rates, could cause products to become relatively more expensive for customers outside the United States and reduce demand for products, which could affect its revenues and

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results of operations. Although Voridian utilizes risk management tools to mitigate market fluctuations in foreign currencies, any changes in strategy with regard to risk management could also affect results of operations, and there can be no assurance that any measures will result in cost savings or that all market fluctuation exposure will be eliminated.

VORIDIAN IS SUBJECT TO A NUMBER OF RISKS SPECIFIC TO THE INTERNATIONAL MARKETS IN WHICH IT OPERATES, WHICH COULD HARM VORIDIAN'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Voridian's businesses are subject to risks specific to the international markets in which it operates, such as changing economic and political conditions, many of which are beyond Voridian's control. In particular, the polymers and acetate fibers businesses are global and are affected by market conditions outside of the United States. These businesses are often subject to, among other matters, foreign government policies and regulations, embargoes, United States government policies relating to international markets and international hostilities. In addition, changes in laws, regulations, or other political factors, such as unexpected changes in regulatory requirements, changes in import or export licensing requirements or political instability in any of the countries in which Voridian operates could affect business in that country or region. Although Voridian tries to reduce exposure to uncertain international market conditions, it is unable to completely predict or control its amount and mix of business and revenues. To the extent that international businesses are affected by unexpected international market conditions, Voridian's results of operations and financial condition could be adversely affected.

In addition, sales to international markets carry risk in that Voridian may face difficulty in enforcing its rights and agreements through foreign legal systems. In particular, Voridian faces reduced protection for intellectual property rights in some countries. Further, Voridian may face longer accounts receivable collection periods and difficulties and costs of staffing and managing foreign operations. Each of these factors expose Voridian to risk and could increase Voridian's costs and reduce its revenues from international sales, which would harm Voridian's results of operations.

VORIDIAN HAS SIGNIFICANT OBLIGATIONS FOR HEALTH, WELFARE, PENSION AND POST-RETIREMENT BENEFITS FOR ITS EMPLOYEES AND RETIREES OF EASTMAN CHEMICAL, WHICH COULD HAVE AN ADVERSE EFFECT ON VORIDIAN'S BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Voridian provides various unfunded health, welfare, pension and post-retirement benefits to inactive and retired employees, and has agreed to retain all of that liability following the Distribution for those employees who retired from Eastman Chemical prior to the Distribution. On a pro forma basis, assuming the Distribution had occurred on June 30, 2001, Voridian would have recorded \$636 million relating to these liabilities. If Voridian's estimate is proven inaccurate, cash expenditures and costs could be materially greater than those reflected in its financial statements. This could have an adverse effect on Voridian's business, financial condition and results of operations.

DELAWARE LAW, AND VORIDIAN'S CERTIFICATE OF INCORPORATION, BYLAWS AND RIGHTS PLAN, CONTAIN PROVISIONS THAT COULD DELAY OR PREVENT A CHANGE IN CONTROL OF VORIDIAN.

Provisions of Voridian's certificate of incorporation, bylaws and rights plan, and provisions of applicable Delaware law, may discourage, delay or prevent a merger or other change of control that shareowners may consider favorable. The provisions of Voridian's certificate of incorporation and bylaws, among other things:

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- provide for a classified board of directors, with members of each class to be elected in staggered three-year terms;
- prevent Voridian's shareowners from acting without a meeting;
- regulate how shareowners may present proposals or nominate directors for election at annual meetings; and

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- authorize Voridian's board of directors to issue up to 50,000,000 shares of preferred stock with rights, preferences, privileges and restrictions, including voting rights, that could be senior to those of its common stock, without shareowner approval.

These provisions may make some corporate actions more difficult and might delay or prevent a change in control of Voridian or may make acquiring control of Voridian more difficult.

In addition, Voridian's rights plan is designed to protect Voridian shareowners in the event of an unsolicited offer and other takeover tactics, which in the opinion of Voridian's board of directors could impair the board of directors' ability to represent the interests of shareowners. The provisions of the rights plan may make an unsolicited tender offer more difficult or less likely to occur, or might delay, deter or prevent a takeover. Voridian is also subject to provisions of Delaware law, which may restrict or deter a change in control.

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### INFORMATION REGARDING THE SPECIAL MEETING

#### DATE, TIME AND PLACE OF THE SPECIAL MEETING

The special meeting relating to the Distribution will be held at the Toy F. Reid Employee Center, 400 South Wilcox Drive, Kingsport, Tennessee 37660, on December 18, 2001, at 11:00 a.m., eastern time.

#### MATTER FOR CONSIDERATION AT THE SPECIAL MEETING

At the special meeting, the shareowners of Eastman Chemical will be asked to consider and vote on the proposal to approve a special dividend to the owners of the outstanding shares of Eastman Chemical common stock of all of the outstanding shares of common stock of Eastman Company, a wholly-owned subsidiary of Eastman Chemical, on a pro rata basis, to be completed in accordance with the terms of the distribution agreement entered into between Eastman Chemical and Eastman Company.

THE BOARD OF DIRECTORS OF EASTMAN CHEMICAL UNANIMOUSLY RECOMMENDS THAT SHAREOWNERS VOTE FOR THE DISTRIBUTION.

#### RECORD DATE; SHAREOWNERS ENTITLED TO VOTE; VOTING RIGHTS

Eastman Chemical's board of directors has fixed the close of business on November 2, 2001 as the record date for the determination of shareowners entitled to receive notice of, and to vote at, the special meeting. Only holders of record of shares of common stock as of the record date will be entitled to notice of, and to vote at, the special meeting.

As of the record date, there were 77,105,150 shares of Eastman Chemical common stock issued and outstanding. Holders of common stock are entitled to one

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vote for each share of common stock they hold as of the record date.

### QUORUM

The presence, in person or by proxy, of the holders of a majority of the shares of common stock of Eastman Chemical entitled to vote at the special meeting is necessary to constitute a quorum to conduct business at the special meeting. Abstentions and broker non-votes will be counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a nominee (like a broker or bank) holding shares in "street name" as the registered holder for a beneficial owner does not vote on the proposal because the nominee has not received voting instructions from the beneficial owner.

### REQUIRED VOTE

The affirmative vote of the holders of a majority of the outstanding shares of Eastman Chemical common stock is required to approve the Distribution. If the Distribution is not approved by the holders of at least a majority of the outstanding shares of Eastman Chemical common stock, the Distribution will not be completed. If you execute and return your proxy without indicating how you want to vote, your shares will be voted by proxy FOR the Distribution. Abstentions and broker non-votes will have the effect of votes cast against the Distribution.

### VOTING BY PROXY

By executing and returning your proxy (either by returning the proxy card or by submitting your proxy electronically via the Internet or by telephone), you appoint James P. Rogers, Eastman Chemical's Chief Financial Officer, and Theresa K. Lee, Eastman Chemical's General Counsel and Secretary, to represent you at the special meeting and direct them to vote your shares at the special meeting. Shares of common stock represented by proxy will be voted by the proxy holders at the special meeting in accordance with the instructions indicated in the proxy appointment.

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Shareowners of record may vote by proxy in one of three ways:

- by telephone: call (800) 542-1160 and use the control number listed on your proxy card;
- via the Internet: visit the [www.proxyvoting.com/eastman](http://www.proxyvoting.com/eastman) web site and use the control number listed on your proxy card; or
- by mail: mark, sign, date and mail your proxy card in the enclosed postage-paid envelope.

The Internet and telephone voting procedures are designed to authenticate shareowner identities, to allow shareowners to give voting instructions and to confirm that shareowners' instructions have been recorded properly. Shareowners voting by Internet should understand that there may be costs associated with electronic access, like usage charges from Internet access and telephone or cable service providers, that must be borne by the shareowner.

If your shares are held in "street name" through a broker, bank or other holder of record, you will receive instructions from the registered holder that you must follow in order for your shares to be voted for you by that record holder. Telephone and Internet voting is also offered to shareowners who own their Eastman Chemical shares through certain banks and brokers.

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### HOW TO REVOKE YOUR PROXY

You may revoke your proxy at any time before its exercise at the special meeting by either:

- giving written notice of revocation to the Secretary of Eastman Chemical;
- executing and delivering a later-dated, signed proxy card or submitting a later-dated proxy via the Internet or by telephone before the special meeting; or
- voting in person at the special meeting.

Any written notices of revocation or other communications relating to revocation of proxies should be sent to Eastman Chemical Company, P.O. Box 511, Kingsport, Tennessee 37662-5075, Attention: Secretary, so that they are received before the special meeting.

### OTHER MATTERS

Eastman Chemical's board of directors is not currently aware of any business to be acted upon at the special meeting other than as described in this proxy statement. If, however, other matters are properly brought before the special meeting, the persons appointed as proxies will have discretion to vote or act thereon according to their best judgment.

### PROXY SOLICITATION COSTS

Eastman Chemical will bear the cost of soliciting proxies. In addition to the solicitation of shareowners by mail and electronic delivery, proxies may be solicited by telephone, facsimile, personal contact and similar means by directors, officers or employees of Eastman Chemical, none of whom will be specially compensated for those activities. Upon request, Eastman Chemical will reimburse brokers, dealers, banks or similar entities acting as nominees for their reasonable expenses incurred in forwarding copies of the proxy materials to the beneficial owners of the shares of common stock they hold of record. Georgeson Shareholder Communications has been retained by Eastman Chemical to aid in the solicitation of proxies, at a cost of \$25,000 plus expenses.

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### THE DISTRIBUTION PROPOSAL

#### BACKGROUND AND REASONS FOR THE DISTRIBUTION

Eastman Chemical, directly and through its subsidiaries, currently engages in:

- the global manufacture of specialty chemicals and plastics, including coatings, adhesives, specialty polymers and inks, performance chemicals and intermediates and specialty plastics, as well as strategic initiatives in less capital intensive businesses, all of which is referred to as the Eastman Company Business in this proxy statement; and
- the global manufacture of PET polymers, acetate fibers and polyethylene products, which is referred to as the Voridian Business in this proxy statement.

The board of directors of Eastman Chemical has decided, for the reasons below, to distribute to Eastman Chemical's shareowners all of the outstanding common stock of Eastman Company. After the completion of the Distribution,

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Eastman Company will conduct the Eastman Company Business, and Eastman Chemical will be renamed Voridian Company and will conduct the Voridian Business.

Beginning in late 2000, Eastman Chemical's board of directors began considering strategic options regarding the businesses of Eastman Chemical. During January 2001, Eastman Chemical's management and advisors continued to consider alternatives that might be available to Eastman Chemical. At a meeting in January 2001, Eastman Chemical's board of directors discussed the various strategic options considered by Eastman Chemical in the past months and analyzed the possibility of separating Eastman Chemical into two independent companies through a potential spin-off transaction.

Throughout January 2001, Eastman Chemical's management continued to explore the concept of a spin-off, and at the February 2001 Eastman Chemical board of directors' meeting, the board authorized management to pursue a spin-off transaction, subject to the board of directors' absolute discretion to abandon the proposed transaction, and authorized the chief executive officer to explore this possibility byeholders.

The classification of our board of directors could thus increase the likelihood that incumbent directors will retain their positions. In addition, because the classification of our board of directors may discourage accumulations of large blocks of our stock by purchasers whose objective is to take control of us and remove a majority of our board of directors, the classification of our board of directors could tend to reduce the likelihood of fluctuations in the market price of our common stock that might result from accumulations of large blocks of our common stock for such a purpose. Accordingly, our shareholders could be deprived of certain opportunities to sell their shares at a higher market price than might otherwise be the case.

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Additionally our articles of incorporation and bylaws contain certain other provisions that may have the effect of deterring or discouraging an attempt to take control of Citizens & Northern. Among other things, these provisions: do not permit shareholders' actions without a meeting;

eliminate cumulative voting in the election of directors;

require advance notice of nominations for the election of directors and the presentation of shareholder proposals at meetings of shareholders;

permit Citizens & Northern's board of directors to consider the effects on Citizens & Northern's employees, customers, depositors and communities it serves when determining whether to oppose any tender offer for Citizens & Northern outstanding common stock;

require the affirmative vote of at least 75% of the votes that all shareholders are entitled to cast to approve any merger, consolidation or dissolution unless such action is approved in advance by the affirmative vote of 66 2/3% of the Citizens & Northern board of directors;

require that mergers and other similar transactions with a person or entity holding more than 5% of Citizens & Northern's stock, be approved by the affirmative vote of at least 75% of the votes entitled to be cast by the remaining shareholders, unless the transaction is approved, in advance, by at least 66 2/3% of the Citizens & Northern directors elected prior to the time any such person became the owner of more than 10% of Citizens & Northern common stock or elected by the remaining shareholders;

require that, following the acquisition by any person or group of 30% of Citizens & Northern common stock, the remaining shareholders shall have the right to receive payment for their shares, in cash, from such person or group, in an amount equal to the fair value of the shares, including an increment representing a proportion of any value payable for control, unless such acquisition was approved in advance by 66-2/3% or more of the board of directors;

require an affirmative vote of at least 75% of the votes that all shareholders are entitled to cast in order for the shareholders to repeal or amend Citizens & Northern's bylaws; and

require the affirmative vote of shareholders entitled to cast at least 75% of the votes entitled to be cast to approve the repeal or amendment of certain provisions of Citizens & Northern's articles of incorporation.

**PLAN OF DISTRIBUTION**

We are registering the securities covered by this prospectus for the selling securityholders.

We will pay the costs and fees of registering the securities covered by this prospectus and other expenses related to the registration of the securities to the extent required by the Purchase Agreement. However, the Company will not pay any underwriting discounts or commissions or other amounts payable to underwriters, dealers or agents, or any transfer taxes or other expenses associated with the sale of the securities, on behalf of the selling securityholders. Pursuant to the Purchase Agreement, the Company has agreed to provide certain indemnification to the selling securityholders against certain liabilities, including certain liabilities under the Securities Act, in connection with this offering.

The selling securityholders will act independently of the Company in making decisions with respect to the timing, manner and size of each sale of the securities.

The securities being offered hereby may be sold from time to time, by the selling securityholders as described in and subject to any restrictions in the applicable prospectus supplement from time to time in any of the following ways: on any national securities exchange or quotation service on which the Series A Preferred Stock or the common stock may be listed or quoted at the time of sale, including, as of the date of this prospectus, the

NASDAQ Capital Market in the case of shares of our common stock;

in the over-the-counter market;

in transactions otherwise than on these exchanges or in the over-the-counter market or in any combination of such transactions;

through the writing of options, whether the options are listed on an options exchange or otherwise;

through ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

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through block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

through purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

in privately negotiated transactions;

in short sales;

through transactions in which broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

through a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

If the selling securityholders use underwriters in the sale of some or all of the securities covered by this prospectus, the underwriters will acquire the securities for their own account. The obligations of the underwriters to purchase the securities will be subject to certain conditions. Unless indicated otherwise, the underwriters will be obligated to purchase all the securities of the series offered if any of the securities are purchased.

Unless otherwise indicated, when securities are sold through an agent, the designated agent will agree, for the period of its appointment as agent, to use its best efforts to sell the securities for the account of the selling securityholders and will receive commissions from the selling securityholders.

Broker-dealers, agents or underwriters may receive compensation in the form of discounts, concessions or commissions from the selling securityholders and/or the purchasers of securities for whom such broker-dealers, agents or underwriters may act as agents or to whom they sell as principal, or both (this compensation to a particular broker-dealer might be in excess of customary commissions).

The selling securityholders may also sell offered securities directly. In this case, no underwriters or agents would be involved.

The securities may be sold from time to time in one or more transactions, and in any combination of transactions:

at fixed prices, which may be changed;

at market prices prevailing at the time of the sale;

at varying prices determined at the time of sale; or

at negotiated prices.

Any securities covered by this prospectus which qualify for sale pursuant to Rule 144 or Rule 144A promulgated under the Securities Act may also be sold under Rule 144 or Rule 144A in certain instances, rather than pursuant to this prospectus. In addition to selling the securities under this prospectus, the selling securityholders may transfer the securities in other ways not involving market makers or established trading markets, including directly by gift, distribution, or other transfer. The selling securityholders may also transfer the shares by other means not described in this prospectus. Moreover, the selling securityholders may decide not to sell any securities offered hereby.

In addition, in connection with the sale of the securities or otherwise, the selling securityholders may enter into derivative or hedging transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions, which may in turn engage in short sales of the common stock issuable upon exercise of the Warrant in the course of hedging the positions they assume. The selling securityholders may also sell short the common stock issuable upon exercise of the Warrant and deliver common stock to close out short positions, or loan or

pledge the Series A Preferred Stock or the common stock issuable upon exercise of the Warrant to broker-dealers that in turn may sell these securities.

In connection with resales of the securities or otherwise, the selling securityholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the securities and deliver securities to close out such short positions, or loan or pledge common stock to broker-dealers that in turn may sell such securities. Such transactions may be effected by the selling securityholders at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at negotiated prices or at fixed prices. The selling securityholders may effect such transactions by selling the securities to or through broker-dealers and such broker-dealers may receive compensation in the form of discounts or commissions from the selling securityholders and may receive commissions from the purchasers of the securities for whom they may act as agent (which discounts or commissions from the selling securityholders or such purchasers will not exceed those customary in the type of transactions involved).

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In offering the securities covered by this prospectus, the selling securityholders and any broker-dealers who execute sales for the selling securityholders may be deemed to be underwriters within the meaning of Section 2(a)(11) of the Securities Act in connection with such sales. Any profits realized by the selling securityholders and the commission, discounts and any other compensation of any broker-dealer or any profits in resales of the securities by broker-dealers may be deemed to be underwriting discounts and commissions under the Securities Act. Selling securityholders who are underwriters within the meaning of Section 2(a)(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act and may be subject to certain statutory and regulatory liabilities, including liabilities imposed pursuant to Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Exchange Act.

The selling securityholders and any underwriters and distribution participants will be subject to applicable provisions of the Exchange Act and the associated rules and regulations under the Exchange Act, including Regulation M, which provisions may limit the timing of purchases and sales of shares by the selling securityholders. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to special exceptions or exemptions. In addition, the anti-manipulation rules under the Exchange Act may apply to sales of the securities in the market. All of these limitations may affect the marketability of the securities and the ability of any person to engage in market-making activities with respect to the securities.

Underwriters and others who are deemed to be underwriters under the Securities Act may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock, including the entry of stabilizing bids or syndicate covering transactions or the imposition of penalty bids.

We will file a supplement to this prospectus, if required, pursuant to Rule 424(b) under the Securities Act, upon being notified by the selling securityholders that a material arrangement has been entered into with a broker, dealer, agent or underwriter for the sale of securities through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer. Such prospectus supplement will disclose:

the name of the selling securityholders and any participating broker, dealer, agent or underwriter;

the number and type of securities involved;

the price at which such securities were sold;

any securities exchanges on which such securities may be listed;

the commissions paid or discounts or concessions allowed to any such broker, dealer, agent or underwriter where applicable; and

other facts material to the transaction.

In order to comply with the securities laws of certain states, if applicable, the securities must be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, the securities may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Neither the Series A Preferred Stock nor the Warrant is listed on a national securities exchange or any securities market. Unless requested by the initial selling securityholder, we do not intend to list the Series A Preferred Stock on any exchange. We do not intend to list the Warrant on any exchange. No assurance can be given as to the liquidity of the trading market, if any, for the Series A Preferred Stock.

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**SELLING SECURITYHOLDERS**

The selling securityholders may include (i) Treasury, which acquired all of the shares of Series A Preferred Stock and the Warrant from us on January 16, 2009 in a private placement exempt from the registration requirements of the Securities Act, and (ii) any other person or persons holding shares of Series A Preferred Stock or depositary shares evidencing fractional interests in shares of Series A Preferred Stock, any portion of the Warrant and any shares of our common stock issued upon exercise of the Warrant, to whom Treasury has transferred its registration rights under the terms of the Purchase Agreement between us and Treasury. Treasury is required to notify us in writing of any such transfer of its registration rights within ten days after the transfer, including the name and address of the transferee and the number and type of securities with respect to which the registration rights have been assigned. As of the date of this prospectus, Treasury has not notified us of any such transfer. Accordingly, we believe that Treasury currently holds record and beneficial ownership of 100% of the outstanding shares of the Series A Preferred Stock and the entire amount of the Warrant (none of which has been exercised) covered by this prospectus.

The securities to be offered under this prospectus for the account of the selling securityholders are:

26,440 shares of Series A Preferred Stock, representing beneficial ownership of 100% of the shares of series A preferred stock outstanding on the date of this prospectus;

in the event shares of Series A Preferred Stock are deposited with a depositary, depositary shares evidencing fractional interests in such shares;

a warrant to purchase 194,794 shares of our common stock, representing beneficial ownership of approximately 2.13% of our common stock as of February 7, 2009; and

194,794 shares of our common stock issuable upon exercise of the Warrant, which shares, if issued, would represent ownership of approximate 2.13% of our common stock as of February 7, 2009.

For purposes of this prospectus, we have assumed that, after completion of the offering covered by this prospectus, none of the securities covered by this prospectus will be held by the selling securityholders.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. To our knowledge, the initial selling securityholder has sole voting and investment power with respect to the securities, subject to restrictions on exercise of voting rights on Series A Preferred and common stock issuable upon exercise of the Warrant as described in Description of Series A Preferred Stock and Description of the Warrant above, respectively.

We do not know when or in what amounts the selling securityholders may offer the securities for sale. The selling securityholders might not sell any or all of the securities offered by this prospectus. Because the selling securityholders may offer all or some of the securities pursuant to this offering, and because currently no sale of any of the securities is subject to any agreements, arrangements or understandings, we cannot estimate the number of the securities that will be held by the selling securityholders after completion of the offering.

Other than with respect to the acquisition of the securities, the initial selling securityholder has not had a material relationship with us.

Information about the selling securityholders may change over time and changed information will be set forth in supplements to this prospectus if and when necessary.

**VALIDITY OF SECURITIES**

Unless otherwise indicated in the applicable prospectus supplement, certain legal matters with respect to the securities will be passed upon for us by Rhoads & Sinon LLP, counsel to Citizens & Northern.

**EXPERTS**

The audited consolidated financial statements and management's report on the effectiveness of internal controls over financial reporting of Citizens & Northern Corporation incorporated in this prospectus and Registration Statement by reference to Citizens & Northern's Annual Report on Form 10-K for the year ended December 31, 2007, were audited by Parente Randolph, LLC an independent registered public accounting firm, whose reports thereon contained in such Annual Report on Form 10-K is incorporated herein by reference. Such financial statements have

been incorporated herein by reference in reliance upon such reports of Parente Randolph, LLC given upon the authority of such firm as experts in auditing and accounting.

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The following is an itemized statement of the estimated fees and expenses in connection with the issuance and distribution of the securities registered hereby:

Registration Statement filing fees	\$ 1,196
Attorneys fees and expenses	\$ 20,000
Accounting fees and expenses	\$ 2,000
 Total	 \$ 23,196

**Item 15. Indemnification of Directors and Officers**

Subchapter D of Chapter 17 of the Pennsylvania Business Corporation Law of 1988, as amended, provides that a business corporation has the power under certain circumstances to indemnify its directors, officers, employees and agents against certain expenses incurred by them in connection with any threatened, pending or completed action, suit or proceeding and provides for mandatory indemnification under certain circumstances when the indemnified person has been successful in defense of a claim.

Article VIII of Citizens & Northern's bylaws provides as follows:

Section 8.1. INDEMNIFICATION. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership joint venture, trust, or other enterprise, against expenses (including attorneys fees), amounts paid in settlement, judgments, and fines actually and reasonably incurred by such person in connection with such action, suit, or proceeding; provided, however, that no indemnification shall be made in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness.

Section 8.2. ADVANCEMENT OF EXPENSES. Expenses (including attorneys fees) incurred in defending a civil or criminal action, suit, or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit, or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee, or agent to repay such amount if it shall be ultimately determined that he is not entitled to be indemnified by the Corporation as authorized in this Article VIII.

Section 8.3. NONEXCLUSIVITY. The indemnification provided by this Article VIII shall not be deemed exclusive of any other right to which persons seeking indemnification may be entitled under any agreement, vote of shareholders or disinterested directors, or otherwise, both as to actions in such persons' official capacity and as to their actions in another capacity while holding office, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such person.

Section 8.4. INSURANCE. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article VII.

**Item 16. Exhibits****Exhibit No. Exhibit**

3.1 Articles of Incorporation of Citizens & Northern Corporation, as amended.

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- 3.2 Bylaws of Citizens & Northern Corporation, as amended (filed as Exhibit 3.1 to Citizens & Northern s Current Report on Form 8-K filed August 25, 2004 and incorporated herein by reference).
- 4.1 Certificate of Designations, establishing the terms of the Series A Preferred Stock (filed as Exhibit 3.1 to Citizens & Northern s Current Report on Form 8-K filed on January 22, 2009, and incorporated herein by reference).
- 4.2 Form of Certificate for the Series A Preferred Stock (filed as Exhibit 4.1 to Citizens & Northern s Current Report on Form 8-K filed on January 22, 2009, and incorporated herein by reference).

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<b>Exhibit No.</b>	<b>Exhibit</b>
4.3	Form of Warrant to Purchase Common Stock (filed as Exhibit 4.2 to Citizens & Northern's Current Report on Form 8-K filed on January 22, 2009, and incorporated herein by reference).
5.1	Opinion of Rhoads & Sinon LLP.
10.1	Letter Agreement including the Securities Purchase Agreement Standard Terms attached thereto, dated January 16, 2009, between the Company and United States Department of the Treasury, with respect to the issuance and sale of the Series A Preferred Stock and the Warrant (filed as Exhibit 10.1 to Citizens & Northern's Current Report on Form 8-K filed on January 22, 2009, and incorporated herein by reference).
12.1	Computation of Ratio of Earnings to Combined Fixed Charges and Preference Dividends for the nine-month periods ended September 30, 2008 and 2007, and the years ended December 31, 2007, 2006, 2005, 2004 and 2003.
23.1	Consent of Parente Randolph, LLC.
23.2	Consent of Rhoads & Sinon LLP (included in Exhibit 5.1).
24.1	Power of Attorney (included on the signature page of this registration statement).

**Item 17. Undertakings**

The undersigned Registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
  - (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended;
  - (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and
  - (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, as amended, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (4) That, for the purpose of determining liability under the Securities Act of 1933, as amended, to any purchaser:
  - (i)



Each prospectus filed by the Registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

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- (ii) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which the prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(5) That, for the purpose of determining liability of the Registrant under the Securities Act of 1933, as amended, to any purchaser in the initial distribution of the securities, the undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 424;
- (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned Registrant or used or referred to by the undersigned Registrant;
- (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and
- (iv) Any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

(6) That, for purposes of determining any liability under the Securities Act of 1933, as amended, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 15 above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, that Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.



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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, Citizens & Northern Corporation certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in Wellsboro, Pennsylvania, on February 13, 2009.

**CITIZENS & NORTHERN  
CORPORATION**

By: /s/ Craig G. Litchfield  
Craig G. Litchfield, Chairman,  
President and Chief Executive Officer

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**Table of Contents****POWER OF ATTORNEY**

KNOWN ALL MEN BY THESE PRESENTS, that each of the undersigned directors and officers of Citizens & Northern Corporation, a Pennsylvania corporation (the Company ), constitutes and appoints Craig G. Litchfield, Mark A. Hughes and Charles J. Ferry, with full power of each of them to act alone, as the true and lawful attorneys and agents of the undersigned, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including pre-effective and post-effective amendments) to this Registration Statement and to sign any registration statement (and any post-effective amendments thereto) effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposed as he might or could do in person, hereby ratifying and confirming that said attorney-in-fact, agent or his substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities indicated on February 13, 2009.

Signature	Capacity
/s/ Craig G. Litchfield Craig G. Litchfield	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Mark A. Hughes Mark A. Hughes	Treasurer (Principal Accounting Officer)
/s/ Dennis F. Beardslee Dennis F. Beardslee	Director
/s/ R. Robert DeCamp R. Robert DeCamp	Director
/s/ Jan E. Fisher Jan E. Fisher	Director
/s/ R. Bruce Haner R. Bruce Haner	Director
/s/ Susan E. Hartley Susan E. Hartley	Director
/s/ Leo F. Lambert Leo F. Lambert	Director

/s/ Edward L. Learn

Director

Edward L. Learn

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Signature	Capacity
/s/ Raymond R. Mattie Raymond R. Mattie	Director
/s/ Edward H. Owlett, III Edward H. Owlett, III	Director
/s/ Leonard Simpson Leonard Simpson	Director
/s/ James E. Towner James E. Towner	Director
/s/ Ann M. Tyler Ann M. Tyler	Director
/s/ Charles H. Updegraff, Jr. Charles H. Updergraff, Jr.	Director