



## **TAX CONSEQUENCES OF EASTMAN CHEMICAL COMPANY SPIN-OFF FROM EASTMAN KODAK COMPANY**

Below is information regarding the cost basis for shares of stock as a result of the January 4, 1994, spin-off of Eastman Chemical Company from Eastman Kodak Company:

As a result of the spin-off, shareowners of Kodak received one share of Eastman Chemical stock for each four shares of Kodak stock held. Since no fractional shares of Eastman Chemical stock were issued, shareowners entitled to a fractional share received a check for its value based on the price received from the sale of fractional shares in the open market.

The Internal Revenue Service ruled that under existing law at the time of the spin-off, Kodak shareholders would incur no tax upon the receipt of stock of Eastman Chemical. However, since a shareholder received the Eastman Chemical stock free of tax, the law requires shareholders to apportion the cost basis of Kodak stock between that stock and the Eastman Chemical stock, including fractional shares, in proportion to their market values on the date of distribution, as evidenced by the market price on January 4, 1994, the first trading day after distribution. According to an IRS ruling dated December 8, 1993, requiring such allocation and the trading price of Kodak shares and Eastman Chemical shares on January 4, shareowners' cost basis for each share of Kodak stock, as a result of the distribution, should be reduced to 80% of its former amount; and the remaining 20% becomes the cost basis for Eastman Chemical stock received in the spin-off exchange.

To illustrate this, suppose you bought 100 shares of Kodak stock for \$40.00 per share for a total of \$4,000. Upon receiving the 25 shares of Eastman Chemical stock, your basis for the Kodak stock would be reduced to \$3,200, and your gain or loss on a later sale of the Kodak stock would be the difference between \$3,200 and the net sales proceeds. In this illustration, your basis for gain or loss for the 25 shares of Eastman Chemical stock would be \$800.

To illustrate the allocation of cost basis for a block of Kodak shares that is not divisible by four, suppose you bought 110 shares of Kodak stock for \$40.00 per share for a total of \$4,400. Upon receiving 27.5 shares of Eastman Chemical stock, your basis for the Kodak stock would be reduced to \$3,520, and your gain or loss on a later sale of the Kodak stock would be the difference between \$3,520 and the net sales proceeds. Your basis for gain or loss would be \$864 ( $\$32 \times 27$ ) for the 27 shares of Eastman Chemical stock that is retained and \$16.00 for the .5 fractional share that is sold.

The above adjustments to basis apply to all shareholders who received Eastman Chemical stock, even if they sold their Kodak stock after the record date and before actual distribution of the Eastman Chemical stock to them.

In determine whether you held Eastman Chemical stock for more than one year and thus realized long-term gain or loss upon its sale, the tax law provided that you add on to the period you held the Eastman Chemical stock the previous period during which you held the Kodak stock with respect to which you received the distribution of Eastman Chemical stock.

To illustrate how the holding period works, suppose you bought 100 shares of Kodak stock in 1990 and another 50 shares in September 1993. You received as of January 3, 1994, 25 shares of Eastman Chemical stock for the first block of Kodak stock and 12.5 shares of Eastman Chemical stock for the second block. As no fractional shares of Eastman Chemical stock were issued, your .5 share was sold as of January 4, 1994. Suppose you also sold the 37 shares of Eastman Chemical on July 15, 1994. It would be considered that you realized long-term gain or loss on the first block of 25 shares (since you add to the time you held the 100-share block of Kodak stock). But your gain or loss on the other 12.5 shares of Eastman Chemical stock would be short-term, because your holding period was less than one year, even when the period you held the block of 50 shares of Kodak stock is included.

The above information is provided for use in connection with the preparation of income tax returns in complying with the requirements of S1.355-5(b) of the Regulations of the U.S. Treasury.

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