

EASTMAN CHEMICAL CO

Form 10-Q

July 30, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q

(Mark  
One)

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2009  
OR  
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12626

EASTMAN CHEMICAL COMPANY  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

62-1539359  
(I.R.S. employer  
identification no.)

200 South Wilcox Drive  
Kingsport, Tennessee  
(Address of principal executive offices)

37662  
(Zip Code)

Registrant's telephone number, including area code: (423) 229-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒ NO ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Number of Shares Outstanding at June 30, 2009
Common Stock, par value \$0.01 per share	72,665,578

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UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS,  
COMPREHENSIVE INCOME AND RETAINED EARNINGS

(Dollars in millions, except per share amounts)	Second Quarter		First Six Months	
	2009	2008	2009	2008
Sales	\$ 1,253	\$ 1,834	\$ 2,382	\$ 3,561
Cost of sales	993	1,513	1,943	2,903
Gross profit	260	321	439	658
Selling, general and administrative expenses	98	107	192	217
Research and development expenses	34	39	68	81
Asset impairments and restructuring charges, net	(3)	3	23	20
Operating earnings	131	172	156	340
Net interest expense	20	18	39	34
Other charges (income), net	5	1	9	--
Earnings from continuing operations before income taxes	106	153	108	306
Provision for income taxes from continuing operations	41	38	41	76
Earnings from continuing operations	65	115	67	230
Earnings from disposal of discontinued operations, net of tax	--	--	--	18
Net earnings	\$ 65	\$ 115	\$ 67	\$ 248
Basic earnings per share				
Earnings from continuing operations	\$ 0.89	\$ 1.51	\$ 0.92	\$ 2.98
Earnings from discontinued operations	--	--	--	0.23
Basic earnings per share	\$ 0.89	\$ 1.51	\$ 0.92	\$ 3.21
Diluted earnings per share				
Earnings from continuing operations	\$ 0.89	\$ 1.48	\$ 0.91	\$ 2.94
Earnings from discontinued operations	--	--	--	0.22
Diluted earnings per share	\$ 0.89	\$ 1.48	\$ 0.91	\$ 3.16
Comprehensive Income				
Net earnings	\$ 65	\$ 115	\$ 67	\$ 248
Other comprehensive income (loss)				
Change in cumulative translation adjustment, net of tax	25	(4)	15	(41)
Change in pension plans, net of tax	(2)	--	(2)	8
Change in unrealized gains (losses) on derivative instruments, net of tax	(8)	29	1	3
Total other comprehensive income (loss)	15	25	14	(30)
Comprehensive income	\$ 80	\$ 140	\$ 81	\$ 218

## Retained Earnings

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Retained earnings at beginning of period	\$	2,533	\$	2,448	\$	2,563	\$	2,349
Net earnings		65		115		67		248
Cash dividends declared		(32)		(34)		(64)		(68)
Retained earnings at end of period	\$	2,566	\$	2,529	\$	2,566	\$	2,529

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in millions, except per share amounts)	June 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 450	\$ 387
Trade receivables, net	328	275
Miscellaneous receivables	155	79
Inventories	443	637
Other current assets	29	45
Total current assets	1,405	1,423
Properties and equipment		
Properties and equipment at cost	8,573	8,527
Less: Accumulated depreciation	5,301	5,329
Net properties and equipment	3,272	3,198
Goodwill	325	325
Other noncurrent assets	354	335
Total assets	\$ 5,356	\$ 5,281
Liabilities and Stockholders' Equity		
Current liabilities		
Payables and other current liabilities	\$ 706	\$ 819
Borrowings due within one year	11	13
Total current liabilities	717	832
Long-term borrowings	1,440	1,442
Deferred income tax liabilities	248	106
Post-employment obligations	1,262	1,246
Other long-term liabilities	114	102
Total liabilities	3,781	3,728
Stockholders' equity		
Common stock (\$0.01 par value – 350,000,000 shares authorized; shares issued – 94,617,895 and 94,495,860 for 2009 and 2008, respectively)	1	1
Additional paid-in capital	643	638
Retained earnings	2,566	2,563
Accumulated other comprehensive loss	(321)	(335)
	2,889	2,867
Less: Treasury stock at cost (22,034,991 shares for 2009 and 22,031,357 shares for 2008)	1,314	1,314
Total stockholders' equity	1,575	1,553
Total liabilities and stockholders' equity	\$ 5,356	\$ 5,281

The accompanying notes are an integral part of these consolidated financial statements.



## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	First Six Months	
	2009	2008
Cash flows from operating activities		
Net earnings	\$ 67	\$ 248
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	134	132
Asset impairments charges	--	1
Gains on sale of assets	--	(13)
Provision (benefit) for deferred income taxes	140	(59)
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in trade receivables	(52)	(88)
(Increase) decrease in inventories	191	(115)
Increase (decrease) in trade payables	(55)	10
Increase (decrease) in liabilities for employee benefits and incentive pay	(22)	(29)
Other items, net	(66)	(8)
Net cash provided by operating activities	337	79
Cash flows from investing activities		
Additions to properties and equipment	(204)	(278)
Proceeds from sale of assets	25	329
Acquisitions of joint ventures	--	(32)
Investments in joint ventures	--	(6)
Additions to capitalized software	(4)	(6)
Other items, net	(43)	(1)
Net cash provided by (used in) investing activities	(226)	6
Cash flows from financing activities		
Net increase in commercial paper, credit facility and other borrowings	9	63
Repayment of borrowings	(2)	(175)
Dividends paid to stockholders	(64)	(69)
Treasury stock purchases	--	(270)
Proceeds from stock option exercises and other items	9	39
Net cash used in financing activities	(48)	(412)
Effect of exchange rate changes on cash and cash equivalents	--	1
Net change in cash and cash equivalents	63	(326)

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Cash and cash equivalents at beginning of period	387	888
Cash and cash equivalents at end of period	\$ 450	\$ 562

The accompanying notes are an integral part of these consolidated financial statements.

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by Eastman Chemical Company (the "Company" or "Eastman") in accordance and consistent with the accounting policies stated in the Company's 2008 Annual Report on Form 10-K and should be read in conjunction with the consolidated financial statements in Part II, Item 8 of the Company's 2008 Annual Report on Form 10-K. The unaudited consolidated financial statements are prepared in conformity with generally accepted accounting principles ("GAAP") and, of necessity, include some amounts that are based upon management estimates and judgments. Future actual results could differ from such current estimates. The unaudited consolidated financial statements include assets, liabilities, revenues, and expenses of all majority-owned subsidiaries and joint ventures. Eastman accounts for other joint ventures and investments in minority-owned companies where it exercises significant influence on the equity basis. Intercompany transactions and balances are eliminated in consolidation. Certain prior period data has been reclassified in the Consolidated Financial Statements and accompanying footnotes to conform to current period presentation.

The Company has evaluated the period from June 30, 2009, the date of the financial statements, through July 30, 2009, the date of the issuance and filing of the financial statements, and has determined that no material subsequent events have occurred that would affect the information presented in these financial statements or require additional disclosure.

### 2. DISCONTINUED OPERATIONS

In first quarter 2008, the Company sold its polyethylene terephthalate ("PET") polymers and purified terephthalic acid ("PTA") production facilities in the Netherlands and its PET production facility in the United Kingdom and related businesses for approximately \$329 million. The Company recognized a gain of \$18 million, net of tax, related to the sale of these businesses which includes the recognition of deferred currency translation adjustments of approximately \$40 million, net of tax. In addition, the Company indemnified the buyer against certain liabilities primarily related to taxes, legal matters, environmental matters, and other representations and warranties.

The sale of the manufacturing facilities in the Netherlands and United Kingdom, and related businesses completed the Company's exit from the European PET business and qualified as a component of an entity under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and accordingly their results are presented as discontinued operations and are not included in the results from continuing operations for the effected period presented in the Company's unaudited consolidated financial statements.

In fourth quarter 2007, the Company sold its PET polymers production facilities in Mexico and Argentina and the related businesses. The results related to the Mexico and Argentina facilities were not presented as discontinued operations due to continuing involvement of the Company's Performance Polymers segment in the region including contract polymer intermediates sales under a transition supply agreement to the divested sites through 2008.

Operating results of the discontinued operations which were formerly included in the Performance Polymers segment are summarized below:

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	First Six Months 2008
(Dollars in millions)	
Sales	\$ 169
Earnings before income taxes	2
Gain on disposal, net of tax	18

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 3. INVENTORIES

(Dollars in millions)	June 30, 2009	December 31, 2008
At FIFO or average cost (approximates current cost)		
Finished goods	\$ 510	\$ 634
Work in process	155	200
Raw materials and supplies	263	328
Total inventories	928	1,162
LIFO Reserve	(485)	(525)
Total inventories	\$ 443	\$ 637

Inventories valued on the LIFO method were approximately 70 percent as of June 30, 2009 and 75 percent as of December 31, 2008 of total inventories.

## 4. PAYABLES AND OTHER CURRENT LIABILITIES

(Dollars in millions)	June 30, 2009	December 31, 2008
Trade creditors	\$ 339	\$ 390
Accrued payrolls, vacation, and variable-incentive compensation	81	129
Accrued taxes	25	41
Post-employment obligations	63	60
Interest payable	30	30
Bank overdrafts	12	4
Other	156	165
Total payables and other current liabilities	\$ 706	\$ 819

The current portion of post-employment obligations is an estimate of current year payments in excess of plan assets.

## 5. PROVISION FOR INCOME TAXES

(Dollars in millions)	Second Quarter		First Six Months	
	2009	2008	2009	2008
Provision for income taxes	\$ 41	\$ 38	\$ 41	\$ 76
Effective tax rate	39 %	25 %	38 %	25 %

Second quarter and first six months 2009 effective tax rates reflect a \$7 million tax charge associated with a change in accounting method for tax purposes to accelerate timing of deductions for manufacturing repairs expense. Second quarter and first six months 2008 effective tax rates reflect an estimated benefit resulting from a gasification investment tax credit, an \$8 million benefit from the reversal of a U.S. capital loss valuation allowance associated with

the sale of businesses, and a \$6 million benefit from the settlement of a non-U.S. income tax audit. Excluding discrete items, second quarter and first six months 2009 and 2008 effective tax rates reflect the Company's expected full year tax rate on reported earnings from continuing operations before income tax, of approximately 33 and 30 percent, respectively.

The Company or one of its subsidiaries files tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003. It is reasonably possible that within the next 12 months the Company will recognize approximately \$3 million of unrecognized tax benefits as a result of the expiration of the relevant statute of limitations.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 6. BORROWINGS

(Dollars in millions)	June 30, 2009	December 31, 2008
Borrowings consisted of:		
7% notes due 2012	\$ 153	\$ 154
6.30% notes due 2018	206	207
7 1/4% debentures due 2024	497	497
7 5/8% debentures due 2024	200	200
7.60% debentures due 2027	298	298
Credit facilities borrowings	84	84
Other	13	15
Total borrowings	1,451	1,455
Borrowings due within one year	(11)	(13)
Long-term borrowings	\$ 1,440	\$ 1,442

At June 30, 2009, the Company had credit facilities with various U.S. and foreign banks totaling approximately \$800 million. These credit facilities consist of a \$700 million revolving credit facility (the "Credit Facility"), as well as a 60 million euro credit facility ("Euro Facility"). The Credit Facility has two tranches, with \$125 million expiring in 2012 and \$575 million expiring in 2013. The Euro Facility expires in 2012. Borrowings under these credit facilities are subject to interest at varying spreads above quoted market rates. The Credit Facility requires a facility fee on the total commitment. In addition, these credit facilities contain a number of customary covenants and events of default, including the maintenance of certain financial ratios. The Company was in compliance with all such covenants for all periods presented. At June 30, 2009, the Company's credit facility borrowings totaled \$84 million at an effective interest rate of 1.29 percent. At December 31, 2008, the Company's credit facility borrowings totaled \$84 million at an effective interest rate of 3.74 percent.

The Credit Facility provides liquidity support for commercial paper borrowings and general corporate purposes. Accordingly, any outstanding commercial paper borrowings reduce borrowings available under the Credit Facility. Given the expiration dates of the Credit Facility, any commercial paper borrowings supported by the Credit Facility are classified as long-term borrowings because the Company has the ability and intent to refinance such borrowings on a long-term basis.

## 7. ASSET IMPAIRMENTS AND RESTRUCTURING CHARGES, NET

In second quarter 2009, there was a \$3 million reduction of the first quarter 2009 restructuring charge resulting in a net \$23 million charge in first six months 2009. The charges, primarily for severance, resulted from a reduction in force.

In second quarter and first six months 2008, asset impairments and restructuring charges, net totaled \$3 million and \$20 million, respectively, primarily for severance, pension charges, and site closure costs in the Performance Chemicals and Intermediates ("PCI") segment resulting from the decision to close a previously impaired site in the United Kingdom.





## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Changes in Reserves for Asset Impairments, Restructuring Charges, and Severance Charges

The following table summarizes the beginning reserves, charges to and changes in estimates to the reserves as described above, and the cash and non-cash reductions to the reserves attributable to asset impairments and the cash payments for severance and site closure costs for full year 2008 and first six months 2009:

(Dollars in millions)	Balance at January 1, 2008	Provision/ Adjustments	Non-cash Reductions	Cash Reductions	Balance at December 31, 2008
Non-cash charges	\$ --	\$ 2	\$ (2)	\$ --	\$ --
Severance costs	7	10	--	(12)	5
Site closure and other restructuring costs	11	34	--	(20)	25
<b>Total</b>	<b>\$ 18</b>	<b>\$ 46</b>	<b>\$ (2)</b>	<b>\$ (32)</b>	<b>\$ 30</b>

	Balance at January 1, 2009	Provision/ Adjustments	Non-cash Reductions	Cash Reductions	Balance at June 30, 2009
Non-cash charges	\$ --	\$ --	\$ --	\$ --	\$ --
Severance costs	5	24	--	(8)	21
Site closure and other restructuring costs	25	(1)	--	(1)	23
<b>Total</b>	<b>\$ 30</b>	<b>\$ 23</b>	<b>\$ --</b>	<b>\$ (9)</b>	<b>\$ 44</b>

A majority of the remaining severance and site closure costs is expected to be applied to the reserves within one year.

8.

## RETIREMENT PLANS

## DEFINED BENEFIT PENSION PLANS

Eastman maintains defined benefit pension plans that provide eligible employees hired prior to January 1, 2007, with retirement benefits. Costs recognized for these benefits are recorded using estimated amounts, which may change as actual costs derived for the year are determined.

Below is a summary of the components of net periodic benefit cost recognized for Eastman's significant defined benefit pension plans:

## Summary of Components of Net Periodic Benefit Costs

Second Quarter

First Six Months

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(Dollars in millions)	2009	2008	2009	2008
Service cost	\$ 10	\$ 11	\$ 21	\$ 23
Interest cost	22	23	43	44
Expected return on assets	(25)	(27)	(49)	(53)
Curtailment charge	--	--	--	9
Amortization of:				
Prior service credit	(4)	(4)	(8)	(7)
Actuarial loss	10	8	17	14
Net periodic benefit cost	\$ 13	\$ 11	\$ 24	\$ 30

The curtailment charge in 2008 was primarily related to the decision to close a previously impaired site in the United Kingdom.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## POSTRETIREMENT WELFARE PLANS

Eastman provides a subsidy toward life insurance, health care, and dental benefits for eligible retirees hired prior to January 1, 2007, and a subsidy toward health care benefits for retirees' eligible survivors. In general, Eastman provides those benefits to retirees eligible under the Company's U.S. plans. Similar benefits are also made available to retirees of Holston Defense Corporation, a wholly-owned subsidiary of the Company that, prior to January 1, 1999, operated a government-owned ammunitions plant.

Employees hired on or after January 1, 2007 will have access to postretirement health care benefits only; Eastman will not provide a subsidy toward the premium cost of postretirement benefits for those employees.

A few of the Company's non-U.S. operations have supplemental health benefit plans for certain retirees, the cost of which is not significant to the Company.

Costs recognized for benefits for eligible retirees hired prior to January 1, 2007 are recorded using estimated amounts, which may change as actual costs derived for the year are determined. Below is a summary of the components of net periodic benefit cost recognized for the Company's U.S. plans:

Summary of Components of Net Periodic Benefit  
Costs

(Dollars in millions)	Second Quarter		First Six Months	
	2009	2008	2009	2008
Service cost	\$ 2	\$ 1	\$ 4	\$ 3
Interest cost	11	11	22	22
Expected return on assets	--	(1)	(1)	(2)
Amortization of:				
Prior service credit	(6)	(5)	(12)	(11)
Actuarial loss	3	3	6	5
Net periodic benefit cost	\$ 10	\$ 9	\$ 19	\$ 17

9.

## ENVIRONMENTAL MATTERS

Certain Eastman manufacturing sites generate hazardous and nonhazardous wastes, the treatment, storage, transportation, and disposal of which are regulated by various governmental agencies. In connection with the cleanup of various hazardous waste sites, the Company, along with many other entities, has been designated a potentially responsible party ("PRP") by the U.S. Environmental Protection Agency under the Comprehensive Environmental Response, Compensation and Liability Act, which potentially subjects PRPs to joint and several liability for such cleanup costs. In addition, the Company could be required to incur costs for environmental remediation and closure and postclosure under the federal Resource Conservation and Recovery Act. Reserves for environmental contingencies have been established in accordance with Eastman's policies described in Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2008 Annual Report on Form 10-K. Because of expected sharing of costs, the availability of legal defenses, and the Company's preliminary assessment of actions that may be required, management does not believe that the Company's liability for

these environmental matters, individually or in the aggregate, will be material to the Company's consolidated financial position, results of operations or cash flows. The Company's reserve for environmental contingencies was \$41 million at both June 30, 2009 and December 31, 2008, representing the minimum or best estimate for remediation costs and the best estimate accrued to date over the facilities' estimated useful lives for asset retirement obligation costs. Estimated future environmental expenditures for remediation costs range from the minimum or best estimate of \$11 million to the maximum of \$23 million at June 30, 2009, and \$11 million to the maximum of \$21 million at December 31, 2008.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 10. COMMITMENTS

#### Purchasing Obligations and Lease Commitments

At June 30, 2009, the Company had various purchase obligations totaling approximately \$1.4 billion over a period of approximately 15 years for materials, supplies, and energy incident to the ordinary conduct of business. The Company also had various lease commitments for property and equipment under cancelable, noncancelable, and month-to-month operating leases totaling \$107 million over a period of several years. Of the total lease commitments, approximately 17 percent relate to machinery and equipment, including computer and communications equipment and production equipment; approximately 40 percent relate to real property, including office space, storage facilities and land; and approximately 43 percent relate to vehicles, primarily railcars.

#### Accounts Receivable Securitization Program

In 1999, the Company entered into an agreement that allows the Company to sell certain trade receivables on a non-recourse basis to a consolidated special purpose entity which in turn may sell interests in those receivables to a third party purchaser which generally funds its purchases via the issuance of commercial paper backed by the receivables interests. The annually renewable agreement permits the sale of undivided interests in domestic trade accounts receivable. The assets of the special purpose entity are not available to satisfy the Company's general obligations. Receivables sold to the third party totaled \$200 million at June 30, 2009 and December 31, 2008. Undivided interests in designated receivable pools were sold to the purchaser with recourse limited to the purchased interest in the receivable pools. Average monthly proceeds from collections reinvested in the continuous sale program were approximately \$218 million and \$341 million in second quarter 2009 and 2008, respectively, and \$214 million and \$335 million in first six months 2009 and 2008, respectively. The securitization program was fully drawn at June 30, 2009 and renewed in July 2009.

#### Guarantees

Financial Accounting Standards Board ("FASB") Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", clarifies the requirements of SFAS No. 5, "Accounting for Contingencies", relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. If certain operating leases are terminated by the Company, it guarantees a portion of the residual value loss, if any, incurred by the lessors in disposing of the related assets. Under these operating leases, the residual value guarantees at June 30, 2009 totaled \$160 million and consisted of leases for railcars and aircraft. Leases with guarantee amounts totaling \$2 million, \$11 million, and \$147 million will expire in 2009, 2011, and 2012 and beyond, respectively. The Company believes, based on current facts and circumstances, that the likelihood of a material payment pursuant to such guarantees is remote.

#### Variable Interest Entities

The Company has evaluated its material contractual relationships and has concluded that the entities involved in these relationships are not Variable Interest Entities ("VIEs") or, in the case of Primester, a joint venture that manufactures cellulose acetate at the Company's Kingsport, Tennessee plant, the Company is not the primary beneficiary of the VIE. As such, in accordance with FASB Interpretation Number 46, "Consolidation of Variable Interest Entities" ("FIN 46"), the Company is not required to consolidate these entities. In addition, the Company has evaluated

long-term purchase obligations with an entity that may be a VIE at June 30, 2009. This potential VIE is a joint venture from which the Company has purchased raw materials and utilities for several years. The Company purchased approximately \$50 million of raw materials and utilities during 2008 and expects to purchase approximately \$35 million during 2009. The Company has no equity interest in this entity and has confirmed that one party to this joint venture does consolidate the potential VIE. However, due to competitive and other reasons, the Company has not been able to obtain the necessary financial information to determine whether the entity is a VIE, and whether or not the Company is the primary beneficiary.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

## Fair Value Measurements

The Company adopted SFAS No. 157, "Fair Value Measurements," ("SFAS No. 157") on January 1, 2008. The standard establishes a valuation hierarchy for disclosure of the inputs to the valuation used to measure fair value of certain assets and liabilities. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following chart shows the financial instruments valued on a recurring basis.

(Dollars in millions)

## Fair Value Measurements at June 30, 2009

Description	June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Assets	\$ 16	\$ --	\$ 16	\$ --
Derivative Liabilities	(4)	--	(4)	--
	\$ 12	\$ --	\$ 12	\$ --

(Dollars in millions)

## Fair Value Measurements at December 31, 2008

Description	December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Assets	\$ 16	\$ --	\$ 16	\$ --
Derivative Liabilities	(14)	--	(14)	--
	\$ 2	\$ --	\$ 2	\$ --

## Hedging Programs

The Company is exposed to market risk, such as changes in currency exchange rates, raw material and energy costs, and interest rates. The Company uses various derivative financial instruments pursuant to the Company's hedging policies to mitigate these market risk factors and their effect on the cash flows of the underlying



transactions. Designation is performed on a specific exposure basis to support hedge accounting. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the cash flows of the underlying exposures being hedged. The Company does not hold or issue derivative financial instruments for trading purposes. For further information, see Note 10, "Fair Value of Financial Instruments", to the consolidated financial statements in Part II, Item 8 of the Company's 2008 Annual Report on Form 10-K.

#### Fair Value Hedges

Fair value hedges are defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") as derivative or non-derivative instruments designated as and used to hedge the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings.

As of June 30, 2009, the Company had no active fair value hedges.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Cash Flow Hedges

Cash flow hedges are defined by SFAS No. 133 as derivative instruments designated as and used to hedge the exposure to variability in expected future cash flows that is attributable to a particular risk. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income, net of income taxes and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivatives representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

As of June 30, 2009, the total amount of the Company's foreign exchange forward and option contracts was a \$13 million asset. As of June 30, 2009, the total amount of the Company's feedstock/energy forward and option contracts was a \$1 million liability.

## Fair Value of Derivatives Designated as Cash Flow Hedging Instruments

(Dollars in millions)	June 30, 2009	
Asset Derivatives	Balance Sheet Location	Fair Value
Foreign exchange contracts	Other current assets	13
Foreign exchange contracts	Other noncurrent assets	--
		13

(Dollars in millions)	June 30, 2009	
Liability Derivatives	Balance Sheet Location	Fair Value
Commodity contract	Payables and other current liabilities	1
Foreign exchange contracts	Payables and other current liabilities	--
		1

## Derivatives' Cash Flow Hedging Relationships

(Dollars in millions)	Second Quarter 2009		
Derivatives Cash Flow Hedging Relationships	Amount after tax of gain/ (loss) recognized in Other Comprehensive	Location of gain/(loss) reclassified from Accumulated Other	Pre-tax amount of gain/(loss) reclassified from Accumulated Other Comprehensive Income into income

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	Income on derivatives (effective portion) June 30, 2009	Comprehensive Income into income (effective portion)	(effective portion) June 30, 2009
Commodity contract	1	Cost of sales	(3)
Foreign exchange contracts	(9)	Sales	6
	(8)		3

(Dollars in millions)

	Amount after tax of gain/ (loss) recognized in Other Comprehensive Income on derivatives (effective portion) June 30, 2009	First Six Months 2009 Location of gain/(loss) reclassified from Accumulated Other Comprehensive Income into income (effective portion)	Pre-tax amount of gain/(loss) reclassified from Accumulated Other Comprehensive Income into income (effective portion) June 30, 2009
Derivatives Cash Flow Hedging Relationships			
Commodity contract	5	Cost of sales	(9)
Foreign exchange contracts	(4)	Sales	14
	1		5

For the quarter and six months ended June 30, 2009, there was no material ineffectiveness with regard to the Company's cash flow hedges.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Nondesignated / Nonqualifying Derivative Instruments

The gains or losses on nonqualifying derivatives or derivatives that are not designated as hedges are marked to market in the line item "Other charges (income), net" of the Statements of Earnings. The Company recognized less than \$1 million net loss on nonqualifying derivatives during the quarter ended June 30, 2009. The Company recognized less than \$1 million net gain on nonqualifying derivatives during the six months ended June 30, 2009.

## Fair Value of Borrowings

FASB Staff Position ("FSP") FAS 107-1 and ABP 28-1, "Interim Disclosure about Fair Value of Financial Instruments" ("FSP FAS 107-1 and ABP 28-1") require public companies to disclose the fair value of financial assets whenever summarizing financial information for interim reporting periods. The fair value for fixed-rate borrowings is based on current interest rates for comparable securities. The Company's floating-rate borrowings approximate fair value.

(Dollars in millions)	June 30, 2009		December 31, 2008	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
Long-term borrowings	\$ 1,440	\$ 1,317	\$ 1,442	\$ 1,369

## 12. STOCKHOLDERS' EQUITY

A reconciliation of the changes in stockholders' equity in first six months 2009 is provided below:

(Dollars in millions)	Common Stock at Par Value	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock at Cost	Total Stockholders' Equity
	\$	\$	\$	\$	\$	\$
Balance at December 31, 2008	1	638	2,563	(335)	(1,314)	1,553
Net Earnings	--	--	67	--	--	67
Cash Dividends Declared (1)	--	--	(64)	--	--	(64)
Other Comprehensive Income	--	--	--	14	--	14
Stock-Based Compensation Expense (2)	--	7	--	--	--	7
Other (3)	--	(2)	--	--	--	(2)
Balance at June 30, 2009	1	643	2,566	(321)	(1,314)	1,575

(1) Includes cash dividends declared, but unpaid.

(2) The fair value of equity share-based awards recognized under SFAS No. 123 Revised December 2004, "Share-Based Payment".

(3) The tax benefits relating to the difference between the amounts deductible for federal income taxes over the amounts charged to income for book value purposes have been credited to paid-in capital.



## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX

(Dollars in millions)	Cumulative Translation Adjustment \$	Pension Plans \$	Unrealized Gains (Losses) on Derivative Instruments \$	Unrealized Losses on Investments \$	Accumulated Other Comprehensive Income (Loss) \$
Balance at December 31, 2007	157	(182)	(3)	--	(28)
Period change	(97)	(232)	23	(1)	(307)
Balance at December 31, 2008	60	(414)	20	(1)	(335)
Period change	15	(2)	1	--	14
Balance at June 30, 2009	75	(416)	21	(1)	(321)

Amounts of other comprehensive income (loss) are presented net of applicable taxes. The Company records deferred income taxes on the cumulative translation adjustment related to branch operations and other entities included in the Company's consolidated U.S. tax return. No deferred income taxes are provided on the cumulative translation adjustment of subsidiaries outside the United States, as such cumulative translation adjustment is considered to be a component of permanently invested, unremitted earnings of these foreign subsidiaries.

## 13. EARNINGS AND DIVIDENDS PER SHARE

	Second Quarter		First Six Months	
	2009	2008	2009	2008
Shares used for earnings per share calculation (in millions):				
Basic	72.5	76.1	72.5	77.1
Diluted	73.1	77.4	73.0	78.3

In second quarter and first six months 2009, common shares underlying options to purchase 3,745,729 shares of common stock and 4,031,829 shares of common stock, respectively, were excluded from the computation of diluted earnings per share because the total market value of option exercises for these awards was less than the total proceeds that would be received for these awards. There were no repurchases in first six months 2009.

In second quarter and first six months 2008, common shares underlying options to purchase 171,500 shares of common stock and 237,050 shares of common stock, respectively, were excluded from the computation of diluted earnings per share because the total market value of option exercises for these awards was less than the total proceeds that would be received for these awards. Second quarter and first six months 2008 reflect the impact of share repurchases of 0.4 million and 4.2 million shares, respectively.

The Company declared cash dividends of \$0.44 per share in second quarter 2009 and 2008 and \$0.88 per share in first six months 2009 and 2008.

#### 14. SHARE-BASED COMPENSATION AWARDS

The Company utilizes share-based awards under employee and non-employee director compensation programs. These share-based awards may include restricted and unrestricted stock, restricted stock units, stock options, and performance shares. In both second quarter 2009 and 2008, approximately \$5 million of compensation expense before tax were recognized in selling, general and administrative expense in the earnings statement for all share-based awards. The impact on second quarter 2009 and 2008 net earnings of \$2 million and \$3 million, respectively, is net of deferred tax expense related to share-based award compensation.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In first six months 2009 and 2008, \$9 million and \$13 million, respectively, of compensation expense before tax were recognized in selling, general and administrative expense in the earnings statement for all share-based awards. The impact on first six months 2009 and 2008 net earnings of \$5 million and \$8 million, respectively, is net of deferred tax expense related to share-based award compensation.

Additional information regarding share-based compensation plans and awards may be found in Note 16, "Share-Based Compensation Plans and Awards", to the consolidated financial statements in Part II, Item 8 of the Company's 2008 Annual Report on Form 10-K.

## 15. SEGMENT INFORMATION

The Company's products and operations are managed and reported in five reportable operating segments, consisting of the Coatings, Adhesives, Specialty Polymers, and Inks ("CASPI") segment, the Fibers segment, the PCI segment, the Performance Polymers segment, and the Specialty Plastics ("SP") segment. For additional information concerning the Company's segments' businesses and products, see Note 23, "Segment Information", to the consolidated financial statements in Part II, Item 8 of the Company's 2008 Annual Report on Form 10-K.

Research and development and other expenses not identifiable to an operating segment are not included in segment operating results for either of the periods presented and are shown in the tables below as "other" operating losses.

(Dollars in millions)	Second Quarter	
	2009	2008
Sales by Segment		
CASPI	\$ 302	\$ 414
Fibers	263	260
PCI	302	618
Performance Polymers	199	289
SP	187	253
Total Sales	\$ 1,253	\$ 1,834

(Dollars in millions)	First Six Months	
	2009	2008
Sales by Segment		
CASPI	\$ 552	\$ 803
Fibers	522	514
PCI	588	1,174
Performance Polymers	376	593
SP	344	477
Total Sales	\$ 2,382	\$ 3,561





## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	Second Quarter	
	2009	2008
Operating Earnings (Loss)		
CASPI (1)(2)	\$ 50	\$ 53
Fibers	74	62
PCI (3)	5	54
Performance Polymers (4)	3	2
SP (1)	8	13
Total Operating Earnings by Segment	140	184
Other	(9)	(12)
Total Operating Earnings	\$ 131	\$ 172

- (1) Second quarter 2009 includes a positive adjustment to first quarter 2009 restructuring charge of (\$2) million and (\$1) million in the CASPI and SP segments, respectively.
- (2) Second quarter 2008 includes \$2 million in gains for an adjustment to a reserve for asset impairments and restructuring charges, net for the first quarter 2008 divestiture of certain product lines.
- (3) Second quarter 2008 includes \$3 million of asset impairments and restructuring charges, net primarily related to severance and pension costs from the decision to close a previously impaired site in the United Kingdom and \$1 million in accelerated depreciation costs resulting from the previously reported shutdown of cracking units at the Company's Longview, Texas facility.
- (4) Second quarter 2008 includes \$2 million of asset impairments and restructuring charges, net related to restructuring at the South Carolina facility using IntegRex™ technology and \$2 million of accelerated depreciation costs resulting from restructuring actions associated with certain assets in Columbia, South Carolina.

(Dollars in millions)	First Six Months	
	2009	2008
Operating Earnings (Loss)		
CASPI (1)(2)	\$ 64	\$ 112
Fibers (1)	143	130
PCI (1)(3)	2	98
Performance Polymers (1)(4)	(22)	(4)
SP (1)	(10)	30
Total Operating Earnings by Segment	177	366
Other	(21)	(26)
Total Operating Earnings	\$ 156	\$ 340

- (1) First six months 2009 includes a restructuring charge primarily for a severance program of \$5 million, \$4 million, \$6 million, \$4 million, and \$4 million in the CASPI, Fibers, PCI, Performance Polymers, and SP segments,

respectively.

- (2) First six months 2008 includes \$2 million in gains for an adjustment to a reserve for asset impairments and restructuring charges, net for the first quarter 2008 divestiture of certain product lines.
- (3) First six months 2008 includes \$19 million of asset impairments and restructuring charges, net primarily related to severance and pension costs from the decision to close a previously impaired site in the United Kingdom and \$2 million of accelerated depreciation costs resulting from the previously reported shutdown of cracking units at the Company's Longview, Texas facility.
- (4) First six months 2008 includes \$3 million of asset impairments and restructuring charges, net related to restructuring at the South Carolina facility using IntegRex™ technology and \$3 million of accelerated depreciation costs resulting from restructuring actions associated with certain assets in Columbia, South Carolina.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	June 30,	December
(Dollars in millions)	2009	31, 2008
Assets by Segment (1)		
CASPI	\$ 1,121	\$ 1,150
Fibers	734	750
PCI	778	834
Performance Polymers	667	728
SP	887	818
Total Assets by Segment	4,187	4,280
Corporate Assets	1,169	1,001
Total Assets	\$ 5,356	\$ 5,281

(1) Assets managed by segment are accounts receivable, inventory, fixed assets, and goodwill.

## 16. LEGAL MATTERS

From time to time, the Company and its operations are parties to, or targets of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which are being handled and defended in the ordinary course of business. While the Company is unable to predict the outcome of these matters, it does not believe, based upon currently available facts, that the ultimate resolution of any such pending matters will have a material adverse effect on its overall financial condition, results of operations or cash flows. However, adverse developments could negatively impact earnings or cash flows in a particular future period.

## 17. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140" ("SFAS No. 166"). This statement addresses the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. This statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the effect SFAS No. 166 will have on its consolidated financial position, liquidity, or results of operations.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167"). This statement amends certain requirements of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities", to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This statement

is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the effect SFAS No. 167 will have on its consolidated financial position, liquidity, or results of operations.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Eastman Chemical Company's (the "Company" or "Eastman") audited consolidated financial statements, including related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's 2008 Annual Report on Form 10-K, and the Company's unaudited consolidated financial statements, including related notes, included elsewhere in this report. All references to earnings per share contained in this report are diluted earnings per share unless otherwise noted.

As described below in "Presentation of Non-GAAP Financial Measures", the Company sold its polyethylene terephthalate ("PET") manufacturing facility in Spain in the second quarter 2007 and sold its PET polymers and purified terephthalic acid ("PTA") manufacturing facilities in the Netherlands and its PET manufacturing facility in the United Kingdom and the related businesses in first quarter 2008. Because the Company has exited the PET business in the European region, results from sales of PET products manufactured at the Spain, the Netherlands, and the United Kingdom sites, including impairments and restructuring charges of those operations, and gains and losses from disposal of those assets and businesses, are presented as discontinued operations for all periods presented and are therefore not included in results from continuing operations under generally accepted accounting principles ("GAAP"). For additional information, see Note 2, "Discontinued Operations", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.



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

### CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated financial statements in conformity with GAAP, the Company's management must make decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and assumptions on which to base estimates and judgments that affect the reported amounts of assets, liabilities, sales revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to allowances for doubtful accounts, impairment of long-lived assets, environmental costs, pension and other post-employment benefits, litigation and contingent liabilities, and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company's management believes the critical accounting estimates listed and described in Part II, Item 7 of the Company's 2008 Annual Report on Form 10-K are the most important to the fair presentation of the Company's financial condition and results. These estimates require management's most significant judgments in the preparation of the Company's consolidated financial statements.

### PRESENTATION OF NON-GAAP FINANCIAL MEASURES

In second quarter 2009, the Company recognized a \$3 million reduction of the first quarter 2009 restructuring charge resulting in a net \$23 million charge in first six months 2009. The charges, primarily for severance, resulted from a reduction in force.

During 2007 and 2008, the Company took strategic actions in its Performance Polymers segment to address its underperforming PET manufacturing facilities outside the United States. In second quarter 2007, the Company completed the sale of its PET manufacturing facility in Spain and in first quarter 2008, the Company completed the sale of its PET polymers and PTA manufacturing facilities in the Netherlands and the PET manufacturing facility in the United Kingdom and related businesses. Results from, charges related to, and gains and losses from disposal of the Spain, the Netherlands, and the United Kingdom assets and businesses are presented as discontinued operations. In fourth quarter 2007, the Company completed the sale of its Mexico and Argentina manufacturing facilities. As part of this divestiture, the Company entered into transition supply agreements for polymer intermediates from which sales revenue and operating results are included in the Performance Polymers segment results in 2008.

In fourth quarter 2006, the Company sold its polyethylene ("PE") and Epolene™ polymer businesses and related assets of the Performance Polymers and the Coatings, Adhesives, Specialty Polymers, and Inks ("CASPI") segments. As part of the PE divestiture, the Company entered into a transition supply agreement for contract ethylene sales, from which sales revenue and operating results are included in the Performance Chemicals and Intermediates ("PCI") segment results in 2009 and 2008.

Also in fourth quarter 2006, the Company made strategic decisions relating to the scheduled shutdown of cracking units in Longview, Texas and a planned shutdown of higher cost PET assets in Columbia, South Carolina. Accelerated depreciation costs resulting from these decisions were \$3 million and \$5 million in second quarter and first six months 2008, respectively. For more information on accelerated depreciation costs, see "Gross Profit" in the "Results of Operations" section of this Management's Discussion and Analysis.



This Management's Discussion and Analysis includes the following non-GAAP financial measures and accompanying reconciliations to the most directly comparable GAAP financial measures. The non-GAAP financial measures used by the Company may not be comparable to similarly titled measures used by other companies and should not be considered in isolation or as a substitute for measures of performance or liquidity prepared in accordance with GAAP.

- Company and segment sales excluding contract ethylene sales under a transition agreement related to the divestiture of the PE product lines;
- Company and segment sales excluding contract polymer intermediates sales under a transition supply agreement related to the divestiture of the PET manufacturing facilities and related businesses in Mexico and Argentina;

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

- Company and segment gross profit, operating earnings, and earnings from continuing operations excluding accelerated depreciation costs and asset impairments and restructuring charges; and
- Company earnings from continuing operations excluding net deferred tax benefits related to the previous divestiture of businesses.

Eastman's management believes that contract ethylene sales under the transition agreement related to the divestiture of the PE product lines and the contract polymer intermediates sales under the transition supply agreement related to the divestiture of the PET manufacturing facilities and related businesses in Mexico and Argentina do not reflect the continuing and expected future business of the PCI and Performance Polymers segments or of the Company. In addition, for evaluation and analysis of ongoing business results and of the impact on the Company and segments of strategic decisions and actions to reduce costs and to improve the profitability of the Company, management believes that Company and segment earnings from continuing operations should be considered both with and without accelerated depreciation costs, asset impairments and restructuring charges, and deferred tax benefits related to the previous divestiture of businesses. Management believes that investors can better evaluate and analyze historical and future business trends if they also consider the reported Company and segment results, respectively, without the identified items. Management utilizes Company and segment results including and excluding the identified items in the measures it uses to evaluate business performance and in determining certain performance-based compensation. These measures, excluding the identified items, are not recognized in accordance with GAAP and should not be viewed as alternatives to the GAAP measures of performance.

### OVERVIEW

The Company generated sales revenue of \$1.3 billion and \$1.8 billion in second quarter 2009 and 2008, respectively. Excluding the results of contract ethylene sales and contract polymer intermediates sales, sales revenue decreased by 27 percent. The Company generated sales revenue of \$2.4 billion in first six months 2009 compared to \$3.6 billion in first six months 2008. Excluding the results of contract ethylene sales and contract polymer intermediates sales, sales revenue decreased by 28 percent. Sales revenue decreases for both second quarter and first six months 2009 compared to comparable 2008 periods were due to lower sales volume primarily attributed to the global recession, and lower selling prices in response to lower raw material and energy costs.

Operating earnings were \$131 million in second quarter 2009 compared with \$172 million in second quarter 2008. Operating earnings in second quarter 2009 were positively impacted by a \$3 million reduction of the first quarter \$26 million restructuring charge. Operating earnings in second quarter 2008 were negatively impacted by \$3 million in asset impairments and restructuring charges and \$3 million of accelerated depreciation costs, primarily as a result of strategic actions in the Performance Polymers and PCI segments. Excluding these items, operating earnings were \$128 million in second quarter 2009 compared with \$178 million in second quarter 2008. Operating earnings were \$156 million in first six months 2009 compared with \$340 million in first six months 2008. Excluding asset impairments and restructuring charges in first six months 2009 and 2008 and accelerated depreciation costs in first six months 2008, operating earnings were \$179 million in first six months 2009 compared with \$365 million in first six months 2008. Eastman's reduced earnings reflect continued weakness in demand for the Company's products attributed to the global recession. This weakness in demand caused lower sales volume and continued low capacity utilization which resulted in higher unit costs. Lower selling prices were in response to lower raw material and energy costs. Second quarter and first six months 2009 operating earnings included approximately \$20 million in costs related to the reconfiguration of the Longview, Texas facility. Operating earnings in second quarter and first six months 2009 benefited from cost reduction actions which will positively impact results throughout the year. First six

months 2009 reflected an increase in operating earnings of \$131 million in second quarter compared to \$25 million in first quarter 2009. This increase was due to increased sales volume primarily attributed to stabilization in customer buying patterns in second quarter 2009.

Earnings from continuing operations were \$65 million in second quarter 2009 compared to \$115 million in second quarter 2008. Excluding accelerated depreciation costs, asset impairments and restructuring charges, and net deferred tax benefits, earnings from continuing operations were \$63 million and \$119 million in second quarter 2009 and 2008, respectively. Earnings from continuing operations were \$67 million in first six months 2009 compared to \$230 million in first six months 2008. Excluding accelerated depreciation costs, asset impairments and restructuring charges, and net deferred tax benefits, earnings from continuing operations were \$81 million and \$236 million in first six months 2009 and 2008, respectively.

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

The Company generated \$337 million in cash from operating activities during first six months 2009 compared to \$79 million in first six months 2008. The improvement was primarily due to a decrease in working capital in 2009, particularly inventories, which more than offset significantly lower net earnings. The Company expects to generate positive free cash flow (operating cash flow less capital expenditures and dividends) in excess of \$200 million in 2009, including approximately \$100 million in cash from working capital, assuming continued difficult economic conditions and raw material and energy costs similar to current levels, and \$100 million positive operating cash flow impact of a change in tax accounting method.

The Company believes that cash balances, cash flows from operations, and external sources of liquidity will be available and sufficient to meet foreseeable cash flow requirements. The Company believes the combination of cash from operations, manageable leverage, and committed external sources of liquidity provides a solid financial foundation that positions it well in the current volatile economic and financial environments.

## RESULTS OF OPERATIONS

(Dollars in millions)	Second Quarter			Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
	2009	2008	Change				
Sales	\$ 1,253	\$ 1,834	(32) %	(20) %	(12) %	-- %	-- %
Sales - contract polymer intermediates sales (1)	--	26					
Sales - contract ethylene sales (2)	1	102					
Sales – excluding listed items	1,252	1,706	(27) %	(13) %	(13) %	(1) %	-- %

(Dollars in millions)	First Six Months			Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
	2009	2008	Change				
Sales	\$ 2,382	\$ 3,561	(33) %	(22) %	(10) %	(1) %	-- %
Sales - contract polymer intermediates sales (1)	--	82					
Sales - contract ethylene sales (2)	18	194					
Sales – excluding listed items	2,364	3,285	(28) %	(16) %	(11) %	(1) %	-- %

- (1) Included in 2008 sales revenue are contract polymer intermediates sales under the transition supply agreement related to the divestiture of the PET manufacturing facilities and related businesses in Mexico and Argentina in fourth quarter 2007.
- (2) Included in 2009 and 2008 sales revenue are contract ethylene sales under the transition supply agreement related to the divestiture of the PE businesses.

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

Sales revenue in second quarter and first six months 2009 compared to second quarter and first six months 2008 decreased \$581 million and \$1,179 million, respectively. Excluding revenue from the contract ethylene and polymer intermediates sales, sales revenues decreased \$454 million and \$921 million in second quarter and first six months 2009 compared to second quarter and first six months 2008, respectively. The decrease was primarily due to lower sales volume in all segments except the Performance Polymers segment and lower selling prices in response to lower raw material and energy costs particularly in the PCI and Performance Polymers segments. The lower sales volume was primarily attributed to weakened demand due to the global recession.

(Dollars in millions)	2009	Second Quarter 2008	Change	2009	First Six Months 2008	Change
Gross Profit	\$ 260	\$ 321	(19) %	\$ 439	\$ 658	(33) %
As a percentage of sales	21 %	18 %		18 %	18 %	
Accelerated depreciation costs included in cost of goods sold	--	3		--	5	
Gross profit excluding accelerated depreciation costs	260	324	(20) %	439	663	(34) %
As a percentage of sales	21 %	18 %		18 %	19 %	

Gross profit in second quarter and first six months 2009 decreased compared to second quarter and first six months 2008 in all segments except the Fibers segment due to continued weakness in demand for the Company's products attributed to the global recession. This weak demand caused lower sales volume and continued lower capacity utilization which resulted in higher unit costs. In addition, second quarter 2009 included approximately \$20 million in costs related to the reconfiguration of the Longview, Texas facility. The reconfiguration costs impacted the PCI and CASPI segments. Second quarter and first six months 2009 benefited from cost reduction actions. Second quarter and first six months 2008 included accelerated depreciation costs of \$3 million and \$5 million, respectively, resulting from the previously reported shutdown of the cracking units in Longview, Texas and of higher cost PET polymer assets in Columbia, South Carolina. The Company's second quarter and first six months 2009 raw material and energy costs decreased by approximately \$225 million and \$375 million, respectively, compared with second quarter and first six months 2008.

(Dollars in millions)	2009	Second Quarter 2008	Change	2009	First Six Months 2008	Change
Selling, General and Administrative Expenses	\$ 98	\$ 107	(8) %	\$ 192	\$ 217	(12) %
Research and Development Expenses	34	39	(13) %	68	81	(16) %
	\$ 132	\$ 146	(10) %	\$ 260	\$ 298	(13) %
As a percentage of sales	11 %	8 %		11 %	8 %	

Selling, general and administrative ("SG&A") expenses in second quarter 2009 and first six months 2009 decreased compared to second quarter 2008 and first six months 2008 primarily due to lower discretionary spending and compensation expense resulting from cost reduction actions.

Research and development ("R&D") expenses decreased \$5 million and \$13 million in second quarter 2009 compared to second quarter 2008 and first six months 2009 compared to first six months 2008, respectively. The decrease is primarily due to lower R&D expenses for corporate growth initiatives and lower discretionary spending resulting from cost reduction actions.

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

## Asset Impairments and Restructuring Charges, Net

In second quarter 2009, there was a \$3 million reduction of the first quarter 2009 restructuring charge resulting in a net \$23 million charge in first six months 2009. The charges, primarily for severance, resulted from a reduction in force.

In second quarter and first six months 2008, asset impairments and restructuring charges, net totaled \$3 million and \$20 million, respectively, primarily for severance, pension charges, and site closure costs in the PCI segment resulting from the decision to close a previously impaired site in the United Kingdom.

For more information regarding asset impairments and restructuring charges, net see the segment discussions and Note 7, "Asset Impairments and Restructuring Charges, Net", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

## Operating Earnings

(Dollars in millions)	Second Quarter			First Six Months		
	2009	2008	Change	2009	2008	Change
Operating earnings	\$ 131	\$ 172	(24) %	\$ 156	\$ 340	(54) %
Accelerated depreciation costs included in cost of goods sold	--	3		--	5	
Asset impairments and restructuring charges, net	(3)	3		23	20	
Operating earnings excluding accelerated depreciation costs and asset impairments and restructuring charges, net	\$ 128	\$ 178	(28) %	\$ 179	\$ 365	(51) %

## Net Interest Expense

(Dollars in millions)	Second Quarter			First Six Months		
	2009	2008	Change	2009	2008	Change
Gross interest costs	\$ 26	\$ 28		\$ 50	\$ 54	
Less: Capitalized interest	4	3		7	4	
Interest expense	22	25	(12) %	43	50	(14) %
Interest income	2	7		4	16	
Net interest expense	\$ 20	\$ 18	11 %	\$ 39	\$ 34	15 %

Net interest expense increased \$2 million and \$5 million in second quarter 2009 and first six months 2009, respectively, compared to comparable 2008 periods. Gross interest costs in second quarter 2009 and first six months 2009 were lower compared to second quarter 2008 and first six months 2008 due to lower average borrowings and lower average interest rates. Interest income in second quarter and first six months 2009 was lower compared to



second quarter and first six months 2008 due to lower average interest rates and lower average cash balances.

For 2009, the Company expects net interest expense to increase compared with 2008 primarily due to lower interest income, driven by lower average interest rates and lower average cash balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
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## Other Charges (Income), Net

(Dollars in millions)	Second Quarter		First Six Months	
	2009	2008	2009	2008
Foreign exchange transaction losses	\$ 2	\$ --	\$ 2	\$ 2
Investment losses, net	2	--	5	1
Other, net	1	1	2	(3)
Other charges (income), net	\$ 5	\$ 1	\$ 9	\$ --

Included in net other charges (income) are gains or losses on foreign exchange transactions, results from equity investments, gains on the sale of business venture investments, write-downs to fair value of certain technology business venture investments due to other than temporary declines in value, other non-operating income or charges related to Holston Defense Corporation, gains from the sale of non-operating assets, royalty income, certain litigation costs, fees on securitized receivables, other non-operating income, and other miscellaneous items.

## Provision for Income Taxes

(Dollars in millions)	Second Quarter		First Six Months	
	2009	2008	2009	2008
Provision for income taxes	\$ 41	\$ 38	\$ 41	\$ 76
Effective tax rate	39 %	25 %	38 %	25 %

Second quarter and first six months 2009 effective tax rates reflect a \$7 million tax charge associated with a change in accounting method for tax purposes to accelerate timing of deductions for manufacturing repairs expense. This change will result in more than a \$100 million positive cash flow impact in second half 2009 consisting of lower estimated tax payments and a refund of previously paid taxes. Second quarter and first six months 2008 effective tax rates reflect an estimated benefit resulting from a gasification investment tax credit, an \$8 million benefit from the reversal of a U.S. capital loss valuation allowance associated with the sale of businesses, and a \$6 million benefit from the settlement of a non-U.S. income tax audit. Excluding discrete items, second quarter and first six months 2009 and 2008 effective tax rates reflect the Company's expected full year tax rate on reported earnings from continuing operations before income tax, of approximately 33 and 30 percent, respectively.

## Earnings from Continuing Operations

(Dollars in millions)	Second Quarter		First Six Months	
	2009	2008	2009	2008
Earnings from continuing operations	\$ 65	\$ 115	\$ 67	\$ 230
Accelerated depreciation costs included in cost of goods sold, net of tax	--	2	--	3
Asset impairments and restructuring charges, net of tax	(2)	2	14	14
Net deferred tax benefits related to the previous divestiture of businesses	--	--	--	(11)

Earnings from continuing operations excluding accelerated depreciation costs, net of tax, asset impairments and restructuring charges, net of tax, and net deferred tax benefits related to the previous divestiture of businesses	\$	63	\$	119	\$	81	\$	236
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
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## Net Earnings

(Dollars in millions)	Second Quarter		First Six Months	
	2009	2008	2009	2008
Earnings from continuing operations	\$ 65	\$ 115	\$ 67	\$ 230
Gain from disposal of discontinued operations, net of tax	--	--	--	18
Net earnings	\$ 65	\$ 115	\$ 67	\$ 248

The gain on disposal of discontinued operations, net of tax of \$18 million in first six months 2008 was from the sale of the Company's PET polymers and PTA production facilities in the Netherlands and its PET production facility in the United Kingdom and related businesses for approximately \$329 million in first quarter 2008. For additional information, see Note 2, "Discontinued Operations", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

## SUMMARY BY OPERATING SEGMENT

The Company's products and operations are managed and reported in five reportable operating segments, consisting of the CASPI segment, the Fibers segment, the PCI segment, the Performance Polymers segment, and the Specialty Plastics ("SP") segment. For additional information concerning the Company's operating businesses and products, see Note 23, "Segment Information", to the consolidated financial statements in Part II, Item 8 of the Company's 2008 Annual Report on Form 10-K.

R&D and other expenses not identifiable to an operating segment, including industrial gasification project expenses, are not included in segment operating results for either of the periods presented and are shown in Note 15, "Segment Information", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, as "other" operating losses.

## CASPI Segment

(Dollars in millions)	2009	2008	Second Quarter		2009	2008	First Six Months	
			Change				Change	
			\$	%			\$	%
Sales	\$ 302	\$ 414	\$ (112)	(27) %	\$ 552	\$ 803	\$ (251)	(31) %
Volume effect			(76)	(18) %			(195)	(24) %
Price effect			(24)	(6) %			(23)	(3) %
Product mix effect			(10)	(2) %			(29)	(4) %
Exchange rate effect			(2)	(1) %			(4)	-- %

Operating earnings	50	53	(3)	(6) %	64	112	(48)	(43) %
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Asset impairments and restructuring charges, net	(2)	(2)	--		5	(2)	7	
--	-----	-----	----	--	---	-----	---	--

Operating earnings excluding asset impairments and restructuring charges, net	48	51	(3)	(6) %	69	110	(41)	(37) %
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Sales revenue decreased \$112 million in second quarter 2009 compared to second quarter 2008 and \$251 million in first six months 2009 compared to first six months 2008 primarily due to lower sales volume. The lower sales volume was due to weak customer demand, in all regions except Asia Pacific, attributed to the global recession, particularly for products sold into the automotive, building and construction, and packaging markets.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
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Excluding asset impairments and restructuring charges, net, operating earnings decreased \$3 million in second quarter 2009 compared to second quarter 2008 due primarily to lower sales volume and lower capacity utilization resulting in higher unit costs, including approximately \$5 million in costs related to the reconfiguration of the Longview, Texas facility, partially offset by lower raw material and energy costs and cost reduction actions. The asset impairments and restructuring charges, net for 2009 reflect an adjustment to first quarter 2009 severance charge and 2008 reflects an adjustment to a reserve for first quarter 2008 divestiture of certain product lines.

Excluding asset impairments and restructuring charges, net, operating earnings decreased \$41 million in first six months 2009 compared to first six months 2008 due primarily to lower sales volume and lower capacity utilization resulting in higher unit costs, including approximately \$5 million in costs related to the reconfiguration of the Longview, Texas facility, partially offset by lower raw material and energy costs and cost reduction actions. The asset impairments and restructuring charges, net for 2009 reflect the segment's portion of the severance charge for a reduction in force in first quarter 2009 and 2008 reflects an adjustment to a reserve for first quarter 2008 divestiture of certain product lines.

Fibers Segment

(Dollars in millions)	Second Quarter				First Six Months			
	2009	2008	\$	Change %	2009	2008	\$	Change %
Sales	\$ 263	\$ 260	\$ 3	1 %	\$ 522	\$ 514	\$ 8	2 %
Volume effect			(20)	(8) %			(45)	(9) %
Price effect			24	9 %			49	10 %
Product mix effect			(1)	-- %			4	1 %
Exchange rate effect			--	-- %			--	-- %
Operating earnings	74	62	12	19 %	143	130	13	10 %
Asset impairments and restructuring charges, net	--	--	--		4	--	4	
Operating earnings excluding asset	74	62	12	19 %	147	130	17	13 %

impairments  
and  
restructuring  
charges, net

Sales revenue had a slight increase in second quarter 2009 compared to second quarter 2008, as higher selling prices were offset by lower sales volume. The higher selling prices were in response to higher raw material and energy costs, including for wood pulp and coal. The lower sales volume was attributed to the impact of customer buying patterns for the acetyl chemicals products and the impact of the global recession on the acetate yarn products.

Sales revenue increased \$8 million in first six months 2009 compared to first six months 2008 primarily due to higher selling prices partially offset by lower sales volume. The higher selling prices were in response to higher raw material and energy costs, including for wood pulp and coal. The lower sales volume was attributed to the impact of customer buying patterns for the acetyl chemicals products and the impact of the global recession on the acetate yarn products, partially offset by higher sales volume for acetate tow enabled by the capacity expansion of the Company's acetate tow plant in Workington, England, which was completed in fourth quarter 2008.

Operating earnings increased \$12 million in second quarter 2009 compared to second quarter 2008 primarily due to higher selling prices, cost reduction actions, and a favorable shift in product mix, partially offset by lower sales volume.

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

Excluding the segment's portion of the severance charge for a reduction in force in first quarter 2009, operating earnings increased \$17 million in first six months 2009 compared to first six months 2008 primarily due to higher selling prices, cost reduction actions, and a favorable shift in product mix, partially offset by higher raw material and energy costs and lower sales volume.

In December 2008, the Company announced an alliance with SK Chemicals Company Ltd. ("SK") to form a company to acquire and operate a cellulose acetate tow manufacturing facility and related business, with the facility to be constructed by SK in Korea. Eastman will have majority ownership and will operate the facility. Construction began in first quarter 2009 and is expected to be completed during second quarter 2010.

## PCI Segment

(Dollars in millions)	Second Quarter				First Six Months			
	2009	2008	Change		2009	2008	Change	
			\$	%			\$	%
Sales	\$ 302	\$ 618	\$ (316)	(51) %	\$ 588	\$ 1,174	\$ (586)	(50) %
Volume effect			(196)	(32) %			(364)	(31) %
Price effect			(126)	(20) %			(233)	(20) %
Product mix effect			6	1 %			11	1 %
Exchange rate effect			--	-- %			--	-- %
Sales – contract ethylene sales	1	102	(101)		18	194	(176)	
Sales – excluding contract ethylene sales	301	516	(215)	(42) %	570	980	(410)	(42) %
Volume effect			(81)	(16) %			(175)	(18) %
Price effect			(131)	(25) %			(229)	(23) %
Product mix effect			(3)	(1) %			(6)	(1) %
Exchange rate effect			--	-- %			--	-- %
Operating earnings	5	54	(49)	(91) %	2	98	(96)	(98) %
Accelerated depreciation costs included in cost of goods sold	--	1	(1)		--	2	(2)	
Asset impairments and restructuring charges, net	--	3	(3)		6	19	(13)	



Operating earnings excluding accelerated depreciation costs and asset impairments and restructuring charges, net	5	58	(53)	(91) %	8	119	(111)	(93) %
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
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Sales revenue decreased \$316 million in second quarter 2009 compared to second quarter 2008 and \$586 million in first six months 2009 compared to first six months 2008. Excluding contract ethylene sales under the transition agreement resulting from the divestiture of the Performance Polymers segment's PE business in the fourth quarter 2006, sales revenue decreased \$215 million in second quarter and \$410 million in first six months 2009 compared to the same period 2008 due to lower selling prices and lower sales volume. The lower selling prices were primarily due to lower raw material and energy costs. The lower sales volume was primarily in olefin-based derivatives and was attributed to the global recession.

Excluding accelerated depreciation costs and asset impairments and restructuring charges, net in second quarter 2008, operating earnings decreased \$53 million in second quarter 2009 compared to second quarter 2008 primarily due to lower selling prices, lower sales volume, lower capacity utilization resulting in higher unit costs including approximately \$15 million in costs related to the reconfiguration of the Longview, Texas facility, partially offset by lower raw material and energy costs and cost reduction actions.

Excluding asset impairments and restructuring charges, net in first six months 2009 and 2008 and accelerated depreciation costs in first six months 2008, operating earnings decreased \$111 million in first six months 2009 compared to first six months 2008 primarily due to lower selling prices, lower sales volume, lower capacity utilization resulting in higher unit costs including approximately \$15 million in costs related to the reconfiguration of the Longview, Texas facility, partially offset by lower raw material and energy costs and cost reduction actions. A restructuring charge in first quarter 2009 consisted of the segment's portion of the severance charge for a reduction in force. Asset impairments and restructuring charges in first six months 2008 consisted primarily of severance and pension costs from the decision to close a previously impaired site in the United Kingdom. The accelerated depreciation costs for 2008 are related to the continuation of the previously reported planned staged phase-out of older cracking units in 2007 at the Company's Longview, Texas facility.

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Performance Polymers Segment

As a result of the Company's strategic actions in the Performance Polymers segment, the discussion below is of results from continuing operations in all periods presented. For additional information, see Note 2, "Discontinued Operations", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

(Dollars in millions)	Second Quarter				First Six Months			
	2009	2008	Change		2009	2008	Change	
			\$	%			\$	%
Sales	\$ 199	\$ 289	\$ (90)	(31) %	\$ 376	\$ 593	\$ (217)	(37) %
Volume effect			(26)	(9) %			(81)	(14) %
Price effect			(69)	(24) %			(141)	(24) %
Product mix effect			5	2 %			5	1 %
Exchange rate effect			--	-- %			--	-- %
Sales – contract polymer intermediates sales (1)	--	26	(26)		--	82	(82)	
Sales – excluding contract polymer intermediates sales	199	263	(64)	(25) %	376	511	(135)	(27) %
Volume effect			--	-- %			1	-- %
Price effect			(69)	(27) %			(141)	(28) %
Product mix effect			5	2 %			5	1 %
Exchange rate effect			--	-- %			--	-- %
Operating earnings (loss) (2)	\$ 3	\$ 2	\$ 1	50 %	\$ (22)	\$ (4)	\$ (18)	>(100) %
Accelerated depreciation costs included in cost of goods sold	--	2	(2)		--	3	(3)	
Asset impairments and restructuring charges, net	--	2	(2)		4	3	1	
Operating earnings (loss) excluding accelerated depreciation costs and asset impairments and restructuring charges, net	3	6	(3)	(50) %	(18)	2	(20)	>(100) %

(1) Sales revenue for 2008 includes contract polymer intermediates sales under the transition supply agreement related to the divestiture of the PET manufacturing facilities and related businesses in Mexico and Argentina in fourth quarter 2007.

(2) Includes allocated costs in 2008 not included in discontinued operations, some of which may remain and could be reallocated to the remainder of the segment and other segments.

Excluding contract polymer intermediates sales to the buyer of the divested Mexico and Argentina facilities, sales revenue decreased \$64 million and \$135 million in second quarter and first six months 2009 compared to second quarter and first six months 2008 due to lower selling prices. The lower selling prices were primarily due to a decline in raw material and energy costs, primarily for paraxylene. Sales volume excluding contract polymer intermediates sales was unchanged as higher volume from the Company's IntegRex™ technology based PET facility was offset by lower volume from the Company's conventional PET manufacturing assets which were significantly rationalized in first quarter 2008.

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

Excluding asset impairments and restructuring charges and accelerated depreciation costs, net in second quarter 2008, operating earnings in second quarter 2009 decreased \$3 million compared to second quarter 2008. Operating earnings decreased slightly due to lower selling prices and higher unit costs resulting from lower polyester stream utilization, mostly offset by lower raw material and energy costs and cost reduction actions.

Excluding asset impairments and restructuring charges, net in first six months 2009 and 2008, and accelerated depreciation costs in first six months 2008, operating results in first six months 2009 decreased \$20 million compared to first six months 2008. Operating results declined due to lower selling prices and higher unit costs resulting from lower polyester stream utilization, partially offset by lower raw material and energy costs and cost reduction actions. In addition, results were negatively impacted by the slower than expected start-up of the debottleneck of the IntegRex™-based PET manufacturing facility and operational challenges with the facility. A restructuring charge in first quarter 2009 consisted of the segment's portion of the severance charge for a reduction in force. Accelerated depreciation costs of \$3 million in first six months 2008 resulted from restructuring actions associated with higher cost PET polymer assets in Columbia, South Carolina. Asset impairments and restructuring charges of \$3 million in first six months 2008 related to restructuring at the South Carolina facility using IntegRex™ technology. Compared to first quarter 2009, operating results improved significantly due to higher selling prices and improved capacity utilization resulting in lower unit costs, while raw material and energy costs remained unchanged. While efforts continued in second quarter to improve the performance of the IntegRex™-based PET facility, the negative impact on results was lower in second quarter compared with first quarter.

Because of seasonality of demand, additional market capacity, and operational challenges with the IntegRex™-based PET manufacturing facility, the Company expects the Performance Polymers segment to have operating losses in second half of 2009.

## SP Segment

(Dollars in millions)	2009	Second Quarter				2009	First Six Months			
		2008	\$	Change	%		2008	\$	Change	%
Sales	\$ 187	\$ 253	\$ (66)	(26) %		\$ 344	\$ 477	\$ (133)	(28) %	
Volume effect			(42)	(16) %				(94)	(20) %	
Price effect			(16)	(7) %				(24)	(5) %	
Product mix effect			(8)	(3) %				(15)	(3) %	
Exchange rate effect			--	-- %				--	-- %	
Operating earnings (loss)	8	13	(5)	(38) %		(10)	30	(40)	>(100) %	

Asset impairments and restructuring charges, net	(1)	--	(1)		4	--	4	
Operating earnings (loss) excluding asset impairments and restructuring charges, net	7	13	(6)	(46) %	(6)	30	(36)	>(100) %

Sales revenue decreased \$66 million in second quarter 2009 compared to second quarter 2008 and \$133 million in first six months 2009 compared to first six months 2008 due to lower sales volume and lower selling prices. The decline in sales volume was attributed to the global recession which has weakened demand for plastic resins, including copolyester products sold into the packaging, consumer and durable goods markets, and for cellulosic plastics sold into the liquid crystal displays ("LCD") market. The lower selling prices were a result of lower raw material and energy costs.

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

Excluding an adjustment to first quarter 2009 severance charge, operating results decreased \$6 million in second quarter 2009 compared to second quarter 2008 due to lower sales volume, lower capacity utilization resulting in higher unit costs, and an unfavorable shift in product mix with less cellulosic plastics sold into the LCD market, partially offset by lower raw material and energy costs and cost reduction actions.

Excluding the segment's portion of the severance charge for a reduction in force in first quarter 2009, operating results declined \$36 million in first six months 2009 compared to first six months 2008 due to lower sales volume, lower capacity utilization causing higher unit costs, and an unfavorable shift in product mix with less cellulosic plastics sold into the LCD market, partially offset by lower raw material and energy costs and cost reduction actions.

The SP segment is progressing with the introduction of its new copolyester, Eastman Tritan™ copolyester, including a new 30,000 metric ton Tritan™ manufacturing facility expected to be online by early 2010.

### SUMMARY BY CUSTOMER LOCATION

#### Sales Revenue

(Dollars in millions)	Second Quarter			Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
	2009	2008	Change				
United States and Canada	\$ 688	\$ 1,112	(38) %	(24) %	(15) %	1 %	-- %
Asia Pacific	277	334	(17) %	(5) %	(8) %	(4) %	-- %
Europe, Middle East, and Africa	207	271	(24) %	(16) %	(1) %	(6) %	(1) %
Latin America	81	117	(31) %	(18) %	(18) %	5 %	-- %
	\$ 1,253	\$ 1,834	(32) %	(20) %	(12) %	-- %	-- %

Sales revenue in the United States and Canada decreased in second quarter 2009 compared to second quarter 2008 primarily due to lower sales volume and lower selling prices particularly in the PCI segment partially due to contract ethylene sales. Excluding contract ethylene sales, sales revenue decreased 32 percent primarily due to lower selling prices particularly in the PCI and Performance Polymers segments and lower sales volume particularly in the PCI and CASPI segments.

Sales revenue in Asia Pacific decreased in second quarter 2009 compared to second quarter 2008 primarily due to lower selling prices in the PCI, CASPI, and SP segments partially offset by higher selling prices in the Fibers segment, and lower sales volume in the SP segment.

Sales revenue in Europe, Middle East and Africa decreased in second quarter 2009 compared to second quarter 2008, primarily due to lower sales volume and an unfavorable shift in product mix particularly in the CASPI, PCI, and SP segments.

Sales revenue in Latin America decreased in second quarter 2009 compared to second quarter 2008 primarily due to lower sales volume and selling price. Excluding contract polymer intermediates sales, sales revenue decreased 11 percent due to lower selling prices primarily in the Performance Polymer and PCI segments partially offset by a favorable shift in product mix and higher sales volume primarily in the Performance Polymers segment.



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(Dollars in millions)	First Six Months			Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
	2009	2008	Change				
United States and Canada	\$ 1,359	\$ 2,163	(37) %	(24) %	(14) %	1 %	-- %
Asia Pacific	487	612	(20) %	(11) %	(6) %	(3) %	-- %
Europe, Middle East, and Africa	385	526	(27) %	(15) %	-- %	(11) %	(1) %
Latin America	151	260	(42) %	(37) %	(15) %	10 %	-- %
	\$ 2,382	\$ 3,561	(33) %	(22) %	(10) %	(1) %	-- %

Sales revenue in the United States and Canada decreased in first six months 2009 compared to first six months 2008 primarily due to lower sales volume and lower selling prices particularly in the PCI segment partially due to contract ethylene sales in the PCI segment. Excluding contract ethylene sales, sales revenue decreased 32 percent primarily due to lower sales volume particularly in the PCI and CASPI segments and lower selling prices particularly in the PCI and Performance Polymers segments.

Sales revenue in Asia Pacific decreased in first six months 2009 compared to first six months 2008 primarily due to lower sales volume particularly in the SP and PCI segments and lower selling prices in the PCI, CASPI, and SP segments partially offset by higher selling prices in the Fibers segment, and an unfavorable shift in product mix particularly in the CASPI and SP segments.

Sales revenue in Europe, Middle East and Africa decreased in first six months 2009 compared to first six months 2008 primarily due to lower sales volume and an unfavorable shift in product mix particularly for the CASPI, SP, and PCI segments.

Sales revenue in Latin America decreased in first six months 2009 compared to first six months 2008 primarily due to lower sales volume and lower selling prices and by an unfavorable shift in product mix. Excluding contract polymer intermediates sales, sales revenue decreased 15 percent due to lower selling prices primarily in the Performance Polymers and PCI segments and lower sales volume particularly in the CASPI segment partially offset by a favorable shift in product mix primarily in the Performance Polymers segment.

With a substantial portion of sales to customers outside the United States, Eastman is subject to the risks associated with operating in international markets. To mitigate its exchange rate risks, the Company frequently seeks to negotiate payment terms in U.S. dollars. In addition, where it deems such actions advisable, the Company engages in foreign currency hedging transactions and requires letters of credit and prepayment for shipments where its assessment of individual customer and country risks indicates their use is appropriate. For additional information, see Note 10 to the consolidated financial statements in Part II, Item 8 and Part II, Item 7A of the Company's 2008 Annual Report on Form 10-K and Forward-Looking Statements and Risk Factors of this Quarterly Report on Form 10-Q.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
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LIQUIDITY, CAPITAL RESOURCES, AND OTHER FINANCIAL INFORMATION

Cash Flows

(Dollars in millions)	First 2009	Six Months 2008
Net cash provided by (used in)		
Operating activities	\$ 337	\$ 79
Investing activities	(226)	6
Financing activities	(48)	(412)
Effect of exchange rate changes on cash and cash equivalents	--	1
Net change in cash and cash equivalents	63	(326)
Cash and cash equivalents at beginning of period	387	888
Cash and cash equivalents at end of period	\$ 450	\$ 562

Cash provided by operating activities was \$337 million in first six months 2009 compared to \$79 million provided by operating activities in first six months 2008. The improvement was primarily due to a decrease in working capital in 2009, particularly inventories, compared to an increase in working capital in 2008 more than offsetting lower net earnings.

Cash used in investing activities was \$226 million in first six months 2009 compared to \$6 million provided by investing activities in first six months 2008. The first six months 2009 included the first two scheduled payments for an investment in the Company's alliance with SK which are reflected in the line item "Cash flows from investing activities -- Other items, net" of the Statements of Cash Flows. Proceeds of \$329 million were received in the first six months 2008 primarily related to the sale of the Company's PET polymers and PTA manufacturing facilities in the Netherlands and the PET manufacturing facility in the United Kingdom. Capital spending of \$204 million in first six months 2009 decreased compared to first six months 2008 due primarily to actions taken to respond to the current global recession.

Cash used in financing activities totaled \$48 million in first six months 2009 compared to \$412 million used in financing activities in first six months 2008. Share repurchases in first six months 2008 were \$270 million.

The payment of dividends is also reflected in financing activities in all periods.

The Company expects to generate positive free cash flow (operating cash flow less capital expenditures and dividends) in excess of \$200 million in 2009, including approximately \$100 million in cash from working capital, assuming continued difficult economic conditions and raw material and energy costs similar to current levels, and \$100 million positive operating cash flow impact of a change in tax accounting method. The change in accounting method for tax purposes accelerates timing of deductions for manufacturing repairs expense resulting in lower estimated tax payments and a refund of previously paid taxes, in second half 2009. This change in tax accounting method is currently being reflected as an increase in the line item "Cash flows from operating activities -- Provision (benefit) for deferred income taxes" and a decrease in the line item "Cash flows from operating activities -- Other

items, net" of the Statements of Cash Flows. The second half 2009 tax refunds will be reflected in the line item "Cash flows from operating activities -- Other items, net" of the Statements of Cash Flows. The priorities for uses of available cash are expected to be payment of the quarterly cash dividend, investing in growth initiatives, funding defined benefit pension plans, and repurchasing shares.

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

### Liquidity

At June 30, 2009, the Company had credit facilities with various U.S. and foreign banks totaling approximately \$800 million. These credit facilities consist of the \$700 million revolving credit facility (the "Credit Facility") and a 60 million euro credit facility ("Euro Facility"). The Credit Facility has two tranches, with \$125 million expiring in 2012 and \$575 million expiring in 2013. The Euro Facility expires in 2012. Borrowings under these credit facilities are subject to interest at varying spreads above quoted market rates. The Credit Facility requires a facility fee on the total commitment that is based on Eastman's credit rating. In addition, these credit facilities contain a number of customary covenants and events of default, including the maintenance of certain financial ratios. The Company was in compliance with all such covenants for all periods presented. At June 30, 2009, the Company's credit facility borrowings totaled \$84 million, primarily from the Euro Facility, at an effective interest rate of 1.29 percent. At December 31, 2008, borrowings on these credit facilities were \$84 million, primarily from the Euro Facility, at an effective interest rate of 3.74 percent.

The Credit Facility provides liquidity support for commercial paper borrowings and general corporate purposes. Accordingly, any outstanding commercial paper borrowings reduce borrowings available under the Credit Facility. Given the expiration dates of the Credit Facility, any commercial paper borrowings supported by the Credit Facility are classified as long-term borrowings because the Company has the ability to refinance such borrowings on a long-term basis.

Additionally, the Company maintains a \$200 million annually renewable accounts receivable securitization program that is available to provide liquidity through the sale of receivables. The securitization program was fully drawn at June 30, 2009 and renewed in July 2009. For more information, see "Off Balance Sheet and Other Financing Arrangements" below and Note 10. "Commitments", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

For more information regarding interest rates, refer to Note 6. "Borrowings", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In 2008, the Company made no contribution to its U.S. defined benefit pension plan. The Company expects to make contributions to its defined benefit pension plans in 2009 of between \$25 million and \$50 million.

Cash flows from operations and the other sources of liquidity described above are expected to be available and sufficient to meet foreseeable cash flow requirements. However, the Company's cash flows from operations can be affected by numerous factors including risks associated with global operations, raw material availability and cost, demand for and pricing of Eastman's products, capacity utilization, and other factors described under "Forward-Looking Statements and Risk Factors" below. The Company believes maintaining a financial profile consistent with an investment grade company is important to its long term strategic and financial flexibility.

### Capital Expenditures

Capital expenditures were \$204 million and \$278 million in first six months 2009 and 2008, respectively. The decrease of \$74 million in 2009 compared with 2008 was primarily due to the Company's reduced capital spending in response to the current global recession. The Company expects that 2009 capital spending will be between \$300 million and \$325 million, which is sufficient to fund required maintenance and certain strategic growth initiatives

including the increased capacity for Eastman Tritan™ copolyester and the front-end engineering and design for the industrial gasification project.

#### Other Commitments

At June 30, 2009, the Company's obligations related to notes and debentures totaled approximately \$1.4 billion to be paid over a period of up to 20 years. Other borrowings, related primarily to credit facility borrowings, totaled approximately \$95 million.

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

The Company had various purchase obligations at June 30, 2009 totaling approximately \$1.4 billion over a period of approximately 15 years for materials, supplies, and energy incident to the ordinary conduct of business. For information regarding the Company's lease commitments, refer to Note 10, "Commitments", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In addition, the Company had other liabilities at June 30, 2009 totaling approximately \$1.4 billion primarily related to pension, retiree medical, and other post-employment obligations.

The Company expects to make scheduled payments of approximately \$55 million towards the investment in the Company's alliance with SK in 2009.

The items described above are summarized in the following table:

(Dollars in millions)		Payments Due for					
Period	Notes and Debentures	Credit Facility Borrowings and Other	Interest Payable	Purchase Obligations	Operating Leases	Other Liabilities (a)	Total
2009	\$ --	\$ 11	\$ 49	\$ 158	\$ 14	\$ 142	\$ 374
2010	--	--	98	355	26	82	561
2011	2	--	98	244	24	61	429
2012	153	84	93	241	16	59	646
2013	--	--	85	227	11	58	381
2014 and beyond	1,201	--	906	138	16	1,038	3,299
Total	\$ 1,356	\$ 95	\$ 1,329	\$ 1,363	\$ 107	\$ 1,440	\$ 5,690

(a) Amounts represent the current estimated cash payments to be made by the Company primarily for pension and other post-employment benefits and taxes payable in the periods indicated. The amount and timing of such payments is dependent upon interest rates, health care trends, actual returns on plan assets, retirement and attrition rates of employees, continuation or modification of the benefit plans, and other factors. Such factors can significantly impact the amount and timing of any future contributions by the Company.

## Off-Balance Sheet and Other Financing Arrangements

If certain operating leases are terminated by the Company, it guarantees a portion of the residual value loss, if any, incurred by the lessors in disposing of the related assets. For information on the Company's residual value guarantees, refer to Note 10, "Commitments", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Eastman entered into an agreement in 1999 that allows it to generate cash by reducing its working capital through the sale of undivided interests in certain domestic trade accounts receivable under a planned continuous sale program to a third party. For information on the Company's annually renewable accounts receivable securitization program, refer to Note 10, "Commitments", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The Company did not have any other material relationships with unconsolidated entities or financial partnerships, including special purpose entities, for the purpose of facilitating off-balance sheet arrangements with contractually narrow or limited purposes. Thus, Eastman is not materially exposed to any financing, liquidity, market, or credit risk related to the above or any other such relationships.

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

The Company has evaluated its material contractual relationships and has concluded that the entities involved in these relationships are not Variable Interest Entities ("VIEs") or, in the case of Primerster, a joint venture that manufactures cellulose acetate at the Company's Kingsport, Tennessee plant, the Company is not the primary beneficiary of the VIE. As such, in accordance with Financial Accounting Standards Board ("FASB") Interpretation Number 46, "Consolidation of Variable Interest Entities", the Company is not required to consolidate these entities. In addition, the Company has evaluated long-term purchase obligations with an entity that may be a VIE at June 30, 2009. This potential VIE is a joint venture from which the Company has purchased raw materials and utilities for several years. The Company purchased approximately \$50 million of raw materials and utilities during 2008 and expects to purchase approximately \$35 million during 2009. The Company has no equity interest in this entity and has confirmed that one party to this joint venture does consolidate the potential VIE. However, due to competitive and other reasons, the Company has not been able to obtain the necessary financial information to determine whether the entity is a VIE, and whether or not the Company is the primary beneficiary.

Guarantees and claims also arise during the ordinary course of business from relationships with suppliers, customers, and non-consolidated affiliates when the Company undertakes an obligation to guarantee the performance of others if specified triggering events occur. Non-performance under a contract could trigger an obligation of the Company. These potential claims include actions based upon alleged exposures to products, intellectual property and environmental matters, and other indemnifications. The ultimate effect on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to the final outcome of these claims. However, while the ultimate liabilities resulting from such claims may be significant to results of operations in the period recognized, management does not anticipate they will have a material adverse effect on the Company's consolidated financial position or liquidity.

### Treasury Stock

In October 2007, the Company's Board of Directors authorized the repurchase of up to \$700 million of the Company's outstanding common stock at such times, in such amounts, and on such terms, as determined to be in the best interests of the Company. As of June 30, 2009, a total of 9.4 million shares had been repurchased under this authorization for a total amount of \$583 million. No share repurchases were made in first six months 2009.

### Dividends

The Company declared cash dividends of \$0.44 per share in second quarter 2009 and 2008 and \$0.88 per share in first six months 2009 and 2008.

### RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140" ("SFAS No. 166"). This statement addresses the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. This statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the effect SFAS No. 166 will have on its consolidated financial position, liquidity, or results of operations.



In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167"). This statement amends certain requirements of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities", to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the effect SFAS No. 167 will have on its consolidated financial position, liquidity, or results of operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
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OUTLOOK

For 2009, the Company expects:

- declines in volume attributed to the global recession;
- the volatility of market prices for raw material and energy to continue and that the Company will continue to use pricing strategies and ongoing cost control initiatives in an attempt to offset the effects on gross profit;
- some segments to be challenged to meet their typical operating margins with the current uncertainty of the global recession;
- sales volume for acetate tow in the Fibers segment to be consistent with 2008, and to make scheduled payments of approximately \$55 million in the alliance with SK to form a company to acquire and operate a cellulose acetate tow manufacturing facility and related business in Korea;
- to complete an additional 30 percent expansion of its CASPI segment's hydrogenated hydrocarbon resins manufacturing capacity in Middelburg, the Netherlands (which was completed in second quarter 2009);
- ethylene volume to decline in the PCI segment due to the staged phase-out of older cracking units at the Company's Longview, Texas facility;
- to complete maintenance and capital projects for its largest cracking unit as the last step in the reconfiguration of its Longview, Texas facility during second quarter (which was completed in second quarter 2009), with costs related to these actions impacting the PCI and CASPI segments;
- the SP segment will continue to progress with the introduction of its new copolyester, Eastman Tritan™ copolyester, including a new 30,000 metric ton Tritan™ manufacturing facility expected to be online in 2010;
- because of seasonality of demand, additional market capacity, and operational challenges with the IntegRex™-based PET manufacturing facility, the Performance Polymers segment to have an operating loss in second half of 2009;
- to continue to pursue options to create additional value from its IntegRex™ technology, primarily by actively pursuing licensing opportunities;
- to complete the front-end engineering and design for the industrial gasification project by mid-2009 and to pursue non-recourse project financing utilizing the Department of Energy's Federal Loan Guarantee Program;
- depreciation and amortization to be at or slightly higher than 2008;
- pension expense to be similar to 2008, and to fund defined benefit pension plans in an amount between \$25 million and \$50 million;
- net interest expense to increase compared with 2008 primarily due to lower interest income, driven by lower average interest rates and lower average cash balances;

- the effective tax rate to be approximately 33 percent, including the benefit of the research and development tax credit;
- capital spending to be between \$300 million and \$325 million as it selectively funds targeted growth efforts, while prioritizing capital spending, including the increased capacity for Eastman Tritan™ copolyester and the front-end engineering and design for the industrial gasification project;

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

- to generate positive free cash flow in excess of \$200 million, including approximately \$100 million in cash from working capital, assuming continued difficult economic conditions and raw material and energy costs similar to current levels, and \$100 million positive operating cash flow impact of a change in tax accounting method; and
- priorities for uses of available cash to be payment of the quarterly cash dividend, fund targeted growth initiatives and defined benefit pension plans, and repurchase shares.

Based upon the foregoing, the Company full year earnings per share to be toward the high end of the previously reported projection of \$2.00 to \$3.00 range.

In addition to the above, the Company expects to significantly improve earnings over the long-term through strategic efforts and growth initiatives in existing businesses, and expects:

- the SP segment to improve earnings by continued focus on copolyesters growth, increasing sales revenue from cellulose esters used in LCD screens and continued progress with the introduction of its high performance copolyesters;
- to pursue licensing opportunities for the PCI segment's acetyl and oxo technologies and for the Performance Polymers segment's IntegRex™ technology;
- to pursue additional growth opportunities in Asia for acetate tow in the Fibers segment; and
- to continue exploring options with industrial gasification.

See "Forward-Looking Statements and Risk Factors" below.

## FORWARD-LOOKING STATEMENTS AND RISK FACTORS

The expectations under "Outlook" and certain other statements in this Quarterly Report on Form 10-Q may be forward-looking in nature as defined in the Private Securities Litigation Reform Act of 1995. These statements and other written and oral forward-looking statements made by the Company from time to time may relate to, among other things, such matters as planned and expected capacity increases and utilization; anticipated capital spending; expected depreciation and amortization; environmental matters; legal proceedings; exposure to, and effects of hedging of, raw material and energy costs, foreign currencies and interest rates; global and regional economic, political, and business conditions; competition; growth opportunities; supply and demand, volume, price, cost, margin, and sales; earnings, cash flow, dividends and other expected financial results and conditions; expectations, strategies, and plans for individual assets and products, businesses and segments as well as for the whole of Eastman Chemical Company; cash requirements and uses of available cash; financing plans; pension expenses and funding; credit ratings; anticipated restructuring, divestiture, and consolidation activities; cost reduction and control efforts and targets; integration of acquired businesses; strategic initiatives and development, production, commercialization, and acceptance of new products, services and technologies and related costs; asset, business and product portfolio changes; and expected tax rates and net interest costs.

These plans and expectations are based upon certain underlying assumptions, including those mentioned with the specific statements. Such assumptions are in turn based upon internal estimates and analyses of current market

conditions and trends, management plans and strategies, economic conditions and other factors. These plans and expectations and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions and expectations proves to be inaccurate or is unrealized. In addition to the factors described elsewhere in this report, the following are some of the important risk factors that could cause the Company's actual results to differ materially from those in any such forward-looking statements:

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
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- Conditions in the global economy and global capital markets may adversely affect the Company's results of operations, financial condition, and cash flows. The Company's business and operating results have been and will continue to be affected by the global recession, including the credit market crisis, declining consumer and business confidence, fluctuating commodity prices, volatile exchange rates, and other challenges currently affecting the global economy. The Company's customers have experienced and may continue to experience deterioration of their businesses, cash flow shortages, and difficulty obtaining financing. As a result, existing or potential customers may continue to delay or cancel plans to purchase products and may not be able to fulfill their obligations in a timely fashion. Further, suppliers may be experiencing similar conditions, which could impact their ability to fulfill their obligations to the Company. If the global recession continues for significant future periods or deteriorates significantly, the Company's results of operations, financial condition and cash flows could continue to be materially adversely affected.
- The Company is reliant on certain strategic raw material and energy commodities for its operations and utilizes risk management tools, including hedging, as appropriate, to mitigate short-term market fluctuations in raw material and energy costs. There can be no assurance, however, that such measures will result in cost savings or that all market fluctuation exposure will be eliminated. In addition, natural disasters, changes in laws or regulations, war or other outbreak of hostilities or terrorism or other political factors in any of the countries or regions in which the Company operates or does business or in countries or regions that are key suppliers of strategic raw material and energy commodities, or breakdown or degradation of transportation infrastructure used for delivery of strategic raw material and energy commodities, could affect availability and costs of raw material and energy commodities.
- While temporary shortages of raw material and energy may occasionally occur, these items have historically been sufficiently available to cover current and projected requirements. However, their continuous availability and price are impacted by natural disasters, plant interruptions occurring during periods of high demand, domestic and world market and political conditions, changes in government regulation, war or other outbreak of hostilities or terrorism, and breakdown or degradation of transportation infrastructure. Eastman's operations or products may, at times, be adversely affected by these factors.
- The Company's competitive position in the markets in which it participates is, in part, subject to external factors in addition to those that the Company can impact. Natural disasters, pandemic illnesses, changes in laws or regulations (including environmental laws and regulations), war or other outbreak of hostilities or terrorism, or other political factors in any of the countries or regions in which the Company operates or does business or in countries or regions that are key suppliers of strategic raw materials, and breakdown or degradation of transportation infrastructure used for delivery of raw material and energy supplies to the Company and for delivery of the Company's products to customers, could negatively impact the Company's competitive position and its ability to maintain market share. For example, supply and demand for certain of the Company's products is driven by end-use markets and worldwide capacities which, in turn, impact demand for and pricing of the Company's products.
- Limitation of the Company's available manufacturing capacity due to significant disruption in its manufacturing operations, including natural disasters, pandemic illnesses, changes in laws or regulations, war or other outbreak of hostilities or terrorism, or other political factors in any of the countries or regions in which the Company operates or does business, or breakdown or degradation of transportation infrastructure used for delivery of raw material and energy supplies to the Company and for delivery of the Company's products to customers, could have a material adverse effect on sales revenue, costs and results of operations and financial condition.

- The Company has an extensive customer base; however, loss of, or material financial weakness of, certain of the largest customers could adversely affect the Company's financial condition and results of operations until such business is replaced and no assurances can be made that the Company would be able to regain or replace any lost customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
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- The Company has efforts underway to exploit growth opportunities in certain core businesses by developing new products and technologies, licensing technologies, expanding into new markets, and tailoring product offerings to customer needs. Current examples include IntegRex<sup>TM</sup> technology and new PET polymers products and Tritan<sup>TM</sup> and other copolyester product innovations. There can be no assurance that such efforts will result in financially successful commercialization of such products or acceptance by existing or new customers or new markets or that large capital projects for such growth efforts can be completed within the time or at the costs projected due, among other things, to demand for and availability of construction materials and labor.
- The Company has made, and intends to continue making, strategic investments, including in industrial gasification, and has entered, and expects to continue to enter, into strategic alliances in technology, services businesses, and other ventures in order to build, diversify, and strengthen certain Eastman capabilities, improve Eastman's raw material and energy cost and supply position, and maintain high utilization of manufacturing assets. There can be no assurance that such investments and alliances will achieve their underlying strategic business objectives or that they will be beneficial to the Company's results of operations or that large capital projects for such growth efforts can be completed within the time or at the costs projected due, among other things, to demand for and availability of construction materials and labor and obtaining regulatory approvals and operating permits and reaching agreement on terms of key agreements and arrangements with potential suppliers and customers. Such delays or cost overruns or the inability to obtain such approvals or to reach such agreements on acceptable terms could negatively affect the returns from these strategic investments and projects.
- The Company anticipates obtaining non-recourse project financing for its industrial gasification project. There is risk that such financing cannot be obtained or, if obtained, may be on terms different than those assumed in the Company's projections for financial performance of the project, due to any circumstance, change, or condition in the loan syndication, financial, capital markets, or government loan guarantee programs, that could reasonably be expected to materially affect availability, terms, and syndication of such financing. The ability to enter into financially acceptable project commercial agreements for such elements as engineering, procurement, and construction, off-take agreements, commodity and/or interest hedges, utilities, administrative services, and others, as well as obtaining all necessary regulatory approvals and operating permits, may impact the available financing for the project or the terms of such financing, if available, including the nature and terms of any recourse back to the Company.
- In addition to productivity and cost reduction initiatives, the Company is striving to improve margins on its products through price increases where warranted and accepted by the market; however, the Company's earnings could be negatively impacted should such increases be unrealized, not be sufficient to cover increased raw material and energy costs, or have a negative impact on demand and volume. There can be no assurances that price increases will be realized or will be realized within the Company's anticipated timeframe.
- The Company has undertaken and expects to continue to undertake productivity and cost reduction initiatives and organizational restructurings to improve performance and generate cost savings. There can be no assurance that these will be completed as planned or beneficial or that estimated cost savings from such activities will be realized.
- The Company's facilities and businesses are subject to complex health, safety and environmental laws and regulations, which require and will continue to require significant expenditures to remain in compliance with such laws and regulations currently and in the future. The Company's accruals for such costs and associated liabilities are subject to changes in estimates on which the accruals are based. The amount accrued reflects the Company's assumptions about remediation requirements at the contaminated site, the nature of the remedy, the outcome of



discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. Changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in health, safety, environmental, chemical control regulations, and testing requirements could result in higher or lower costs. Pending and proposed U.S. Federal legislation and regulation increase the likelihood that the Company's manufacturing sites will in the future be impacted by regulation or taxation of greenhouse gas emissions, which legislation and regulation, if enacted, may result in capital expenditures, increases in costs for raw materials and energy, limitations on raw material and energy source and supply choices, and other direct compliance costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
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- The Company and its operations from time to time are parties to, or targets of, lawsuits, claims, investigations, and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which are handled and defended in the ordinary course of business. The Company believes amounts reserved are adequate for such pending matters; however, results of operations could be affected by significant litigation adverse to the Company.
- The Company has deferred tax assets related to capital and operating losses. The Company establishes valuation allowances to reduce these deferred tax assets to an amount that is more likely than not to be realized. The Company's ability to utilize these deferred tax assets depends on projected future operating results, the reversal of existing temporary differences, and the availability of tax planning strategies. Realization of these assets is expected to occur over an extended period of time. As a result, changes in tax laws, assumptions with respect to future taxable income, and tax planning strategies could result in adjustments to these assets.
- Due to the Company's global sales, earnings, and asset profile, it is exposed to volatility in foreign currency exchange rates and interest rates. The Company may use derivative financial instruments, including swaps, options and forwards, to mitigate the impact of changes in exchange rates and interest rates on its financial results. However, there can be no assurance that these efforts will be successful and operating results could be affected by significant adverse changes in currency exchange rates or interest rates.
- The Company's sources of liquidity have been and are expected to be cash from operating activities, available cash balances, the revolving \$700 million credit facility, sales of domestic receivables under the \$200 million annually renewable accounts receivable securitization program, the commercial paper market, and the capital markets. Additionally, the Company relies upon third parties to provide it with trade credit for purchases of various products and services. While the Company maintains business relationships with a diverse group of financial institutions, their continued viability is not certain and could lead them not to honor their contractual credit commitments or to renew their extensions of credit or provide new sources of credit. Furthermore, trade creditors may be unable to obtain credit and reduce their trade credit extension. Recently, the capital and credit markets have become increasingly volatile as a result of adverse conditions that have caused the failure or near failure of a number of large financial services companies. If the capital and credit markets continue to experience volatility and the availability of funds remains limited, the Company may incur increased costs associated with borrowings. In addition, it is possible that the Company's ability to access the capital and credit markets may be limited by these or other factors at a time when it would like, or need, to do so, which could have an impact on the Company's ability to finance its business or react to changing economic and business conditions. While the Company believes that recent governmental and regulatory actions reduce the risk of a further deterioration or systemic contraction of capital and credit markets, there can be no certainty that the Company's liquidity will not be negatively impacted. Company borrowings are subject to a number of customary covenants and events of default, including the maintenance of certain financial ratios. While the Company expects to remain in compliance with such covenants, there is no certainty that events and circumstances will not result in covenant violations which could limit access to credit facilities or cause events of default with outstanding borrowings. In addition, the Company's cash flows from operations may be adversely affected by unfavorable consequences to the Company's customers and the markets in which the Company competes as a result of the current financial, economic, and capital and credit market conditions and uncertainty.

The foregoing list of important factors does not include all such factors nor necessarily present them in order of importance. This disclosure, including that under "Outlook" and "Forward-Looking Statements and Risk Factors," and other forward-looking statements and related disclosures made by the Company in this Quarterly Report on Form 10-Q and elsewhere from time to time, represents management's best judgment as of the date the information is given. The Company does not undertake responsibility for updating any of such information, whether as a result of new information, future events, or otherwise, except as required by law. Investors are advised, however, to consult any further public Company disclosures (such as in filings with the Securities and Exchange Commission or in Company press releases) on related subjects.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are no material changes to the Company's market risks from those disclosed in Part II, Item 7A of the Company's 2008 Annual Report on Form 10-K.

### ITEM 4. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and principal financial officers as appropriate to allow timely decisions regarding required disclosure. An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that as of June 30, 2009, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed was accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during first six months of 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

#### General

From time to time, the Company and its operations are parties to, or targets of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which are being handled and defended in the ordinary course of business. While the Company is unable to predict the outcome of these matters, it does not believe, based upon currently available facts, that the ultimate resolution of any such pending matters will have a material adverse effect on its overall financial condition, results of operations, or cash flows. However, adverse developments could negatively impact earnings or cash flows in a particular future period.

#### Jefferson (Pennsylvania) Environmental Proceeding

In December 2005, Eastman Chemical Resins, Inc., a wholly-owned subsidiary of the Company (the "ECR Subsidiary"), received a Notice of Violation ("NOV") from the United States Environmental Protection Agency's Region III Office ("EPA") alleging that the ECR Subsidiary's West Elizabeth, Jefferson Borough, Allegheny County, Pennsylvania manufacturing operation violated certain federally enforceable local air quality regulations and certain provisions in a number of air quality-related permits. In October 2006, EPA referred the matter to the United States Department of Justice's Environmental Enforcement Section ("DOJ"). Company representatives have met with EPA and DOJ on a number of occasions since the NOV's issuance and have determined that it is not reasonably likely that any civil penalty assessed by the EPA and DOJ will be less than \$100,000. While the Company intends to vigorously defend against these allegations, this disclosure is made pursuant to SEC Regulation S-K, Item 103, Instruction 5.C., which requires disclosure of administrative proceedings commenced under environmental laws that involve governmental authorities as parties and potential monetary sanctions in excess of \$100,000. The Company believes that the ultimate resolution of this proceeding will not have a material impact on the Company's financial condition, results of operations, or cash flows.

### ITEM 1A. RISK FACTORS

For identification and discussion of the most significant risks applicable to the Company and its business, see "Part I – Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements and Risk Factors" of this Quarterly Report on Form 10-Q.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## (c) Purchases of Equity Securities by the Issuer

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Approximate Dollar Value (in millions) that May Yet Be Purchased Under the Plans or Programs (3)
April 1-30, 2009	0	\$ --	0	\$ 117
May 1-31, 2009	662	\$ 39.80	0	\$ 117
June 1-30, 2009	2,645	\$ 43.24	0	\$ 117
Total	3,307	\$ 42.55	0	

- (1) Shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of restricted common stock. These share surrenders were not part of any Company repurchase plan.
- (2) Average price paid per share reflects the closing price of Eastman common stock on the business day the shares were surrendered by the employee stockholder to satisfy individual tax withholding obligations.
- (3) In October 2007, the Board of Directors authorized \$700 million for repurchase of the Company's outstanding common shares at such times, in such amounts, and on such terms, as determined to be in the best interests of the Company. As of June 30, 2009, a total of 9.4 million shares have been repurchased under this authorization for a total amount of \$583 million. For additional information, see Note 12. "Stockholders' Equity", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The 2009 Annual Meeting of the Stockholders of Eastman Chemical Company was held on May 7, 2009. There were 72,644,214 shares of common stock outstanding and entitled to be voted, and 62,062,295 shares represented in person or by proxy, at the Annual Meeting.

Four items of business were acted upon by stockholders at the Annual Meeting:

- the election of four directors to serve in the class for which the term in office expires at the Annual Meeting of Stockholders in 2012 and their successors are duly elected and qualified;
- the ratification of the action by the Audit Committee of the Board of Directors appointing PricewaterhouseCoopers LLP as independent auditors for the Company for the year ended December 31, 2009;
- the adoption of a stockholder proposal requesting that management revise the Company's employment nondiscrimination policy to prohibit "discrimination based on sexual orientation and gender identity"; and
- the adoption of a stockholder proposal requesting that the Board of Directors take the steps necessary to give holders of 10% of outstanding common stock the right to call special meetings.



The results of the voting on the election of directors were as follows:

Nominee	Votes For	Votes Against	Abstentions	Broker Non-Votes
Stephen R. Demeritt	52,825,954	8,985,570	250,771	n/a
Robert M. Hernandez	55,303,498	6,483,265	275,532	n/a
Lewis M. Kling	52,874,557	8,919,656	268,082	n/a
David W. Raisbeck	52,981,287	8,815,869	265,139	n/a

Accordingly, each of the four nominees received a majority of votes cast in favor of that director's election and was elected.

The results of the voting on the ratification of the action by the Audit Committee of the Board of Directors appointing PricewaterhouseCoopers LLP as independent auditors for the Company for 2009 were as follows:

Votes For	Votes Against	Abstentions	Broker Non-Votes
59,963,186	1,918,284	180,825	n/a

Accordingly, a majority of votes was cast in favor of the proposal and the appointment of PricewaterhouseCoopers LLP as independent auditors was ratified.

The results of the voting on the stockholder proposal requesting that management revise the Company's employment nondiscrimination policy to prohibit "discrimination based on sexual orientation and gender identity" were as follows:

Votes For	Votes Against	Abstentions	Broker Non-Votes
15,938,105	37,973,671	2,193,811	5,956,708

Accordingly, a majority of votes was not cast in favor of this stockholder proposal and the proposal was not adopted.

The results of the voting on the stockholder proposal requesting that the Board of Directors take the steps necessary to give holders of 10% of outstanding common stock the right to call special meetings were as follows:

Votes For	Votes Against	Abstentions	Broker Non-Votes
28,655,396	27,195,948	254,243	5,956,708

Accordingly, a majority of votes was cast, but less than a majority of shares outstanding was voted, in favor of this stockholder proposal and the proposal was adopted. The adoption of the stockholder proposal did not give holders of 10% of outstanding stock the right to call special meetings; that would require that the Board and stockholders holding a majority of outstanding shares approve an amendment to the Company's Certificate of Incorporation.

## ITEM 6. EXHIBITS

Exhibits filed as part of this report are listed in the Exhibit Index appearing on page 49.





SIGNATURES

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

Eastman Chemical Company

Date: July 30, 2009

By: /s/Curtis E. Espeland  
Curtis E. Espeland  
Senior Vice President and Chief Financial Officer

Exhibit Number	EXHIBIT INDEX  Description	Sequential Page Number
3.01	Amended and Restated Certificate of Incorporation of Eastman Chemical Company, as amended (incorporated herein by reference to Exhibit 3.01 to Eastman Chemical Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001)	
3.02	Amended and Restated Bylaws of Eastman Chemical Company, as amended November 9, 2007 (incorporated herein by referenced to Exhibit 3.02 to Eastman Chemical Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (the "September 30, 2007 10-Q"))	
4.01	Form of Eastman Chemical Company common stock certificate as amended February 1, 2001 (incorporated herein by reference to Exhibit 4.01 to Eastman Chemical Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001)	
4.02	Indenture, dated as of January 10, 1994, between Eastman Chemical Company and The Bank of New York, as Trustee (the "Indenture") (incorporated herein by reference to Exhibit 4(a) to Eastman Chemical Company's Current Report on Form 8-K dated January 10, 1994 (the "8-K"))	
4.03	Form of 7 1/4% Debentures due January 15, 2024 (incorporated herein by reference to Exhibit 4(d) to the 8-K)	
4.04	Officers' Certificate pursuant to Sections 201 and 301 of the Indenture (incorporated herein by reference to Exhibit 4(a) to Eastman Chemical Company's Current Report on Form 8-K dated June 8, 1994 (the "June 8-K"))	
4.05	Form of 7 5/8% Debentures due June 15, 2024 (incorporated herein by reference to Exhibit 4(b) to the June 8-K)	
4.06	Form of 7.60% Debentures due February 1, 2027 (incorporated herein by reference to Exhibit 4.08 to Eastman Chemical Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 10-K"))	
4.07	Form of 7% Notes due April 15, 2012 (incorporated herein by reference to Exhibit 4.09 to Eastman Chemical Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002)	
4.08		

Officer's Certificate pursuant to Sections 201 and 301 of the Indenture related to 7.60% Debentures due February 1, 2027 (incorporated herein by reference to Exhibit 4.09 to the 1996 10-K)

4.09	\$200,000,000 Accounts Receivable Securitization agreement dated July 9, 2008 (amended February 18, 2009, and July 8, 2009), between the Company and The Bank of Tokyo-Mitsubishi UFJ, Ltd. and SunTrust Robinson Humphrey, Inc., as agents.	51
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4.10	Amended and Restated Credit Agreement, dated as of April 3, 2006 (the "Credit Agreement") among Eastman Chemical Company, the Lenders named therein, and Citigroup Global Markets , Inc. and J. P. Morgan Securities Inc., as joint lead arrangers (incorporated herein by reference to Exhibit 4.11 to Eastman Chemical Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006)
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Exhibit Number	EXHIBIT INDEX  Description	Sequential Page Number
4.11	Letter Amendments dated November 16, 2007 and March 10, 2008, to the Credit Agreement (incorporated herein by reference to Exhibit 4.10 to Eastman Chemical Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008)	
4.12	Form of 6.30% Notes due 2018 (incorporated herein by reference to Exhibit 4.14 to Eastman Chemical Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)	
12.01	<u>Statement re: Computation of Ratios of Earnings (Loss) to Fixed Charges</u>	52
31.01	<u>Rule 13a – 14(a) Certification by James P. Rogers, President and Chief Executive Officer, for the quarter ended June 30, 2009</u>	53
31.02	<u>Rule 13a – 14(a) Certification by Curtis E. Espeland, Senior Vice President and Chief Financial Officer, for the quarter ended June 30, 2009</u>	54
32.01	<u>Section 1350 Certification by James P. Rogers, President and Chief Executive Officer, for the quarter ended June 30, 2009</u>	55
32.02	<u>Section 1350 Certification by Curtis E. Espeland, Senior Vice President and Chief Financial Officer, for the quarter ended June 30, 2009</u>	56
101.INS	XBRL Instance Document (furnished, not filed)	
101.SCH	XBRL Taxonomy Extension Schema (furnished, not filed)	
101.CAL	XBRL Taxonomy Calculation Linkbase (furnished, not filed)	
101.LAB	XBRL Taxonomy Label Linkbase (furnished, not filed)	
101.PRE	XBRL Definition Linkbase Document (furnished, not filed)	

