EASTMAN CHEMICAL CO
Form 10-Q
April 26, 2010

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

(Mark One)	
[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 31, 2010
	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	62-1539359
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
200 South Wilcox Drive Kingsport, Tennessee	37662
(Address of principal executive offices)	(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 [X] 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 [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]
(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 [X]

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 March 31, 2010
Common Stock, par value $0.01 per share	72,393,327

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UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS,
COMPREHENSIVE INCOME AND RETAINED EARNINGS

	First Three Months	
(Dollars in millions, except per share amounts)	2010	2009
Sales	$ 1,564	$ 1,129
Cost of sales	1,243	950
Gross profit	321	179
Selling, general and administrative expenses	103	94
Research and development expenses	36	34
Asset impairments and restructuring charges, net	--	26
Operating earnings	182	25
Net interest expense	25	19
Other charges (income), net	6	4
Earnings before income taxes	151	2
Provision for income taxes	50	--
Net earnings	$ 101	$ 2
Earnings per share		
Basic	$ 1.39	$ 0.03
Diluted	$ 1.37	$ 0.03
Comprehensive Income		
Net earnings	$ 101	$ 2
Other comprehensive income (loss), net of tax		
Change in cumulative translation adjustment	(12)	(10)
Change in unrecognized losses and prior service credits for benefit plans	3	--
Change in unrealized gains on derivative instruments	6	9
Total other comprehensive loss, net of tax	(3)	(1)
Comprehensive income	$ 98	$ 1
Retained Earnings		
Retained earnings at beginning of period	$ 2,571	$ 2,563
Net earnings	101	2
Cash dividends declared	(32)	(32)
Retained earnings at end of period	$ 2,640	$ 2,533

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in millions, except per share amounts)	March 31, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 483	$ 793
Trade receivables, net	687	277
Miscellaneous receivables	87	102
Inventories	588	531
Other current assets	32	32
Total current assets	1,877	1,735
Properties		
Properties and equipment at cost	8,626	8,525
Less: Accumulated depreciation	5,459	5,415
Net properties	3,167	3,110
Goodwill	314	315
Other noncurrent assets	290	355
Total assets	$ 5,648	$ 5,515
Liabilities and Stockholders' Equity		
Current liabilities		
Payables and other current liabilities	$ 866	$ 800
Borrowings due within one year	4	--
Total current liabilities	870	800
Long-term borrowings	1,603	1,604
Deferred income tax liabilities	261	258
Post-employment obligations	1,225	1,221
Other long-term liabilities	120	119
Total liabilities	4,079	4,002
Stockholders' equity		
Common stock ($0.01 par value – 350,000,000 shares authorized; shares issued – 95,048,707 and 94,775,064 for 2010 and 2009, respectively)	1	1
Additional paid-in capital	671	661
Retained earnings	2,640	2,571
Accumulated other comprehensive loss	(388)	(385)
	2,924	2,848
Less: Treasury stock at cost (22,738,054 shares for 2010 and 22,389,696 shares for 2009)	1,355	1,335
Total stockholders' equity	1,569	1,513
Total liabilities and stockholders' equity	$ 5,648	$ 5,515

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

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	First Three Months 2010	2009
Cash flows from operating activities		
Net earnings	$ 101	$ 2
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	69	67
Provision (benefit) for deferred income taxes	16	(13)
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in trade receivables	(414)	5
(Increase) decrease in inventories	(58)	70
Increase (decrease) in trade payables	94	(17)
Increase (decrease) in liabilities for employee benefits and incentive pay	(45)	(55)
Other items, net	12	23
Net cash provided by (used in) operating activities	(225)	82
Cash flows from investing activities		
Additions to properties and equipment	(31)	(110)
Proceeds from sale of assets and investments	4	24
Acquisitions of and investments in joint ventures	(18)	(20)
Additions to capitalized software	(2)	(2)
Net cash used in investing activities	(47)	(108)
Cash flows from financing activities		
Net increase in commercial paper, credit facility, and other borrowings	2	6
Dividends paid to stockholders	(32)	(32)
Treasury stock purchases	(20)	--
Proceeds from stock option exercises and other items	12	5
Net cash used in financing activities	(38)	(21)
Effect of exchange rate changes on cash and cash equivalents	--	--
Net change in cash and cash equivalents	(310)	(47)
Cash and cash equivalents at beginning of period	793	387
Cash and cash equivalents at end of period	$ 483	$ 340

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

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 2009 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 2009 Annual Report on Form 10-K. The unaudited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States ("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 where it exercises significant influence, but does not have control, 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.

Effective January 1, 2010, the Company adopted accounting guidance on transfers of financial assets. The impact of this guidance is prospective with changes in first quarter Statements of Consolidated Financial Position and the Statements of Cash Flows. For additional information, refer to Notes 7, "Borrowings," and 10, "Commitments."

2. ACQUISITION

On March 22, 2010, Eastman Fibers Korea Limited ("EFKL") completed the purchase of the acetate tow facility in Ulsan, Korea from SK Chemicals Co., Ltd. ("SK"), which has been accounted for as a business combination. EFKL is a venture between the Company and SK, in which the Company has controlling ownership and operates the facility. This acquisition establishes acetate tow manufacturing capacity for the Company in Asia, which supports the projected long term market growth for acetate tow in the region.

The fair value of total consideration is $111 million, which was paid in installments beginning in first quarter 2009. Of the total consideration, $17 million remains unpaid and is primarily contingent upon achievement of an operational milestone in a future period. The Company has determined the preliminary fair value of the acquired assets to be as follows: property, plant, and equipment of $101 million, inventory of $5 million, and technology of $5 million, which is equal to the fair value of the total consideration.

3. ASSET IMPAIRMENTS AND RESTRUCTURING CHARGES, NET

There were no asset impairments or restructuring charges in first quarter 2010. In first quarter 2009, restructuring charges totaled $26 million primarily for severance charges resulting from a reduction in force.

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 2009 and first quarter 2010:

(Dollars in millions)	Balance at January 1, 2009	Provision/ Adjustments	Non-cash Reductions	Cash Reductions	Balance at December 31, 2009
Non-cash charges	$ --	$ 179	$ (179)	$ --	$ --
Severance costs	5	23	--	(23)	5
Site closure and other restructuring costs	25	(2)	--	(18)	5
Total	$ 30	$ 200	$ (179)	$ (41)	$ 10

	Balance at January 1, 2010	Provision/ Adjustments	Non-cash Reductions	Cash Reductions	Balance at March 31, 2010
Non-cash charges	$ --	$ --	$ --	$ --	$ --
Severance costs	5	--	--	(5)	--
Site closure and other restructuring costs	5	--	--	--	5
Total	$ 10	$ --	$ --	$ (5)	$ 5

4. INVENTORIES

(Dollars in millions)	March 31, 2010	December 31, 2009
At FIFO or average cost (approximates current cost)		
Finished goods	$ 580	$ 547
Work in process	179	168
Raw materials and supplies	286	262
Total inventories	1,045	977
LIFO Reserve	(457)	(446)
Total inventories	$ 588	$ 531

Inventories valued on the LIFO method were approximately 75 percent of total inventories as of March 31, 2010 and December 31, 2009, respectively.

5. PAYABLES AND OTHER CURRENT LIABILITIES

(Dollars in millions)	March 31, 2010	December 31, 2009
Trade creditors	$ 530	$ 433
Accrued payrolls, vacation, and variable-incentive compensation	74	125
Accrued taxes	45	33
Post-employment obligations	62	61
Interest payable	30	32
Other	125	116
Total payables and other current liabilities	$ 866	$ 800

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

6.PROVISION FOR INCOME TAXES

	First Quarter		
(Dollars in millions)	2010	2009	Change
Provision for income taxes	$ 50	$ --	N/A
Effective tax rate	33 %	N/A	

First quarter 2010 effective tax rate reflects the Company's expected full year tax rate on reported operating earnings before income tax of approximately 33 percent.

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 2005. It is reasonably possible that within the next 12 months the Company will recognize approximately $2 million of unrecognized tax benefits as a result of the expiration of the relevant statute of limitations.

7. BORROWINGS

(Dollars in millions)	March 31, 2010	December 31, 2009
Borrowings consisted of:		
7% notes due 2012	$ 151	$ 152
6.30% notes due 2018	204	205
5.5% notes due 2019	250	250
7 1/4% debentures due 2024	498	497
7 5/8% debentures due 2024	200	200
7.60% debentures due 2027	298	298
Other	6	2
Total borrowings	1,607	1,604
Borrowings due within one year	(4)	--
Long-term borrowings	$ 1,603	$ 1,604

At March 31, 2010, the Company had a $700 million revolving credit facility ("Credit Facility") in two tranches, with $125 million expiring in 2012 and $575 million expiring in 2013. Borrowings under the Credit Facility are subject to interest at varying spreads above quoted market rates and a facility fee is paid on the total commitment. In addition, the Credit Facility contains 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 March 31, 2010 and December 31, 2009, the Company had no outstanding borrowings under the Credit Facility.

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.

At March 31, 2010, the Company also had a $200 million line of credit under its annually renewable accounts receivable securitization agreement ("A/R Facility") which expires in July 2010. Borrowings under its A/R Facility are subject to interest rates based on a spread over lenders' borrowing costs, and the Company pays a fee to maintain availability of the A/R Facility. In addition, the A/R Facility contains 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 March 31, 2010, the Company had no outstanding borrowings under the A/R Facility. Refer to Note 10, "Commitments" for further details regarding the A/R Facility.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

8. RETIREMENT PLANS

DEFINED BENFIT PENSION PLANS

Eastman maintains defined benefit pension plans that provide eligible employees 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

	First Quarter	
(Dollars in millions)	2010	2009
Service cost	$ 11	$ 11
Interest cost	21	21
Expected return on assets	(27)	(24)
Amortization of:		
Prior service credit	(4)	(4)
Actuarial loss	11	7
Net periodic benefit cost	$ 12	$ 11

POSTRETIREMENT WELFARE PLANS

Eastman provides a subsidy toward life insurance and 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.

Eligible employees hired on or after January 1, 2007 have access to postretirement health care benefits, but Eastman does 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

	First Quarter	
(Dollars in millions)	2010	2009

Service cost	$ 3	$ 2
Interest cost	11	11
Expected return on assets	(1)	(1)
Amortization of:		
Prior service credit	(6)	(6)
Actuarial loss	3	3
Net periodic benefit cost	$ 10	$ 9

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 will 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 2009 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 total reserve for environmental contingencies was $39 million and $42 million at March 31, 2010 and December 31, 2009, respectively. Estimated future environmental expenditures for remediation costs range from the minimum or best estimate of $9 million to the maximum of $20 million at March 31, 2010, and $10 million to the maximum of $20 million at December 31, 2009. The best estimate accrued to date over the facilities' estimated useful lives for asset retirement obligation costs is $30 million and $32 million at March 31, 2010 and December 31, 2009, respectively.

10. COMMITMENTS

Purchasing Obligations and Lease Commitments

At March 31, 2010, the Company had various purchase obligations totaling approximately $1 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 $91 million over a period of several years. Of the total lease commitments, approximately 15 percent relates to machinery and equipment, including computer and communications equipment and production equipment; approximately 45 percent relates to real property, including office space, storage facilities and land; and approximately 40 percent relates to railcars.

Accounts Receivable Securitization Program

Effective January 1, 2010, the Company adopted amended accounting guidance for transfers of financial assets which impacts the financial statement presentation for activity under the Company’s $200 million accounts receivable securitization program. Beginning for periods after December 31, 2009, transfers of receivables interests that were previously treated as sold and removed from the balance sheet will be included in trade receivables, net and reflected as secured borrowings on the balance sheet. The Company’s Statement of Financial Position at March 31, 2010, reflects an increase in trade receivables of $200 million, the amount transferred at December 31, 2009 under the securitization program, which reduced cash flows from operating activities by that amount for first quarter 2010. As a result of the adoption of this accounting guidance, any amounts drawn on this accounts receivable securitization program would now be reflected as secured borrowings and disclosed in Note 7, "Borrowings." At December 31, 2009 and March 31, 2009 the accounts receivable securitization program was fully drawn.

Guarantees

The Company has operating leases with terms that require the Company to guarantee a portion of the residual value of the leased assets upon termination of the lease. These residual value guarantees at March 31, 2010 totaled $160 million and consisted primarily of leases for railcars and company aircraft. Leases with guarantee amounts totaling $11 million, $139 million, and $10 million will expire in 2011, 2012, and 2014 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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Variable Interest Entities

In June 2009, new accounting guidance on the consolidation of Variable Interest Entities ("VIEs") was issued. This guidance is effective for all VIEs or potential VIEs the Company is involved with on or after January 1, 2010. This guidance amends the evaluation criteria to identify which entity has a controlling financial interest of a variable interest entity and requires ongoing reassessments. The Company has evaluated its material contractual relationships under the new guidance and concluded that the entities involved in these relationships are not VIEs or, in the case of Primester, a joint venture that manufactures cellulose acetate at the Company's Kingsport, Tennessee plant, the Company has shared control of the VIE. As such, the Company is not required to consolidate these entities.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value of Borrowings

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.

	March 31, 2010		December 31, 2009	
(Dollars in millions)	Recorded Amount	Fair Value	Recorded Amount	Fair Value
Long-term borrowings	$ 1,603	$ 1,734	$ 1,604	$ 1,656

Fair Value Measurements

The following chart shows the financial assets and liabilities valued on a recurring basis.

(Dollars in millions)	Fair Value Measurements at March 31, 2010			
Description	March 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Assets	$ 41	$ --	$ 41	$ --
Derivative Liabilities	--	--	--	--
	$ 41	$ --	$ 41	$ --

(Dollars in millions)	Fair Value Measurements at December 31, 2009			
Description	December 31, 2009	Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs (Level	Significant Unobservable Inputs (Level 3)

		Assets (Level 1)	2)	
Derivative Assets	$ 52	$ --	$ 52	$ --
Derivative Liabilities	(21)	--	(21)	--
	$ 31	$ --	$ 31	$ --

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 9, "Fair Value of Financial Instruments", to the consolidated financial statements in Part II, Item 8 of the Company's 2009 Annual Report on Form 10-K.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Hedges
Fair value hedges are defined by GAAP 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 March 31, 2010, the total notional amount of the Company’s interest rate swaps was $146 million.

Cash Flow Hedges
Cash flow hedges are defined by GAAP 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 March 31, 2010, the total amount of the Company's foreign exchange forward and option contracts was a $41 million asset. As of March 31, 2010, the Company had no feedstock/energy forward and option contracts.

Fair Value of Derivatives Designated as Cash Flow Hedging Instruments

(Dollars in millions)		Fair Value	
Asset Derivatives	Balance Sheet Location	March 31, 2010	December 31, 2009
Commodity contract	Other current assets	$ --	$ 7
Foreign exchange contracts	Other current assets	22	14
Foreign exchange contracts	Other noncurrent assets	19	11
		$ 41	$ 32

(Dollars in millions)		Fair Value	
Liability Derivatives	Balance Sheet Location	March 31, 2010	December 31, 2009
Commodity contract	Payables and other current liabilities	$ --	$ 1
		$ --	$ 1

Derivatives' Cash Flow Hedging Relationships

(Dollars in millions)	First Quarter		
Derivatives Cash Flow Hedging Relationships	Amount after tax of gain/ (loss) recognized	Location of gain/(loss)	Pre-tax amount of gain/(loss) reclassified

	in Other Comprehensive Income on derivatives (effective portion)		reclassified from Accumulated Other Comprehensive Income into income (effective portion)	from Accumulated Other Comprehensive Income into income (effective portion)	
	March 31, 2010	March 31, 2009		March 31, 2010	March 31, 2009
Commodity contract	$ (4)	$ 3	Cost of sales	$ 5	$ (6)
Foreign exchange contracts	10	6	Sales	9	8
	$ 6	$ 9		$ 14	$ 2

For the quarter ended March 31, 2010, there was no material ineffectiveness with regard to the Company's cash flow hedges.

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 approximately $3 million net gain on nonqualifying derivatives during the quarter ended March 31, 2010.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

12. STOCKHOLDERS' EQUITY

A reconciliation of the changes in stockholders' equity for first three months 2010 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, 2009	1	661	2,571	(385)	(1,335)	1,513
Net Earnings	--	--	101	--	--	101
Cash Dividends Declared (1)	--	--	(32)	--	--	(32)
Other Comprehensive Income (Loss)	--	--	--	(3)	--	(3)
Share-Based Compensation Expense (2)	--	5	--	--	--	5
Stock Option Exercises	--	7	--	--	--	7
Other (3)	--	(2)	--	--	--	(2)
Stock Repurchases	--	--	--	--	(20)	(20)
Balance at March 31, 2010	1	671	2,640	(388)	(1,355)	1,569

(1) Includes cash dividends declared, but unpaid.

(2) Includes the fair value of equity share-based awards recognized for share-based compensation.

(3) Includes tax benefits relating to the difference between the amounts deductible for federal income taxes over the amounts charged to income for book value purposes credited to paid-in capital and other items.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX

(Dollars in millions)	Cumulative Translation Adjustment $	Unrecognized Losses and Prior Service Credits for Benefit Plans $	Unrealized Gains on Derivative Instruments $	Unrealized Losses on Investments $	Accumulated Other Comprehensive Income (Loss) $
Balance at December 31, 2008	60	(414)	20	(1)	(335)
Period change	17	(74)	7	--	(50)
Balance at December 31, 2009	77	(488)	27	(1)	(385)
Period change	(12)	3	6	--	(3)
Balance at March 31, 2010	65	(485)	33	(1)	(388)

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

	First Quarter	
	2010	2009
Shares used for earnings per share calculation (in millions):		
Basic	72.2	72.5
Diluted	73.3	72.9

In first quarter 2010 and 2009, common shares underlying options to purchase 1,902,310 shares of common stock and 4,181,434 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 exercises. First quarter 2010 reflects the impact of 340,000 shares repurchased in the quarter. There were no repurchases in first quarter 2009.

The Company declared cash dividends of $0.44 per share in first quarter 2010 and 2009.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 first quarter 2010 and 2009, approximately $5 million and $4 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 of approximately $3 million in both first quarter 2010 and 2009 net earnings is net of deferred tax expense related to share-based award compensation for each period.

Additional information regarding share-based compensation plans and awards may be found in Note 15, "Share-Based Compensation Plans and Awards", to the consolidated financial statements in Part II, Item 8 of the Company's 2009 Annual Report on Form 10-K.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Included in the line item "Other items, net" of the "Cash flows from operating activities" section of the Consolidated Statements of Cash Flows are specific changes to certain balance sheet accounts as follows:

(Dollars in millions)	First Quarter	
	2010	2009
Current assets	$ 1	$ (8)
Other assets	(2)	13
Current liabilities	14	20
Long-term liabilities and equity	(1)	(2)
Total	$ 12	$ 23

The above changes included transactions such as monetized positions from raw material and energy, currency, and certain interest rate hedges, prepaid insurance, miscellaneous deferrals, accrued taxes, value-added taxes, and other miscellaneous accruals.

16. 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 Performance Chemicals and Intermediates ("PCI") segment, the Performance Polymers segment, and the Specialty Plastics segment. For additional information concerning the Company's segments' businesses and products, see Note 22, "Segment Information", to the consolidated financial statements in Part II, Item 8 of the Company's 2009 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.

In first quarter 2010, the Company transferred certain intermediates product lines from the Performance Polymers segment to the PCI segment to improve optimization of manufacturing assets supporting the three raw material streams that supply the Company’s downstream businesses. The revised segment composition reflects how management views and evaluates operations. Accordingly, the amounts for sales, operating earnings, and assets have been adjusted to retrospectively apply these changes to all periods presented.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	First Quarter	
(Dollars in millions)	2010	2009
Sales by Segment		
CASPI	$ 373	$ 250
Fibers	267	259
PCI	482	304
Performance Polymers	194	159
Specialty Plastics	248	157
Total Sales by Segment	1,564	1,129
Other	--	--
Total Sales	$ 1,564	$ 1,129

	First Quarter	
(Dollars in millions)	2010	2009
Operating Earnings (Loss)		
CASPI (1)	$ 66	$ 14
Fibers (1)	79	69
PCI (1)	37	(10)
Performance Polymers (1)	(13)	(18)
Specialty Plastics (1)	21	(18)
Total Operating Earnings by Segment	190	37
Other	(8)	(12)
Total Operating Earnings	$ 182	$ 25

(1)First quarter 2009 includes a restructuring charge primarily for a severance program of $7 million, $4 million, $6 million, $4 million, and $5 million in the CASPI, Fibers, PCI, Performance Polymers, and Specialty Plastics segments, respectively.

(Dollars in millions)	March 31, 2010	December 31, 2009
Assets by Segment (1)		
CASPI	$ 1,216	$ 1,113
Fibers	859	726
PCI	998	844
Performance Polymers	624	575
Specialty Plastics	999	910
Total Assets by Segment	4,696	4,168
Corporate Assets	952	1,347
Total Assets	$ 5,648	$ 5,515

(1) The chief operating decision maker holds segment management accountable for accounts receivable, inventory, fixed assets, and goodwill.

17. 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.

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

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 2009 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.

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

CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States ("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, U.S. 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 described in Part II, Item 7 of the Company's 2009 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

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 operating earnings, net earnings, and diluted earnings per share excluding asset impairments and restructuring charges, net; and
- Cash flows from operating activities excluding the impact of adoption of amended accounting guidance for transfers of financial assets.

In first quarter 2009, the Company announced that it was taking additional actions to further reduce costs in response to the ongoing global economic recession. These actions included a reduction in force of approximately 300 employees that resulted in a restructuring charge of $26 million in the quarter.

In first quarter 2010, the Company adopted amended accounting guidance for transfers of financial assets which impacts the financial statement presentation for activity under the Company’s $200 million accounts receivable securitization program. For periods beginning after December 31, 2009, transfers of receivables interests that were previously treated as sold and removed from the balance sheet will be included in trade receivables, net and reflected as secured borrowings on the balance sheet. The Company’s Statement of Financial Position at March 31, 2010 reflects an increase in trade receivables of $200 million, the amount transferred at December 31, 2009 under the securitization program, which reduced cash flows from operating activities by that amount for first quarter 2010. At March 31, 2010, there were no transfers of receivables interests under the accounts receivable securitization program.

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, Eastman’s management believes that Company and segment earnings should be considered both with and without asset impairments and restructuring charges. 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 asset impairments and restructuring charges, net. In addition, management believes that cash provided by (used in) operating earnings should be considered both with and without the impact of adoption of amended accounting guidance for transfers of financial assets. Management utilizes these measures to evaluate business performance and its cash position 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.

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

OVERVIEW

The Company generated sales revenue of $1.6 billion and $1.1 billion in first quarter 2010 and first quarter 2009, respectively. The sales revenue increase was due to higher sales volume primarily due to improved customer demand compared with the depressed levels in first quarter 2009, a favorable shift in product mix, and increased selling prices in response to higher raw material and energy costs.

Operating earnings were $182 million in first quarter 2010 compared with $25 million in first quarter 2009. Operating earnings in first quarter 2009 were negatively impacted by a $26 million restructuring charge for a reduction in force. Excluding this item, operating earnings were $51 million in first quarter 2009. The increase in first quarter 2010 was due to higher sales volume and higher capacity utilization which led to lower unit costs and a favorable shift in product mix. In addition, higher selling prices mostly offset higher raw material and energy costs. In first quarter 2010, operating earnings included $12 million from acetyl license revenue and a negative impact of approximately $25 million from the previously announced power outage at the Longview, Texas manufacturing facility, primarily reflected in the Performance Chemicals and Intermediates ("PCI") and Coatings, Adhesives, Specialty Polymers, and Inks ("CASPI") segments.

Net earnings were $101 million in first quarter 2010 compared to $2 million in first quarter 2009. Excluding the restructuring charge, net earnings were $18 million in first quarter 2009. Earnings per diluted share were $1.37 in first quarter 2010 compared to $0.03 per diluted share in first quarter 2009. Excluding the restructuring charge, earnings were $0.25 per diluted share in first quarter 2009.

The Company used $225 million in cash from operating activities during first quarter 2010 compared to $82 million provided by operating activities in first quarter 2009. Excluding the $200 million impact of the adoption of amended accounting guidance discussed above in "Presentation of Non-GAAP Financial Measures", Eastman used $25 million in cash from operating activities primarily due to increased accounts receivable from increased sales. Excluding the impact of the adoption of this amended accounting guidance, the Company expects to generate free cash flow of between $200 million and $300 million for full year 2010, assuming capital expenditures of between $250 million and $275 million and U.S. defined benefit pension plan funding of less than $25 million. Free cash flow is defined as cash from operating activities minus capital expenditures and dividends.

The Company continued its growth initiatives in first quarter 2010.

- In the Fibers segment, the Korean acetate tow facility was acquired and commenced production.
- In the Specialty Plastics segment, the monomer manufacturing facility and the first Eastman TritanTM copolyester polymer manufacturing facility in Kingsport, Tennessee commenced production.
- In the PCI segment, the Company entered into a definitive agreement to acquire Genovique Specialties Corporation, a global producer of specialty non-phthalate plasticizers for water-based adhesives and other applications.

In addition, the Company announced on April 23, 2010 that it will review strategic options, including a possible divestiture, for its polyethylene terephthalate ("PET") business in the Performance Polymers segment.

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

RESULTS OF OPERATIONS

	First Quarter					Product	Exchange
				Volume	Price	Mix	Rate
(Dollars in millions)	2010	2009	Change	Effect	Effect	Effect	Effect
Sales	$ 1,564	$ 1,129	39 %	22 %	8 %	8 %	1 %

Sales revenue in first quarter 2010 compared to first quarter 2009 increased $435 million primarily due to higher sales volume in the CASPI, Specialty Plastics, and PCI segments, a favorable shift in product mix primarily in the PCI, CASPI, and Specialty Plastics segments, and increased selling prices primarily in the PCI and Performance Polymers segments. The higher sales volume was primarily due to improved customer demand compared with the depressed levels in first quarter 2009 and increased selling prices in response to higher raw material and energy costs.

	First Quarter		
(Dollars in millions)	2010	2009	Change
Gross Profit	$ 321	$ 179	79 %
As a percentage of sales	21 %	16 %	

Gross profit and gross profit as a percentage of sales in first quarter 2010 increased compared to first quarter 2009 in all segments. The increase was primarily due to higher sales volume and higher capacity utilization which led to lower unit costs and a favorable shift in product mix. First quarter 2010 gross profit included $12 million from acetyl license revenue and was negatively impacted by approximately $25 million from the outage at the Texas manufacturing facility primarily reflected in the PCI and CASPI segments.