EASTMAN CHEMICAL CO
Form 10-Q
November 01, 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 September 30, 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 (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 [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 [X] 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 September 30, 2010
Common Stock, par value $0.01 per share	72,127,905

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UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS,
COMPREHENSIVE INCOME AND RETAINED EARNINGS

(Dollars in millions, except per share amounts)	Third Quarter 2010	Third Quarter 2009	First Nine Months 2010	First Nine Months 2009
Sales	$ 1,729	$ 1,337	$ 5,017	$ 3,719
Cost of sales	1,284	1,009	3,847	2,952
Gross profit	445	328	1,170	767
Selling, general and administrative expenses	122	104	333	296
Research and development expenses	43	33	115	101
Asset impairments and restructuring charges, net	--	--	3	23
Operating earnings	280	191	719	347
Net interest expense	25	19	75	58
Other charges (income), net	(3)	2	11	11
Earnings before income taxes	258	170	633	278
Provision for income taxes	88	69	214	110
Net earnings	$ 170	$ 101	$ 419	$ 168
Earnings per share				
Basic	$ 2.37	$ 1.40	$ 5.81	$ 2.31
Diluted	$ 2.33	$ 1.38	$ 5.70	$ 2.29
Comprehensive Income				
Net earnings	$ 170	$ 101	$ 419	$ 168
Other comprehensive income (loss), net of tax				
Change in cumulative translation adjustment	28	2	7	17
Change in unrecognized losses and prior service credits for benefit plans	2	--	11	(2)
Change in unrealized gains (losses) on derivative instruments	(33)	(7)	(25)	(6)
Total other comprehensive income (loss), net of tax	(3)	(5)	(7)	9
Comprehensive income	$ 167	$ 96	$ 412	$ 177
Retained Earnings				
Retained earnings at beginning of period	$ 2,756	$ 2,566	$ 2,571	$ 2,563
Net earnings	170	101	419	168
Cash dividends declared	(32)	(32)	(96)	(96)
Retained earnings at end of period	$ 2,894	$ 2,635	$ 2,894	$ 2,635

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

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in millions, except per share amounts)	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 642	$ 793
Trade receivables, net	701	277
Miscellaneous receivables	66	102
Inventories	652	531
Other current assets	40	32
Total current assets	2,101	1,735
Properties		
Properties and equipment at cost	8,712	8,525
Less: Accumulated depreciation	5,546	5,415
Net properties	3,166	3,110
Goodwill	377	315
Other noncurrent assets	345	355
Total assets	$ 5,989	$ 5,515
Liabilities and Stockholders' Equity		
Current liabilities		
Payables and other current liabilities	$ 936	$ 800
Borrowings due within one year	4	--
Total current liabilities	940	800
Long-term borrowings	1,602	1,604
Deferred income tax liabilities	297	258
Post-employment obligations	1,198	1,221
Other long-term liabilities	142	119
Total liabilities	4,179	4,002
Stockholders' equity		
Common stock ($0.01 par value – 350,000,000 shares authorized; shares issued – 95,576,347 and 94,775,064 for 2010 and 2009, respectively)	1	1
Additional paid-in capital	710	661
Retained earnings	2,894	2,571
Accumulated other comprehensive loss	(392)	(385)
	3,213	2,848
Less: Treasury stock at cost (23,531,116 shares for 2010 and 22,389,696 shares for 2009)	1,403	1,335
Total stockholders' equity	1,810	1,513
Total liabilities and stockholders' equity	$ 5,989	$ 5,515

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

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	First Nine Months 2010	2009
Cash flows from operating activities		
Net earnings	$ 419	$ 168
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	212	203
Provision for deferred income taxes	52	165
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in trade receivables	(397)	(35)
(Increase) decrease in inventories	(100)	141
Increase (decrease) in trade payables	56	(8)
Increase (decrease) in liabilities for employee benefits and incentive pay	9	(14)
Other items, net	46	48
Net cash provided by operating activities	297	668
Cash flows from investing activities		
Additions to properties and equipment	(133)	(268)
Proceeds from sale of assets and investments	11	25
Acquisitions and investments in joint ventures	(189)	(52)
Additions to capitalized software	(5)	(6)
Other items, net	(7)	(12)
Net cash used in investing activities	(323)	(313)
Cash flows from financing activities		
Net increase in commercial paper, credit facility, and other borrowings	1	23
Repayment of borrowings	(4)	(16)
Dividends paid to stockholders	(96)	(96)
Treasury stock purchases	(68)	--
Proceeds from stock option exercises and other items	41	15
Net cash used in financing activities	(126)	(74)
Effect of exchange rate changes on cash and cash equivalents	1	--
Net change in cash and cash equivalents	(151)	281
Cash and cash equivalents at beginning of period	793	387
Cash and cash equivalents at end of period	$ 642	$ 668

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 amended accounting guidance on transfers of financial assets. The impact of this guidance was prospective with changes in first nine months Statements of Consolidated Financial Position and the Statements of Cash Flows. For additional information, refer to Notes 8, "Borrowings", and 11, "Commitments".

2. ACQUISITIONS

Genovique Specialties Corporation
On April 30, 2010, Eastman completed the stock purchase of Genovique Specialties Corporation ("Genovique"), which has been accounted for as a business combination. Genovique was a global producer of specialty plasticizers, benzoic acid, and sodium benzoate. This acquisition included Genovique's manufacturing operations in Kohtla-Järve, Estonia, Chestertown, Maryland, and a joint venture in Wuhan, China. Genovique's benzoate ester plasticizers were a strategic addition to Eastman's existing general-purpose and specialty non-phthalate plasticizers. The acquisition added differentiated, sustainably-advantaged products to Eastman's Performance Chemicals and Intermediates ("PCI") segment and enhances the Company's diversification into emerging geographic regions.

The total purchase price was approximately $160 million, including assumed debt of $5 million. Transaction costs associated with the acquisition were expensed as incurred. The table below shows the preliminary fair value purchase price allocation for the Genovique acquisition:

		Dollars in millions
Current assets	$	48
Properties and equipment		33
Intangible assets		59
Other noncurrent assets		2
Goodwill		63
Current liabilities		(17)
Long-term liabilities		(28)
Total purchase price	$	160

Acquired intangible assets consist of $44 million in established customer relationships, $14 million in trade names, and $1 million in developed technology. The customer relationships and developed technology intangible assets have remaining useful lives of 16 and 7 years, respectively. Trade names have been determined to have an indefinite life. Goodwill, which represents the excess of the purchase price over the net tangible and intangible assets acquired and liabilities assumed, was attributed to the synergies between the acquired company and Eastman.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Korean Acetate Tow Facility

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 established acetate tow manufacturing capacity for the Company in Asia and supports projected long term sales growth for acetate tow in the region.

The fair value of total consideration was $111 million, which was paid in installments beginning first quarter 2009 and completed second quarter 2010. 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.

3. ASSET IMPAIRMENTS AND RESTRUCTURING CHARGES, NET

In first nine months 2010, there were $3 million in restructuring charges primarily for severance associated with the acquisition and integration of Genovique. In first nine months 2009, restructuring charges were $23 million, net. The 2009 charges, primarily for severance, resulted from a reduction in force.

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 nine months 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 September 30, 2010
Non-cash charges	$ --	$ --	$ --	$ --	$ --
Severance costs	5	3	--	(6)	2
Site closure and other restructuring costs	5	--	--	--	5
Total	$ 10	$ 3	$ --	$ (6)	$ 7

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. INVENTORIES

(Dollars in millions)	September 30, 2010	December 31, 2009
At FIFO or average cost (approximates current cost)		
Finished goods	$ 623	$ 547
Work in process	193	168
Raw materials and supplies	299	262
Total inventories	1,115	977
LIFO reserve	(463)	(446)
Total inventories	$ 652	$ 531

Inventories valued on the LIFO method were approximately 70 percent and 75 percent of total inventories as of September 30, 2010 and December 31, 2009, respectively.

5. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

(Dollars in millions)	CASPI Segment	PCI Segment	Other Segments	Total
Reported balance at December 31, 2009	$ 309	$ 1	$ 5	$ 315
Additions	--	63	--	63
Currency translation adjustments	(1)	--	--	(1)
Reported balance at September 30, 2010	$ 308	$ 64	$ 5	$ 377

As a result of the purchase of Genovique during second quarter 2010, the Company recorded goodwill of $63 million. The remaining goodwill primarily consists of goodwill in the Coatings, Adhesives, Specialty Polymers and Inks ("CASPI") segment. Included in the reported balance for goodwill are accumulated impairment losses of $44 million at December 31, 2009 and September 30, 2010.

Intangible assets include developed technology, customer lists, patents and patent licenses, and trademarks with a net book value of $101 million as of September 30, 2010 and $43 million as of December 31, 2009. As a result of the Genovique acquisition, the Company recorded $59 million in customer relationships, technology, and other intangible assets. Intangible assets are included in other noncurrent assets on the balance sheet.

Refer to Note 2, "Acquisitions", for further details regarding the acquisition of Genovique.

6. PAYABLES AND OTHER CURRENT LIABILITIES

(Dollars in millions)	September 30, 2010	December 31, 2009
Trade creditors	$ 511	$ 433
	146	125

Accrued payrolls, vacation, and variable-incentive compensation				
Accrued taxes		35		33
Post-employment obligations		63		61
Interest payable		29		32
Other		152		116
Total payables and other current liabilities	$	936	$	800

The current portion of post-employment obligations is an estimate of current year payments.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7. PROVISION FOR INCOME TAXES

(Dollars in millions)	Third Quarter 2010	Third Quarter 2009	First Nine Months 2010	First Nine Months 2009
Provision for income taxes	$ 88	$ 69	$ 214	$ 110
Effective tax rate	34 %	40 %	34 %	39 %

Third quarter 2010 effective tax rate reflects the Company's expected full year tax rate on reported earnings before income taxes of approximately 34 percent. Third quarter 2009 effective tax rate reflects an $11 million tax charge associated with the recapture of gasification investment tax credits.

Excluding discrete items, first nine months 2010 effective tax rate reflects the Company's expected full year tax rate on reported earnings before income taxes of approximately 34 percent. First nine months 2009 effective tax rate reflects an $11 million tax charge associated with the recapture of gasification investment tax credits and a $7 million tax charge associated with a change in accounting method for tax purposes to accelerate timing of deductions for manufacturing repairs expense.

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.

8. BORROWINGS

(Dollars in millions)	September 30, 2010	December 31, 2009
Borrowings consisted of:		
7% notes due 2012	$ 152	$ 152
6.30% notes due 2018	203	205
5.5% notes due 2019	250	250
7 1/4% debentures due 2024	497	497
7 5/8% debentures due 2024	200	200
7.60% debentures due 2027	298	298
Other	6	2
Total borrowings	1,606	1,604
Borrowings due within one year	(4)	--
Long-term borrowings	$ 1,602	$ 1,604

At September 30, 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 September 30, 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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2010, the Company also had a $200 million line of credit under its annually renewable accounts receivable securitization agreement ("A/R Facility"). The A/R Facility was renewed in July 2010. Borrowings under the A/R Facility are subject to interest rates based on a spread over the lender's 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 September 30, 2010, the Company had no outstanding borrowings under the A/R Facility. Refer to Note 11, "Commitments", for further details regarding the A/R Facility.

9. 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

	Third Quarter		First Nine Months	
(Dollars in millions)	2010	2009	2010	2009
Service cost	$ 11	$ 10	$ 33	$ 31
Interest cost	21	22	63	65
Expected return on assets	(24)	(25)	(77)	(74)
Amortization of:				
Prior service credit	(4)	(4)	(12)	(12)
Actuarial loss	10	8	32	25
Net periodic benefit cost	$ 14	$ 11	$ 39	$ 35

The Company contributed $35 million and $30 million to its U.S. defined benefit pension plan in third quarter 2010 and 2009, respectively.

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 and dental 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 life insurance and health care and dental 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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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. other post-employment plans:

Summary of Components of Net Periodic Benefit Costs

	Third Quarter		First Nine Months	
(Dollars in millions)	2010	2009	2010	2009
Service cost	$ 2	$ 2	$ 7	$ 6
Interest cost	11	12	33	34
Expected return on assets	(1)	(1)	(2)	(2)
Amortization of:				
Prior service credit	(6)	(5)	(18)	(17)
Actuarial loss	4	4	10	10
Net periodic benefit cost	$ 10	$ 12	$ 30	$ 31

10. 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 $40 million and $42 million at September 30, 2010 and December 31, 2009, respectively. Estimated future environmental expenditures for remediation costs range from the minimum or best estimate of $10 million to the maximum of $21 million at September 30, 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 September 30, 2010 and December 31, 2009, respectively.

11. COMMITMENTS

Purchasing Obligations and Lease Commitments

At September 30, 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 $88 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 50 percent relates to real property, including office space, storage facilities, and land; and approximately 35 percent relates to railcars.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 September 30, 2010 reflects an increase in trade receivables, $200 million of which was transferred at December 31, 2009 under the securitization program and reduced cash flows from operating activities by that amount for first nine months 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 8, "Borrowings". At December 31, 2009 and September 30, 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 September 30, 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 material payments pursuant to such guarantees is remote.

Variable Interest Entities

The accounting guidance on the consolidation of Variable Interest Entities ("VIEs") 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.

12. 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.

(Dollars in millions)	September 30, 2010 Recorded Amount	September 30, 2010 Fair Value	December 31, 2009 Recorded Amount	December 31, 2009 Fair Value
Long-term borrowings	$ 1,602	$ 1,800	$ 1,604	$ 1,656

The Company's floating-rate borrowings approximate fair value.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements

The following chart shows the financial assets and liabilities measured at fair value on a recurring basis.

(Dollars in millions)		Fair Value Measurements at September 30, 2010		
Description	September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Assets	$ 93	$ --	$ 93	$ --
Derivative Liabilities	(93)	--	(93)	--
	$ --	$ --	$ --	$ --

(Dollars in millions)		Fair Value Measurements at December 31, 2009		
Description	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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.

Fair Value Hedges

Fair value hedges are 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 September 30, 2010, the total notional amount of the Company's interest rate swaps was $146 million. The fair value of the derivative of $3 million was recorded in other noncurrent assets.

Cash Flow Hedges

Cash flow hedges are 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.

During the second quarter 2010, the Company entered into forward starting interest rate swaps designated as cash flow hedges to manage interest rate exposure related to the probable future issuance of fixed-rate debt. These forward starting interest rate swaps are based on a total notional amount of $300 million.

As of September 30, 2010, the total amount of the Company's foreign exchange forward and option contracts was a $19 million asset. As of September 30, 2010, the total amount of the Company's feedstock/energy forward and option contracts was a $4 million liability. As of September 30, 2010, the total amount of the Company's forward starting interest rate swaps contracts was an $18 million liability.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Derivatives Designated as Cash Flow Hedging Instruments

(Dollars in millions)		Fair Value	
Derivative Assets	Statement of Financial Position Location	September 30, 2010	December 31, 2009
Commodity contracts	Other current assets	$ --	$ 7
Foreign exchange contracts	Other current assets	14	14
Foreign exchange contracts	Other noncurrent assets	11	11
		$ 25	$ 32

(Dollars in millions)		Fair Value	
Derivative Liabilities	Statement of Financial Position Location	September 30, 2010	December 31, 2009
Commodity contracts	Payables and other current liabilities	$ 4	$ 1
Foreign exchange contracts	Payables and other current liabilities	3	--
Foreign exchange contracts	Other noncurrent liabilities	3	--
Forward starting interest rate swap contracts	Other noncurrent liabilities	18	--
		$ 28	$ 1

Derivatives' Cash Flow Hedging Relationships

Third Quarter

(Dollars in millions)					
Derivatives' Cash Flow Hedging Relationships	Amount after tax of gain/(loss) recognized in Other Comprehensive Income on derivatives (effective portion)		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)	
	September 30, 2010	September 30, 2009		September 30, 2010	September 30, 2009
Commodity contracts	$ 6	$ 1	Cost of sales	$ (2)	$ --
Foreign exchange contracts	(30)	(8)	Sales	11	5
Forward starting interest rate swap contracts	(9)	--		--	--
	$ (33)	$ (7)		$ 9	$ 5

First Nine Months

(Dollars in millions)

Derivatives' Cash Flow Hedging Relationships	Amount after tax of gain/(loss) recognized in Other Comprehensive Income on derivatives (effective portion)		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)	
	September 30, 2010	September 30, 2009		September 30, 2010	September 30, 2009
Commodity contracts	$ (6)	$ 6	Cost of sales	$ 2	$ (9)
Foreign exchange contracts	(7)	(12)	Sales	34	19
Forward starting interest rate swap contracts	(12)	--		--	--
	$ (25)	$ (6)		$ 36	$ 10

For all periods presented, there were no material ineffectiveness with regard to the Company's cash flow hedges.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Nondesignated / Nonqualifying Derivative Instruments

The Company mitigates foreign currency transaction exposure within a quarter from the point of recording a sale or purchase transaction to the point of receipt of the currency related to that transaction through its foreign exchange tactical hedging program. The gains or losses on these nonqualifying derivatives or derivatives that are not designated as hedges are marked to market in the line item "Other charges (income), net" of the Unaudited Consolidated Statements of Earnings. The Company recognized an approximately $11 million net loss on nonqualifying derivatives during the quarter ended September 30, 2010. The Company recognized an approximately $4 million net gain on nonqualifying derivatives during the nine months ended September 30, 2010.

13. STOCKHOLDERS' EQUITY

A reconciliation of the changes in stockholders' equity for first nine 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	--	--	419	--	--	419
Cash Dividends Declared (1)	--	--	(96)	--	--	(96)
Other Comprehensive Income (Loss)	--	--	--	(7)	--	(7)
Share-Based Compensation Expense (2)	--	15	--	--	--	15
Stock Option Exercises	--	35	--	--	--	35
Other (3)	--	(1)	--	--	--	(1)
Stock Repurchases	--	--	--	--	(68)	(68)
Balance at September 30, 2010	1	710	2,894	(392)	(1,403)	1,810

(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 (Losses) on Derivative Instruments $	Unrealized Losses on Investments $	Accumulated Other Comprehensive Income (Loss) $
	60	(414)	20	(1)	(335)

Balance at December 31, 2008					
Period change	17	(74)	7	--	(50)
Balance at December 31, 2009	77	(488)	27	(1)	(385)
Period change	7	11	(25)	--	(7)
Balance at September 30, 2010	84	(477)	2	(1)	(392)

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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

14. EARNINGS AND DIVIDENDS PER SHARE

	Third Quarter		First Nine Months	
	2010	2009	2010	2009
Shares used for earnings per share calculation (in millions):				
Basic	71.9	72.6	72.1	72.5
Diluted	73.3	73.5	73.6	73.3

In third quarter and first nine months 2010, common shares underlying options to purchase 589,585 shares of common stock and 696,185 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. Third quarter and first nine months 2010 reflect the impact of share repurchases of 1.1 million shares.

In third quarter and first nine months 2009, common shares underlying options to purchase 3,037,007 shares of common stock and 3,720,448 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 share repurchases in first nine months 2009.

The Company declared cash dividends of $0.44 per share in third quarter 2010 and 2009 and $1.32 per share in first nine months 2010 and 2009.

15. 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 third quarter 2010 and 2009, approximately $6 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 on third quarter 2010 and 2009 net earnings of approximately $4 million and $3 million, respectively, is net of deferred tax expense related to share-based award compensation for each period.

In first nine months 2010 and 2009, $16 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 nine months 2010 and 2009 net earnings of $10 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 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.

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

(Dollars in millions)	First Nine Months 2010	First Nine Months 2009
Current assets	$ --	$ 7
Other assets	6	35
Current liabilities	34	5
Long-term liabilities and equity	6	1
Total	$ 46	$ 48

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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.

17. SEGMENT INFORMATION

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 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.

	Third Quarter	
(Dollars in millions)	2010	2009
Sales		
CASPI	$ 406	$ 338
Fibers	301	257
PCI	534	377
Performance Polymers	222	165
Specialty Plastics	266	200
Total Sales	$ 1,729	$ 1,337

	First Nine Months	
(Dollars in millions)	2010	2009
Sales		
CASPI	$ 1,195	$ 890
Fibers	842	779
PCI	1,557	997
Performance Polymers	638	509
Specialty Plastics	785	544
Total Sales	$ 5,017	$ 3,719

	Third Quarter	
(Dollars in millions)	2010	2009
Operating Earnings (Loss)		
CASPI	$ 91	$ 84
Fibers	90	79

PCI		77		31
Performance Polymers		6		(8)
Specialty Plastics		31		13
Total Operating Earnings by Segment		295		199
Other		(15)		(8)
Total Operating Earnings	$	280	$	191

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	First Nine Months 2010	2009
Operating Earnings (Loss)		
CASPI (1)	$ 251	$ 148
Fibers (1)	252	222
PCI (1) (2)	183	22
Performance Polymers (1)	(1)	(19)
Specialty Plastics (1)	73	3
Total Operating Earnings by Segment	758	376
Other	(39)	(29)
Total Operating Earnings	$ 719	$ 347

(1) First nine 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 Specialty Plastics segments, respectively.
(2) First nine months 2010 includes restructuring charges of $3 million, primarily for severance in the PCI segment. See Note 3, "Asset Impairments and Restructuring Charges, Net", for additional information.

(Dollars in millions)	September 30, 2010	December 31, 2009
Assets by Segment (1)		
CASPI	$ 1,278	$ 1,128
Fibers	863	726
PCI	1,201	845
Performance Polymers	591	575
Specialty Plastics	990	910
Total Assets by Segment	4,923	4,184
Corporate Assets	1,066	1,331
Total Assets	$ 5,989	$ 5,515

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

18. 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.

19. SUBSEQUENT EVENTS

On October 23, 2010, the Company entered into a definitive agreement with DAK Americas, LLC, to sell the polyethylene terephthalate ("PET") business, related assets at the Columbia, South Carolina site, and technology of its Performance Polymers segment. The transaction is expected to close during fourth quarter 2010. The sale is subject to regulatory approvals and satisfaction of other customary closing conditions. The total cash proceeds of the transaction are expected to be $600 million before transaction fees and working capital adjustments at closing.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Performance Polymers segment assets are presented as held and used for the periods presented, and will be presented as discontinued operations and not included in the results from continuing operations for all periods presented in future financial statements. The carrying amount of the Performance Polymers PET assets and liabilities as of September 30, 2010 are as follows: net property, plant and equipment at the Columbia, South Carolina site -- $374 million; non-current assets, including technology-- $22 million; and net working capital -- $151 million.

In conjunction with the sale of the Performance Polymers PET business, the Company has approved a restructuring plan to reduce costs and will recognize severance restructuring charges in fourth quarter 2010 estimated to be between $20 and $25 million.

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 ("EPS") 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 nine months 2010, the Company recognized $3 million in restructuring charges primarily for severance associated with the acquisition and integration of Genovique Specialties Corporation ("Genovique").

In first nine months 2009, the Company recognized $23 million in restructuring charges, primarily for severance, resulting from a reduction in force.

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 September 30, 2010 reflects an increase in trade receivables, $200 million of which was transferred at December 31, 2009 under the securitization program and reduced cash flows from operating activities by that amount for first quarter 2010.

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 activities 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 $1.7 billion and $1.3 billion in third quarter 2010 and 2009, respectively and $5.0 billion and $3.7 billion in first nine months 2010 and 2009, respectively. Sales revenue increases for both third quarter and first nine months 2010 compared to comparable 2009 periods were due primarily to higher sales volume attributed to improved end-use demand in packaging, durable goods, and other markets in third quarter 2010 and the upturn in the global economy in first nine months 2010 as well as the positive impact of growth initiatives in both periods. Sales revenue increases were also due to higher selling prices in response to higher raw material and energy costs.

Operating earnings were $280 million in third quarter 2010 compared with $191 million in third quarter 2009, and $719 million in first nine months 2010 compared with $347 million in first nine months 2009. Operating earnings were negatively impacted by restructuring charges of $3 million in first nine months 2010 and $23 million in first nine months 2009. The increases in both comparable periods were due to higher sales volume and higher capacity utilization which led to lower unit costs. In addition, higher selling prices more than offset higher raw material and energy costs. Operating earnings in third quarter 2010 were also positively impacted by a partial settlement of an insurance claim of $22 million related to the first quarter 2010 power outage at the Company's Longview, Texas manufacturing facility, which was primarily reflected in the Performance Chemicals and Intermediates ("PCI") and Coatings, Adhesives, Specialty Polymers, and Inks ("CASPI") segments. In first nine months 2010, the Company received $32 million in insurance proceeds from partial settlement related to the outage. The Company expects any remaining insurance proceeds in fourth quarter 2010. First nine months 2010 operating earnings also included $12 million from acetyl license revenue. First nine months 2009 operating earnings included approximately $20 million in costs related to the reconfiguration of the Longview, Texas facility.

The Company generated $297 million in cash from operating activities during first nine months 2010 compared to $668 million generated in first nine months 2009. Excluding the $200 million impact of the adoption of amended accounting guidance described above in "Presentation of Non-GAAP Financial Measures", Eastman generated $497 million in cash from operating activities in first nine months 2010 primarily due to higher net earnings partially offset by an increase in working capital. Excluding the impact of the adoption of this amended accounting guidance, the Company expects to generate free cash flow of greater than $300 million for full year 2010, assuming capital expenditures of approximately $225 million and U.S. defined benefit pension plan funding in an amount of $135 million, of which $100 million is expected to be contributed in fourth quarter 2010. Free cash flow is defined as cash from operating activities less capital expenditures and dividends.

The Company is progressing on its growth initiatives in 2010.

- In the Fibers segment, the Korean acetate tow facility was acquired and commenced production in first quarter. Commercial operations have commenced and customer qualifications are continuing.
- In the PCI segment, Genovique, a global producer of specialty non-phthalate plasticizers for water-based adhesives and other applications, was acquired in second quarter.
- In the Specialty Plastics segment, the monomer manufacturing facility and the first Eastman TritanTM copolyester polymer manufacturing facility in Kingsport, Tennessee commenced production in first quarter. The Company is adding another 30 thousand metric tons of resin capacity for TritanTM, which is expected to be online by the end of 2011.
- In the Specialty Plastics segment, the Company is expanding its capacity for cyclohexane dimethanol ("CHDM") modified polymers, a monomer used in the manufacture of copolyester, by approximately 25 percent and expects the capacity to be online in two phases in late 2011 and in 2012.

- In the Specialty Plastics segment, the Company is expanding its cellulose triacetate capacity by approximately 70 percent, with the new capacity expected to be online in first quarter 2012.
- In the CASPI segment, the Company has commenced the third expansion of the Company's hydrogenated hydrocarbon resins capacity in Middelburg, the Netherlands which will increase this capacity by an additional 20 percent and is expected to be online in second half 2011. The Company is also expanding its Longview, Texas hydrogenated hydrocarbon resins capacity which is expected to be online in early 2011.

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

The Company announced on October 23, 2010 that it has entered into a definitive agreement with DAK Americas, LLC, to sell the polyethylene terephthalate ("PET") business, related assets at the Columbia, South Carolina site, and technology of its Performance Polymers segment. The transaction is expected to close during fourth quarter of 2010. The sale, which is subject to regulatory approvals and satisfaction of other customary closing conditions, is not expected to impact product lines in the Specialty Plastics segment. The total cash proceeds of the transaction are expected to be $600 million before transaction fees and working capital adjustments at closing. In conjunction with the sale of the Performance Polymers PET business, the Company on October 23, 2010 approved a restructuring plan to reduce costs and will recognize severance restructuring charges in fourth quarter 2010 estimated to be between $20 and $25 million.

RESULTS OF OPERATIONS

(Dollars in millions)	Third Quarter 2010	Third Quarter 2009	Change	Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
Sales	$ 1,729	$ 1,337	29 %	18 %	9 %	3 %	(1) %

(Dollars in millions)	First Nine Months 2010	First Nine Months 2009	Change	Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
Sales	$ 5,017	$ 3,719	35 %	20 %	11 %	4 %	-- %

Sales revenue in third quarter and first nine months 2010 compared to third quarter and first nine months 2009 increased $392 million and $1.3 billion, respectively, due primarily to higher sales volume in all segments and increased selling prices primarily in the PCI and CASPI segments. The higher sales volume was primarily attributed to improved end-use demand in packaging, durable goods, and other markets in third quarter 2010 and the upturn in the global economy in first nine months 2010 as well as the positive impact of growth initiatives in both periods. Sales revenue increases were also due to higher selling prices in response to higher raw material and energy costs.

	Third Quarter			First Nine Months		
(Dollars in millions)	2010	2009	Change	2010	2009	Change
Gross Profit	$ 445	$ 328	36 %	$ 1,170	$ 767	53 %
As a percentage of sales	26 %	25 %		23 %	21 %	

Gross profit in third quarter and first nine months 2010 increased compared to third quarter and first nine months 2009 in all segments. The increase in both comparable periods was due to higher sales volume and higher selling prices, as well as higher capacity utilization which led to lower unit costs in first nine months 2010. Gross profit in third quarter 2010 was positively impacted by $22 million from the partial settlement of the Longview, Texas insurance claim which was primarily reflected in the PCI and CASPI segments. In first nine months 2010, the Company received $32 million in insurance proceeds from partial settlement related to the outage. First nine months 2010 gross profit also included $12 million from acetyl license revenue. First nine months 2009 gross profit included approximately $20 million in costs related to the reconfiguration of the Longview, Texas facility. The reconfiguration costs impacted the PCI and CASPI segments.

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

(Dollars in millions)	Third Quarter 2010	2009	Change	First Nine Months 2010	2009	Change
Selling, General and Administrative Expenses	$ 122	$ 104	17 %	$ 333	$ 296	13 %
Research and Development Expenses	43	33	30 %	115	101	14 %
	$ 165	$ 137	20 %	$ 448	$ 397	13 %
As a percentage of sales	10 %	10 %		9 %	11 %	

Selling, general and administrative expenses in third quarter and first nine months 2010 were higher compared to third quarter and first nine months 2009 primarily due to increased performance-based compensation expense and higher expenses for growth initiatives.

Research and development ("R&D") expenses were higher in third quarter and first nine months 2010 compared to third quarter and first nine months 2009 primarily due to higher R&D expenses for growth initiatives.

Asset Impairments and Restructuring Charges, Net

In first nine months 2010, there were $3 million in restructuring charges primarily for severance associated with the acquisition and integration of Genovique. In first nine months 2009, restructuring charges were $23 million, net. The 2009 charges, primarily for severance, resulted from a reduction in force.

For more information regarding asset impairments and restructuring charges, net see the segment discussions and Note 3, "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)	Third Quarter 2010	2009	Change	First Nine Months 2010	2009	Change
Operating earnings	$ 280	$ 191	47 %	$ 719	$ 347	>100 %
Asset impairments and restructuring charges, net	--	--		3	23	
Operating earnings excluding asset impairments and restructuring charges, net	$ 280	$ 191	47 %	$ 722	$ 370	95 %

Net Interest Expense

(Dollars in millions)	Third Quarter 2010	2009	Change	First Nine Months 2010	2009	Change
Gross interest costs	$ 27	$ 23		$ 81	$ 73	
Less: Capitalized interest	1	3		2	10	
Interest expense	26	20	30 %	79	63	25 %

Interest income		1		1			4		5	
Net interest expense	$	25	$	19	32 %	$	75	$	58	29 %

Net interest expense increased $6 million and $17 million in third quarter and first nine months 2010 compared to third quarter and first nine months 2009, respectively, primarily due to lower capitalized interest resulting from lower capital spending and higher average borrowings.

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

For 2010, the Company expects net interest expense to increase compared with 2009 primarily due to lower capitalized interest and higher average borrowings.

Other Charges (Income), Net

	Third Quarter		First Nine Months	
(Dollars in millions)	2010	2009	2010	2009
Foreign exchange transaction (gains) losses, net	$ (2)	$ --	$ 7	$ 2
Investment (gains) losses, net	(3)	(1)	(2)	4
Other, net	2	3	6	5
Other charges (income), net	$ (3)	$ 2	$ 11	$ 11

Provision for Income Taxes

	Third Quarter		First Nine Months	
(Dollars in millions)	2010	2009	2010	2009
Provision for income taxes	$ 88	$ 69	$ 214	$ 110
Effective tax rate	34 %	40 %	34 %	39 %

Third quarter 2010 effective tax rate reflects the Company's expected full year tax rate on reported earnings before income taxes of approximately 34 percent. Third quarter 2009 effective tax rate reflects an $11 million tax charge associated with the recapture of gasification investment tax credits.

Excluding discrete items, first nine months 2010 effective tax rate reflects the Company's expected full year tax rate on reported earnings before income taxes of approximately 34 percent. First nine months 2009 effective tax rate reflects an $11 million tax charge associated with the recapture of gasification investment tax credits and a $7 million tax charge associated with a change in accounting method for tax purposes to accelerate timing of deductions for manufacturing repairs expense.

Net Earnings and Diluted Earnings per Share

	Third Quarter			
	2010		2009	
(Dollars in millions, except diluted EPS)	$	EPS	$	EPS
Net earnings	$ 170	$ 2.33	$ 101	$ 1.38

	First Nine Months			
	2010		2009	
(Dollars in millions, except diluted EPS)	$	EPS	$	EPS
Net earnings	$ 419	$ 5.70	$ 168	$ 2.29
Asset impairments and restructuring charges, net of tax	2	0.03	14	0.20
Net earnings excluding asset impairments and restructuring charges, net of tax	$ 421	$ 5.73	$ 182	$ 2.49

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

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 segment. For additional information concerning the Company's operating 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.

Sales revenue and expenses not identifiable to an operating segment are not included in segment operating results for either of the periods presented and are shown as "other" sales revenue and operating losses when applicable. For more information, refer to Note 17, "Segment Information", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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 and operating earnings have been adjusted to retrospectively apply these changes to all periods presented.

CASPI Segment

	Third Quarter				First Nine Months			
			Change				Change	
(Dollars in millions)	2010	2009	$	%	2010	2009	$	%
Sales	$ 406	$ 338	$ 68	20 %	$ 1,195	$ 890	$ 305	34 %
Volume effect			28	8 %			163	18 %
Price effect			37	11 %			87	10 %
Product mix effect			9	3 %			56	6 %
Exchange rate effect			(6)	(2) %			(1)	-- %
Operating earnings	91	84	7	8 %	251	148	103	70 %
Asset impairments and restructuring charges, net	--	--	--		--	5	(5)	
Operating earnings excluding asset impairments and restructuring charges, net	91	84	7	8 %	251	153	98	64 %

Sales revenue increased third quarter 2010 compared to third quarter 2009 due to higher selling prices and higher sales volume. The higher selling prices were in response to higher raw material and energy costs. The higher sales volume was attributed to improved end-use demand in the packaging and transportation markets primarily in the Europe, Middle East, and Africa and the United States and Canada regions and the positive impact of growth initiatives, including the hydrogenated hydrocarbon resins manufacturing capacity expansion in Middelburg, the Netherlands which was completed in fourth quarter 2009.

Sales revenue increased first nine months 2010 compared to first nine months 2009 due to higher sales volume, higher selling prices, and a favorable shift in product mix. The higher sales volume in first nine months was attributed to improved customer demand due to the upturn in the global economy and the positive impact of growth initiatives. The higher selling prices were in response to higher raw material costs. The favorable shift in product mix was due to higher sales volume for specialty polymers and specialty coalescents product lines attributed to the demand recovery in the coatings markets, particularly in the Asia Pacific and Europe, Middle East, and Africa regions.

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

Operating earnings increased $7 million in third quarter 2010 compared to third quarter 2009 and included $9 million from the partial settlement of the Longview, Texas insurance claim. Operating earnings were negatively impacted by higher raw material and energy costs and increased costs of growth initiatives more than offsetting higher selling prices and higher sales volume.

Excluding the segment's portion of the severance charge for a reduction in force in first nine months 2009, operating earnings increased $98 million in first nine months 2010 compared to first nine months 2009 due primarily to higher sales volume and higher capacity utilization which led to lower unit costs and the favorable shift in product mix. Operating earnings in first nine months 2010 were negatively impacted by higher raw material and energy costs. In first nine months 2010, operating earnings included $12 million of the insurance proceeds from partial settlement related to the outage. First nine months 2009 operating earnings included approximately $5 million in costs related to the reconfiguration of the Longview, Texas facility. 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.

Fibers Segment

	Third Quarter				First Nine Months			
			Change				Change	
(Dollars in millions)	2010	2009	$	%	2010	2009	$	%
Sales	$ 301	$ 257	$ 44	17 %	$ 842	$ 779	$ 63	8 %
Volume effect			30	12 %			44	6 %
Price effect			--	-- %			2	-- %
Product mix effect			15	5 %			17	2 %
Exchange rate effect			(1)	-- %			--	-- %
Operating earnings	90	79	11	14 %	252	222	30	14 %
Asset impairments and restructuring charges, net	--	--	--		--	4	(4)	
Operating earnings excluding asset impairments and restructuring charges, net	90	79	11	14 %	252	226	26	12 %

Sales revenue increased in third quarter 2010 compared to third quarter 2009 due to higher sales volume primarily for acetate tow, attributed to customer buying patterns, and acetate yarn product lines.

Sales revenue increased in first nine months 2010 compared to first nine months 2009 due to higher sales volume primarily for acetate yarn product lines.

Operating earnings increased $11 million in third quarter 2010 compared to third quarter 2009 primarily due to higher sales volume, particularly for acetate tow, and higher acetyl stream capacity utilization.

Excluding the segment's portion of the severance charge for a reduction in force in first nine months 2009, operating earnings increased $26 million in first nine months 2010 primarily due to higher sales volume and higher capacity utilization for acetate yarn product lines.

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During first quarter 2010, the Company completed the acquisition of and commenced production at the Korean acetate tow manufacturing facility. Commercial operations have commenced and customer qualifications are continuing. The operation of the facility is expected to be fully integrated into the segment's production and sales processes in 2011.

PCI Segment

	Third Quarter				First Nine Months			
			Change				Change	
(Dollars in millions)	2010	2009	$	%	2010	2009	$	%
Sales	$ 534	$ 377	$ 157	42 %	$ 1,557	$ 997	$ 560	56 %
Volume effect			83	22 %			277	28 %
Price effect			67	18 %			234	23 %
Product mix effect			9	3 %			49	5 %
Exchange rate effect			(2)	(1) %			--	-- %
Operating earnings	77	31	46	>100 %	183	22	161	>100 %
Asset impairments and restructuring charges, net	--	--	--		3	6	(3)	
Operating earnings excluding asset impairments and restructuring charges, net	77	31	46	>100 %	186	28	158	>100 %

Sales revenue increased in third quarter compared to third quarter 2009 due to higher sales volume and higher selling prices. The higher sales volume was primarily due to growth in plasticizer product lines, which includes the addition of new plasticizer product lines from the acquisition of Genovique, and improved end-use demand in markets such as industrial chemicals and processing, agriculture, and health and wellness. The higher selling prices were in response to higher raw material and energy costs.

Sales revenue increased in first nine months compared to the same period in 2009 due to higher sales volume, higher selling prices, and improved product mix. The higher sales volume was primarily due to growth in plasticizer product lines, which includes the addition of new plasticizer product lines from the acquisition of Genovique, improved customer demand particularly in olefin-based product lines due to the upturn in the global economy, and the impact of competitor outages during the period. Sales revenue also included $12 million from an acetyl technology licensing agreement in first nine months 2010.

Operating earnings increased $46 million in third quarter 2010 compared to third quarter 2009 due to higher selling prices which more than offset higher raw material and energy costs, and higher sales volume and higher capacity utilization which led to lower unit costs. Operating earnings in third quarter 2010 were positively impacted by $12 million from the partial settlement of the Longview, Texas insurance claim.

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Excluding asset impairments and restructuring charges, net, operating earnings increased $158 million in first nine months 2010 compared to first nine months 2009 primarily due to higher selling prices and higher sales volume and higher capacity utilization which led to lower unit costs. Operating earnings in first nine months 2010 were negatively impacted by higher raw material and energy costs. First nine months 2010 operating earnings also included $12 million from acetyl license revenue and $3 million in restructuring charges, primarily for severance associated with the acquisition and integration of Genovique. In first nine months 2010, operating earnings included $18 million of the insurance proceeds from partial settlement related to the outage. Operating earnings in first nine months 2009 included approximately $15 million of costs related to the reconfiguration of the Longview, Texas facility. A restructuring charge in first nine months 2009 consisted of the segment's portion of the severance charge for a reduction in force.

In second quarter 2010, the Company acquired Genovique, a global producer of specialty non-phthalate plasticizers for water-based adhesives and other applications. The transaction is expected to be accretive to the Company's full-year 2010 earnings per share.

Performance Polymers Segment

	Third Quarter				First Nine Months			
			Change				Change	
(Dollars in millions)	2010	2009	$	%	2010	2009	$	%
Sales	$ 222	$ 165	$ 57	34 %	$ 638	$ 509	$ 129	25 %
Volume effect			44	27 %			67	13 %
Price effect			14	8 %			69	13 %
Product mix effect			(1)	(1) %			(7)	(1) %
Exchange rate effect			--	-- %			--	-- %
Operating earnings (loss)	6	(8)	14	>100 %	(1)	(19)	18	95 %
Asset impairments and restructuring charges, net	--	--	--		--	4	(4)	
Operating earnings (loss) excluding asset impairments and restructuring charges, net	6	(8)	14	>100 %	(1)	(15)	14	93 %

Sales revenue increased in third quarter and first nine months 2010 compared to third quarter and first nine months 2009 primarily due to higher sales volume and higher selling prices. Sales volume increased due to improved operations of the Eastman IntegRexTM-based PET manufacturing facility. Higher selling prices were due to sales in higher value end-use markets.

Operating results in third quarter 2010 increased $14 million compared to third quarter 2009 as the favorable impact of improved IntegRex™ operations and higher selling prices were partially offset by higher raw material and energy costs.

Excluding the segment's portion of the severance charge for a reduction in force in first quarter 2009, operating results in first nine months 2010 increased $14 million compared to first nine months 2009 as the favorable impact of improved IntegRex™ operations and higher selling prices were partially offset by higher raw material and energy costs.

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The Company announced in fourth quarter 2010 that it has entered into a definitive agreement with DAK Americas, LLC, to sell the PET business, related assets at the Columbia, South Carolina site, and technology of the Performance Polymers segment. The transaction is expected to close during fourth quarter of 2010.

Specialty Plastics Segment

	Third Quarter				First Nine Months			
			Change				Change	
(Dollars in millions)	2010	2009	$	%	2010	2009	$	%
Sales	$ 266	$ 200	$ 66	33 %	$ 785	$ 544	$ 241	44 %
Volume effect			55	27 %			201	37 %
Price effect			3	1 %			1	-- %
Product mix effect			9	5 %			35	6 %
Exchange rate effect			(1)	-- %			4	1 %
Operating earnings	31	13	18	>100 %	73	3	70	>100 %
Asset impairments and restructuring charges, net	--	--	--		--	4	(4)	
Operating earnings excluding asset impairments and restructuring charges, net	31	13	18	>100 %	73	7	66	>100 %

Sales revenue increased in third quarter and first nine months 2010 compared to third quarter and first nine months 2009 primarily due to higher sales volume. The higher sales volume in third quarter was attributed to improved end-use demand for specialty packaging and consumer and durable goods as well as the positive impact of growth initiatives for core copolyesters and the TritanTM copolyester product line. The higher sales volume in first nine months was attributed to improved customer demand due to the upturn in the global economy and the positive impact of growth initiatives for core copolyesters and the TritanTM copolyester product line.

Operating earnings increased $18 million in third quarter 2010 compared to third quarter 2009 primarily due to higher sales volume, resulting in higher capacity utilization and lower unit costs which more than offset higher raw material and energy costs.

Excluding the segment's portion of the severance charge for a reduction in force in first quarter 2009, operating results increased $66 million in first nine months 2010 compared to first nine months 2009 primarily due to higher sales volume and higher capacity utilization which led to lower unit costs.

The adoption of the new TritanTM copolyester product line continues to be ahead of schedule. The TritanTM copolyester is supplied from the monomer manufacturing facility and the first TritanTM copolyester polymer manufacturing facility in Kingsport, Tennessee which became operational in first quarter 2010. The Company is adding another 30 thousand metric tons of resin capacity for TritanTM, which is expected to be online by the end of 2011.

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SUMMARY BY CUSTOMER LOCATION

Sales Revenue

(Dollars in millions)	Third Quarter 2010	2009	Change	Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
United States and Canada	$ 946	$ 737	28 %	18 %	10 %	-- %	-- %
Asia Pacific	369	282	31 %	15 %	9 %	6 %	1 %
Europe, Middle East, and Africa	291	222	31 %	20 %	7 %	10 %	(6) %
Latin America	123	96	28 %	19 %	10 %	(1) %	-- %
	$ 1,729	$ 1,337	29 %	18 %	9 %	3 %	(1) %

Sales revenue in the United States and Canada increased in third quarter 2010 compared to third quarter 2009 primarily due to higher sales volumes in all segments and higher selling prices in the PCI, CASPI, and Performance Polymers segments.

Sales revenue in Asia Pacific increased in third quarter 2010 compared to third quarter 2009 primarily due to higher sales volume particularly in the Specialty Plastics and Fibers segments, higher selling prices in all segments, and a favorable shift in product mix in all segments, particularly the Fibers segment.

Sales revenue in Europe, Middle East, and Africa increased in third quarter 2010 compared to third quarter 2009 primarily due to higher sales volume and a favorable shift in product mix in all segments and higher selling prices in the CASPI and PCI segments.

Sales revenue in Latin America increased in third quarter 2010 compared to third quarter 2009 primarily due to higher sales volume and higher selling prices particularly in the Performance Polymers segment.

(Dollars in millions)	First Nine Months 2010	2009	Change	Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
United States and Canada	$ 2,746	$ 2,096	31 %	19 %	12 %	-- %	-- %
Asia Pacific	1,058	769	38 %	18 %	10 %	9 %	1 %
Europe, Middle East, and Africa	852	607	40 %	23 %	3 %	15 %	(1) %
Latin America	361	247	46 %	31 %	15 %	-- %	-- %
	$ 5,017	$ 3,719	35 %	20 %	11 %	4 %	-- %

Sales revenue in the United States and Canada increased in first nine months 2010 compared to first nine months 2009 primarily due to higher sales volumes and higher selling prices particularly in the PCI segment.

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Sales revenue in Asia Pacific increased in first nine months 2010 compared to first nine months 2009 primarily due to higher sales volume, higher selling prices, and a favorable shift in product mix in all segments.

Sales revenue in Europe, Middle East, and Africa increased in first nine months 2010 compared to first nine months 2009 primarily due to higher sales volume and a favorable shift in product mix in all segments. Product mix included sales revenue from the acetyl license in the PCI segment. The region had minimal price effect change compared to other regions due to fewer sales from commodity product lines.

Sales revenue in Latin America increased in first nine months 2010 compared to first nine months 2009 primarily due to higher sales volume and higher selling prices particularly 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 or euros. 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 concerning these practices, see Note 9, "Fair Value of Financial Instruments", to the consolidated financial statements in Part II, Item 8 and Part II, Item 7A of the Company's 2009 Annual Report on Form 10-K and Forward-Looking Statements and Risk Factors of this Quarterly Report on Form 10-Q.

LIQUIDITY, CAPITAL RESOURCES, AND OTHER FINANCIAL INFORMATION

Cash Flows

(Dollars in millions)	First Nine Months 2010	2009
Net cash provided by (used in)		
Operating activities	$ 297	$ 668
Investing activities	(323)	(313)
Financing activities	(126)	(74)
Effect of exchange rate changes on cash and cash equivalents	1	--
Net change in cash and cash equivalents	(151)	281
Cash and cash equivalents at beginning of period	793	387
Cash and cash equivalents at end of period	$ 642	$ 668

(Dollars in millions)	First Nine Months 2010	2009
Net cash provided by operating activities	$ 297	$ 668
Impact of adoption of amended accounting guidance (1)	200	--
Net cash provided by operating activities excluding item	497	668

Additions to properties and equipment		(133)		(268)
Dividends paid to stockholders		(96)		(96)
Free Cash Flow	$	268	$	304

(1) First nine months 2010 cash from operating activities reflected the adoption of amended accounting guidance for transfers of financial assets which resulted in $200 million of receivables, which were previously accounted for as sold and removed from the balance sheet when transferred under the accounts receivable securitization program, being included on the first quarter balance sheet as trade receivables, net. This increase in receivables reduced cash from operations by $200 million in first quarter 2010.

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Cash provided by operating activities was $297 million during first nine months 2010 compared to $668 million provided by operating activities in first nine months 2009. The cash provided in first nine months 2010 was primarily due to higher net earnings partially offset by an increase in working capital, particularly trade receivables and inventories. End of first nine months 2010 receivables were higher primarily due to increased sales and the impact of the adoption of amended accounting guidance for transfers of financial assets which impacts the financial statement presentation for activity under the Company's accounts receivable securitization program. Inventories increased due to higher quantities and costs attributed to improved demand for the Company's products. Both the increase in receivables and inventory were partially offset by an increase in accounts payable driven by a higher level of purchasing activity. The 2009 operating cash flows were positively impacted by more than $100 million due to a change in the tax method for capitalizing assets.

Cash used in investing activities was $323 million in first nine months 2010 compared to $313 million used in investing activities in first nine months 2009. First nine months 2010 includes the acquisition of Genovique and payments for the acquisition of the Korean acetate tow facility. Capital spending of $133 million in first nine months 2010 was lower compared to $268 million in first nine months 2009 primarily due to the deferral of discretionary spending in response to the global recession compared to first nine months 2009 which included the completion of large growth initiatives.

Cash used in financing activities totaled $126 million in first nine months 2010 compared to $74 million used in financing activities in first nine months 2009. Share repurchases in first nine months 2010 were $68 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 excluding the $200 million impact of adoption of amended accounting guidance, less capital expenditures and dividends) in 2010 of greater than $300 million, assuming capital expenditures of approximately $225 million and U.S. defined benefit pension plan funding of $135 million, of which $100 million is expected to be contributed in fourth quarter 2010. The priorities for uses of available cash in 2010 are payment of the quarterly cash dividend, funding targeted growth initiatives (including organic initiatives, joint ventures and acquisitions) and defined benefit pension plans, and repurchasing shares.

Liquidity

At September 30, 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 September 30, 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 to refinance such borrowings on a long-term basis.

Additionally, at September 30, 2010, the Company also had a $200 million line of credit under its annually renewable accounts receivable securitization agreement ("A/R Facility"). The A/R Facility was renewed in July 2010. Borrowings under the A/R Facility are subject to interest rates based on a spread over the lender's 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 September 30, 2010, the Company had no outstanding borrowings under the A/R Facility.

For more information regarding interest rates, refer to Note 8, "Borrowings", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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In third quarter 2010, the Company made a $35 million contribution to its U.S. defined benefit pension plan. In 2009, the Company made $181 million in contributions to its U.S. defined benefit pension plan. The Company expects to make a $100 million additional contribution to its U.S. defined benefit plan in fourth quarter 2010.

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 $133 million and $268 million in first nine months 2010 and 2009, respectively. The lower expenditures in first nine months 2010 were primarily due to the deferral of discretionary spending in response to the global recession compared to first nine months 2009 which included the completion of large growth initiatives. The Company expects that 2010 capital spending will be approximately $225 million as the Company increases spending on discretionary infrastructure projects and certain strategic growth initiatives.

Other Commitments

At September 30, 2010, the Company's obligations related to notes and debentures totaled approximately $1.6 billion to be paid over a period of approximately 20 years. Other borrowings, related primarily to credit facility borrowings, totaled $4 million.

The Company had various purchase obligations at September 30, 2010 totaling approximately $1 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 11, "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 September 30, 2010 totaling approximately $1.4 billion primarily related to pension, retiree medical, and other post-employment obligations.

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
2010	$ --	$ 4	$ 25	$ 65	$ 8	$ 134	$ 236

2011	2	--	110	252	23	61	448
2012	152	--	105	246	18	56	577
2013	--	--	99	232	12	58	401
2014	--	--	99	37	8	60	204
2015 and beyond	1,448	--	889	155	19	981	3,492
Total	$ 1,602	$ 4	$ 1,327	$ 987	$ 88	$ 1,350	$ 5,358

(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 cost 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.

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Off Balance Sheet and Other Financing Arrangements

If certain operating leases are terminated by the Company, it has guaranteed 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 11, "Commitments", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

At September 30, 2010, 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.

The accounting guidance on consolidation of Variable Interest Entities ("VIEs") 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 this new guidance and has 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.

Guarantees and claims also arise during the ordinary course of business from relationships with suppliers, customers, and other parties 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 August 2010, the Company's Board of Directors authorized an additional repurchase of up to $300 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. The authorization is in addition to the remaining amount available under the previous October 2007 $700 million repurchase authorization of the Company's outstanding common stock. As of September 30, 2010, a total of 10.9 million shares have been repurchased for a total amount of approximately $673 million. During first nine months 2010, the Company repurchased 1,132,800 shares of common stock for a cost of approximately $68 million.

Dividends

The Company declared cash dividends of $0.44 per share in third quarter 2010 and 2009 and $1.32 per share in first nine months 2010 and 2009.

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OUTLOOK

For 2010, the Company expects:

- increases in volume due to the recovery from the global recession and continued substitution of Eastman products for other materials and new applications for existing products;

- the volatility of market prices for raw materials and energy to continue and that the Company will continue to use pricing and hedging strategies to offset this volatility and for raw material and energy costs to be higher than 2009;

- the cellulose acetate tow manufacturing facility and related business in Korea, which was acquired and operational in first quarter 2010, to be fully integrated into the Fibers segment's production and sales processes in 2011;

- to continue to progress with the introduction of its new Eastman TritanTM copolyester product line, which it supplies from the monomer manufacturing facility and its first TritanTM copolyester polymer manufacturing facility in Kingsport, Tennessee;

- to complete the sale of the PET business and related assets and technology of its Performance Polymers segment to DAK Americas, LLC during fourth quarter of 2010 for cash of $600 million before transaction fees and working capital adjustments at closing;

- the acquisition of Genovique Specialties Corporation, a global producer of specialty non-phthalate plasticizers for water-based adhesives and other applications, completed in the second quarter, to be accretive to the Company's full-year earnings per share;

- depreciation and amortization to be slightly higher than 2009 primarily due to expected completion of manufacturing facilities in 2010;

- net interest expense to increase compared with 2009 primarily due to lower capitalized interest and higher average borrowings;

- the effective tax rate to be approximately 34 percent;

- capital spending to be approximately $225 million for required maintenance, discretionary infrastructure projects, and certain strategic growth initiatives;

- pension expense to be slightly higher than 2009, and U.S. defined benefit pension plan funding to be $135 million;

- to generate greater than $300 million of positive free cash flow (operating cash flow excluding the $200 million impact of adoption of amended accounting guidance, less capital expenditures and dividends);

- priorities for uses of available cash to be payment of the quarterly cash dividend, funding targeted growth initiatives (including organic initiatives, joint ventures and acquisitions) and defined benefit pension plans, and repurchasing shares; and

- full year 2010 earnings per share to be greater than $7.00 excluding charges related to restructuring actions.

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

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FORWARD-LOOKING STATEMENTS AND RISK FACTORS

The expectations under "Outlook" and certain other statements in this Quarterly Report on Form 10-Q which are not statements of historical fact may be "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 and other federal securities laws. 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; 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 any 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 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 underlying assumptions are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Actual results could differ materially from expectations expressed in any forward-looking statement if one or more of the underlying assumptions or expectations proves to be inaccurate or is unrealized. In addition to the factors described elsewhere in this report, the following are the most significant known factors that could cause the Company's actual results to differ materially from those in any such forward-looking statement. Additional factors not presently known to the Company, or that the Company does not currently believe to be material, may also cause actual results to differ materially from expectations:

Adverse and uncertain conditions in the global economy and the financial markets could negatively impact the Company.

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 affected by the impact of the recent 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 may experience deterioration of their businesses, cash flow shortages, and difficulty obtaining financing. As a result, existing or potential customers may still delay or cancel plans to purchase products and may not be able to, or may be unwilling to, fulfill their obligations in a timely fashion. Further, suppliers may experience similar conditions, which could impact their ability to fulfill their obligations to the Company. If weakness in the global economy continues for significant future periods or if the global economy or financial markets experience significant new disruptions or deteriorations, the Company's results of operations, financial condition and cash flows could be materially adversely affected and the Company's ability to access the credit and capital markets under attractive rates and terms could be constrained, which may negatively impact the Company's liquidity or ability to pursue certain growth initiatives.

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Volatility in costs for strategic raw material and energy commodities or disruption in the supply of these commodities could adversely affect our financial results.

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. It is unlikely, however, that these risk mitigation measures will eliminate all exposure to market fluctuations. In addition, natural disasters, plant interruptions, changes in laws or regulations, war or other outbreak of hostilities or terrorism, and breakdown or degradation of transportation infrastructure used for delivery of strategic raw material and energy commodities, could adversely impact both the cost and availability of these commodities.

The Company could be materially adversely affected by disruptions to manufacturing operations or related infrastructure.

Significant limitation of the Company's ability to manufacture products due to disruption of manufacturing operations or related infrastructure could have a material adverse affect on sales revenue, costs, results of operations, and financial condition. Disruptions could occur due to internal factors such as computer or equipment malfunction, operator error, or process failures; or external factors such as natural disasters, pandemic illness, changes in laws or regulations, war or other outbreak of hostilities or terrorism, or breakdown or degradation of transportation infrastructure used for delivery of supplies to the Company or for delivery of products to customers.

Loss or financial weakness of the Company's largest customers could adversely affect our financial results.

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.

Growth initiatives may not achieve desired business or financial objectives and may require a significant use of resources.

The Company continues to identify and pursue growth opportunities through both internal development and acquisitions and joint ventures to diversify and extend the portfolio of our businesses. These growth opportunities include development and commercialization of new products and technologies, expansion into new markets and geographic regions, and alliances, ventures, and acquisitions that complement and extend the Company's portfolio of businesses and capabilities. There can be no assurance that such efforts, investments, or acquisitions and alliances will result in financially successful commercialization of products or acceptance by existing or new customers or new markets or achieve their underlying strategic business objectives or that they will be beneficial to the Company's results of operations. There also can be no assurance that 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. Any 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 any proposed investments and projects.

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

Legislative and regulatory actions could increase the Company's future compliance costs.

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 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.

In addition to the foregoing most significant known risk factors to the Company, there may be other factors, not currently known to the Company, which could, in the future, materially adversely affect the Company, its business, financial condition, or results of operations. The foregoing discussion of the most significant risk factors to the Company does not 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 2009 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 September 30, 2010, 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 the third quarter 2010 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, the EPA referred the matter to the United States Department of Justice's Environmental Enforcement Section ("DOJ"). Company representatives have met with the 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 Securities and Exchange Commission 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 of at least $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.

Kingsport (Tennessee) Environmental Proceeding

In September 2010, representatives of the Company met with the Tennessee Department of Environment and Conservation ("TDEC") regarding alleged violations of state air quality regulations by the Company's manufacturing operations in Kingsport, Tennessee. In October 2010, TDEC sent the Company an NOV addressing these alleged violations. Based on the Company's meeting with TDEC and the NOV, the Company has determined that it is not reasonably likely that any civil penalty assessed by TDEC will be less than $100,000. While the Company intends to vigorously defend against these allegations, this disclosure is made pursuant to Securities and Exchange Commission 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 of at least $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 operation, or cash flows.

Franklin (Virginia) Environmental Proceeding

In 2005, the EPA's National Enforcement Investigations Center ("NEIC") conducted a multimedia inspection of the ECR Subsidiary's Franklin manufacturing operation located in Courtland, Virginia. The NEIC's report resulting from that inspection alleges that the Franklin operations violated certain federally enforceable environmental laws and regulations. Based on recent communication with EPA Region III and the DOJ, the Company has 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 Securities and Exchange Commission 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 of at least $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)
July 1 - 31, 2010	273,162	$	54.93	272,900	$	27
August 1 - 31, 2010	0	$	--	0	$	327
September 1 - 30, 2010	0	$	--	0	$	327
Total	273,162	$	54.93	272,900		

(1) Shares repurchased under a Company announced repurchase plan and shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of restricted common stock.

(2) Average price paid per share reflects the weighted average purchase price paid for share repurchases and the closing price of Eastman stock on the business day the shares were surrendered by the employee stockholder to satisfy individual tax withholding.

(3) In August 2010, the Company's Board of Directors authorized an additional repurchase of up to $300 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. The authorization is in addition to the remaining amount available under the previous October 2007 $700 million repurchase authorization of the Company's outstanding common stock. As of September 30, 2010, a total of 10.9 million shares have been repurchased for a total amount of approximately $673 million. For additional information, see Note 13, "Stockholders' Equity", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS

Exhibits filed as part of this report are listed in the Exhibit Index appearing on page 45.

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: November 1, 2010   By: /s/Curtis E. Espeland
Curtis E. Espeland
Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	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 the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010)	
3.02	Amended and Restated Bylaws of Eastman Chemical Company	47-58
4.01	Form of Eastman Chemical Company common stock certificate as amended February 1, 2001 (incorporated herein by reference to Exhibit 4.01 to the 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 the Company's Current Report on Form 8-K dated January 10, 1994)	
4.03	Form of 7 1/4% Debentures due January 15, 2024 (incorporated herein by reference to Exhibit 4(d) to the Company's Current Report on Form 8-K dated January 10, 1994)	
4.04	Officers' Certificate pursuant to Sections 201 and 301 of the Indenture (incorporated herein by reference to Exhibit 4(a) to the Company's Current Report on Form 8-K dated June 8, 1994)	
4.05	Form of 7 5/8% Debentures due June 15, 2024 (incorporated herein by reference to Exhibit 4(b) to the Company's Current Report on Form 8-K dated June 8, 1994)	
4.06	Form of 7.60% Debentures due February 1, 2027 (incorporated herein by reference to Exhibit 4.08 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996)	
4.07	Form of 7% Notes due April 15, 2012 (incorporated herein by reference to Exhibit 4.09 to the 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 Company's Annual Report on Form 10-K for the year ended December 31, 2006)	
4.09	Form of 5.500% Notes due 2019 (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated	

November 2, 2009)

4.10 July 7, 2010 Letter Amendment to $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., as agent. (incorporated herein by reference to Exhibit 4.09 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 [and Exhibit 4.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010)]

4.11 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, as amended on November 16, 2007 and March 10, 2008 (incorporated herein by reference to Exhibit 4.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 and Exhibit 4.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008)

EXHIBIT INDEX

Exhibit Number	Description	Sequential Page Number
4.12	Form of 6.30% Notes due 2018 (incorporated herein by reference to Exhibit 4.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)	
10.01	Form of Award Notice for Stock Options Granted to Executive Officers on November 2, 2010 under the 2007 Omnibus Long-Term Compensation Plan	59-60
10.02	Form of Award Notice for Stock Options Granted to Mark J. Costa, Executive Vice President, Specialty Polymers, Coatings and Adhesives, and Chief Marketing Officer, on November 2, 2010 under the 2007 Omnibus Long-Term Compensation Plan	61-62
10.03	Form of Performance Share Award to Executive Officers under the 2007 Omnibus Long-Term Compensation Plan (2011 – 2013 Performance Period)	63-74
10.04	Form of Performance Share Award to Mark J. Costa, Executive Vice President, Specialty Polymers, Coatings and Adhesives, and Chief Marketing Officer, under the 2007 Omnibus Long-Term Compensation Plan (2011 – 2013 Performance Period)	75-86
12.01	Statement re: Computation of Ratios of Earnings to Fixed Charges	87
31.01	Rule 13a – 14(a) Certification by James P. Rogers, President and Chief Executive Officer, for the quarter ended September 30, 2010	88
31.02	Rule 13a – 14(a) Certification by Curtis E. Espeland, Senior Vice President and Chief Financial Officer, for the quarter ended September 30, 2010	89
32.01	Section 1350 Certification by James P. Rogers, President and Chief Executive Officer, for the quarter ended September 30, 2010	90
32.02	Section 1350 Certification by Curtis E. Espeland, Senior Vice President and Chief Financial Officer, for the quarter ended September 30, 2010	91
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 Presentation Linkbase Document (furnished, not filed)
101.DEF	XBRL Definition Linkbase Document (furnished, not filed)