

EASTMAN CHEMICAL CO
Form 10-Q
November 01, 2011

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

(Mark
One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-12626

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

37662
(Zip Code)

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

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

YES NO

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

YES NO

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

YES NO

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

Class	Number of Shares Outstanding at September 30, 2011
Common Stock, par value \$0.01 per share	137,576,686

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UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS,
COMPREHENSIVE INCOME AND RETAINED EARNINGS

(Dollars in millions, except per share amounts)	Third Quarter		First Nine Months	
	2011	2010	2011	2010
Sales	\$ 1,812	\$ 1,507	\$ 5,455	\$ 4,379
Cost of sales	1,392	1,085	4,139	3,256
Gross profit	420	422	1,316	1,123
Selling, general and administrative expenses	116	114	350	311
Research and development expenses	41	42	116	108
Asset impairments and restructuring charges (gains), net	7	--	(8)	3
Operating earnings	256	266	858	701
Net interest expense	20	25	57	75
Other charges (income), net	(2)	(3)	(14)	11
Earnings from continuing operations before income taxes	238	244	815	615
Provision for income taxes from continuing operations	73	82	258	207
Earnings from continuing operations	165	162	557	408
Earnings from discontinued operations, net of tax	--	8	8	11
Gain from disposal of discontinued operations, net of tax	--	--	31	--
Net earnings	\$ 165	\$ 170	\$ 596	\$ 419
Basic earnings per share				
Earnings from continuing operations	\$ 1.19	\$ 1.13	\$ 3.96	\$ 2.83
Earnings from discontinued operations	--	0.06	0.28	0.08
Basic earnings per share	\$ 1.19	\$ 1.19	\$ 4.24	\$ 2.91
Diluted earnings per share				
Earnings from continuing operations	\$ 1.16	\$ 1.11	\$ 3.86	\$ 2.77
Earnings from discontinued operations	--	0.05	0.27	0.08
Diluted earnings per share	\$ 1.16	\$ 1.16	\$ 4.13	\$ 2.85
Comprehensive Income				
Net earnings	\$ 165	\$ 170	\$ 596	\$ 419
Other comprehensive income (loss), net of tax				
Change in cumulative translation adjustment	(36)	28	--	7
	7	2	13	11

Change in unrecognized losses and prior service credits for benefit plans				
Change in unrealized (losses) gains on derivative instruments	5	(33)	(28)	(25)
Total other comprehensive income (loss), net of tax	(24)	(3)	(15)	(7)
Comprehensive income	\$ 141	\$ 167	\$ 581	\$ 412

Retained Earnings				
Retained earnings at beginning of period	\$ 3,243	\$ 2,755	\$ 2,879	\$ 2,570
Net earnings	165	170	596	419
Cash dividends declared	(36)	(32)	(103)	(96)
Retained earnings at end of period	\$ 3,372	\$ 2,893	\$ 3,372	\$ 2,893

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in millions, except per share amounts)	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 448	\$ 516
Short-term time deposits	201	--
Trade receivables, net	711	545
Miscellaneous receivables	95	131
Inventories	850	608
Other current assets	49	30
Current assets held for sale	--	217
Total current assets	2,354	2,047
Properties		
Properties and equipment at cost	8,303	7,908
Less: Accumulated depreciation	5,245	5,063
Properties and equipment held for sale, net	--	374
Net properties	3,058	3,219
Goodwill	410	375
Other noncurrent assets	361	322
Noncurrent assets held for sale	--	23
Total assets	\$ 6,183	\$ 5,986
Liabilities and Stockholders' Equity		
Current liabilities		
Payables and other current liabilities	\$ 1,047	\$ 1,012
Borrowings due within one year	154	6
Current liabilities related to assets held for sale	--	52
Total current liabilities	1,201	1,070
Long-term borrowings	1,445	1,598
Deferred income tax liabilities	241	284
Post-employment obligations	1,243	1,274
Other long-term liabilities	144	130
Noncurrent liabilities related to assets held for sale	--	3
Total liabilities	4,274	4,359
Stockholders' equity		
Common stock (\$0.01 par value – 350,000,000 shares authorized; shares issued – 196,334,654 and 193,688,890 for 2011 and 2010, respectively)	2	2
Additional paid-in capital	888	793
Retained earnings	3,372	2,879
Accumulated other comprehensive loss	(447)	(432)
	3,815	3,242

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Less: Treasury stock at cost (58,877,984 shares for 2011 and 52,345,308 shares for 2010)	1,906	1,615
Total stockholders' equity	1,909	1,627
Total liabilities and stockholders' equity	\$ 6,183	\$ 5,986

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

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	First Nine Months	
	2011	2010
Cash flows from operating activities		
Net earnings	\$ 596	\$ 419
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	204	212
Gain on sale of assets	(70)	--
Provision (benefit) for deferred income taxes	(18)	52
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in trade receivables	(147)	(397)
(Increase) decrease in inventories	(225)	(100)
Increase (decrease) in trade payables	34	56
Increase (decrease) in liabilities for employee benefits and incentive pay	(108)	9
Other items, net	7	46
Net cash provided by operating activities	273	297
Cash flows from investing activities		
Additions to properties and equipment	(333)	(133)
Proceeds from sale of assets and investments	651	11
Acquisitions and investments in joint ventures	(154)	(189)
Additions to short-term time deposits	(200)	--
Additions to capitalized software	(7)	(5)
Other items, net	27	(7)
Net cash used in investing activities	(16)	(323)
Cash flows from financing activities		
Net increase in commercial paper, credit facility, and other borrowings	1	1
Repayment of borrowings	(2)	(4)
Dividends paid to stockholders	(100)	(96)
Treasury stock purchases	(292)	(68)
Proceeds from stock option exercises and other items, net	67	41
Net cash used in financing activities	(326)	(126)
Effect of exchange rate changes on cash and cash equivalents	1	1
Net change in cash and cash equivalents	(68)	(151)
Cash and cash equivalents at beginning of period	516	793
Cash and cash equivalents at end of period	\$ 448	\$ 642

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

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by Eastman Chemical Company (the "Company" or "Eastman") in accordance and consistent with the accounting policies stated in the Company's 2010 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 2010 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 full year 2010 Statements of Consolidated Financial Position and first nine months 2010 Unaudited Consolidated Statements of Cash Flows. For additional information, refer to Notes 7, "Borrowings", and 10, "Commitments".

The Company held \$201 million of short-term time deposits as of September 30, 2011. These investments had staggered maturities between three and ten months at the investment date, which exceeded the 90 day threshold for classification as cash or cash equivalents.

On August 5, 2011, the Company's Board of Directors declared a two-for-one split of the Company's common stock in the form of a 100 percent stock dividend. Stockholders of record as of September 15, 2011 were issued one additional share of common stock on October 3, 2011 for each share held. Treasury shares were treated as shares outstanding in the stock split. All shares and per share amounts in this Quarterly Report on Form 10-Q have been adjusted for all periods presented for the stock split. For additional information, see Note 14, "Earnings and Dividends Per Share".

2. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

On January 31, 2011, the Company completed the sale of the polyethylene terephthalate ("PET") business, related assets at the Columbia, South Carolina site, and technology of its Performance Polymers segment for \$615 million and recognized a gain of approximately \$30 million, net of tax. The Company contracted with the buyer for transition services to supply certain raw materials and services for a period of less than one year. Transition supply agreement revenues of approximately \$220 million, relating to raw materials, were more than offset by costs and reported net in cost of sales. The PET business, assets, and technology sold were substantially all of the Performance Polymers segment and therefore the segment operating results are presented as discontinued operations for all periods presented and are not included in results from continuing operations. The assets and liabilities of this business were reclassified as assets held for sale as of December 31, 2010.

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

Third Quarter

First Nine Months

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(Dollars in millions)	2011	2010	2011	2010
Sales	\$ --	\$ 222	\$ 105	\$ 638
Earnings before income taxes	--	14	15	18
Earnings from discontinued operations, net of tax	--	8	8	11
Gain from disposal of discontinued operations, net of tax	--	--	31	--

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Assets and liabilities of the discontinued operations classified as held for sale as of December 31, 2010 are summarized below:

(Dollars in millions)	December 31, 2010
Current assets	
Trade receivables, net	\$ 116
Inventories	101
Total current assets held for sale	217
Non-current assets	
Properties and equipment, net	374
Goodwill	1
Other noncurrent assets	22
Total noncurrent assets held for sale	397
Total assets	\$ 614
Current liabilities	
Payables and other current liabilities	\$ 52
Total current liabilities held for sale	52
Noncurrent liabilities	
Other noncurrent liabilities	3
Total noncurrent liabilities held for sale	3
Total liabilities	\$ 55

3. ACQUISITIONS AND INVESTMENTS IN JOINT VENTURES

Sterling Chemicals, Inc. and Scandiflex do Brasil S.A. Indústrias Químicas

During third quarter 2011, the Company completed two acquisitions in the Performance Chemicals and Intermediates ("PCI") segment. On August 9, 2011, Eastman acquired Sterling Chemicals, Inc. ("Sterling"), a single site North American petrochemical producer, to produce non-phthalate plasticizers, including Eastman 168™ non-phthalate plasticizers, and acetic acid. On September 1, 2011, Eastman acquired Scandiflex do Brasil S.A. Indústrias Químicas ("Scandiflex"), a manufacturer of plasticizers located in São Paulo, Brazil. The total purchase price for both acquisitions was \$133 million, including a post-closure payment of \$10 million to the previous shareholders of Scandiflex. Transaction costs of \$4 million associated with the acquisitions were expensed as incurred. The table below shows the preliminary fair value purchase price allocation for the acquisitions:

	Dollars in millions
Current assets	\$ 35
Properties and equipment	129
Intangible assets	11
Other noncurrent assets	18

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Goodwill		33
Current liabilities		(23)
Long-term liabilities		(70)
Total purchase price	\$	133

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Acquired intangible assets primarily relate to perpetual air emission credits which management has assigned indefinite lives. Goodwill, which represents the excess of the purchase price over the net tangible and intangible assets acquired and liabilities assumed, was primarily for the Scandiflex acquisition and was attributed to the benefits of access to Brazilian markets and also the synergies between the acquired companies and Eastman. Long-term liabilities primarily include Sterling pension and other postretirement welfare plan obligations, as well as Scandiflex contingent liabilities for environmental and other contingencies. In connection with the Sterling acquisition, Sterling's debt was repaid at closing and therefore not included in the above purchase price allocation.

Other 2011 Acquisitions and Investments in Joint Ventures

On July 1, 2011, the Company completed the acquisition of Dynaloy, LLC, a producer of formulated solvents. The acquisition was accounted for as a business combination and is reported in the Coatings, Adhesives, Specialty Polymers, and Inks ("CASPI") segment. Dynaloy adds materials science capabilities that are expected to complement growth of the CASPI segment's electronic materials product line. Also in 2011, the Company entered into a joint venture in China for a 30,000-ton acetate tow manufacturing facility, expected to be operational in 2013.

Genovique Specialties Corporation

On April 30, 2010, Eastman completed the stock purchase of Genovique Specialties Corporation ("Genovique"), which was accounted for as a business combination. The acquired business is a global producer of specialty plasticizers, benzoic acid, and sodium benzoate. This acquisition included Genovique's manufacturing operations in Kohtla-Järve, Estonia and 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 the PCI segment and enhanced 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 final 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 consisted of \$44 million in established customer relationships, \$14 million in trademarks, and \$1 million in developed technology. The customer relationships and developed technology intangible assets have remaining useful lives of 16 and 7 years, respectively. Trademarks 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.

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 was 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 determined the final 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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. INVENTORIES

(Dollars in millions)	September 30, 2011	December 31, 2010
At FIFO or average cost (approximates current cost)		
Finished goods	\$ 773	\$ 611
Work in process	242	206
Raw materials and supplies	402	281
Total inventories	1,417	1,098
LIFO Reserve	(567)	(490)
Total inventories	\$ 850	\$ 608

Inventories valued on the LIFO method were approximately 70 percent of total inventories as of both September 30, 2011 and December 31, 2010.

5. PAYABLES AND OTHER CURRENT LIABILITIES

(Dollars in millions)	September 30, 2011	December 31, 2010
Trade creditors	\$ 615	\$ 569
Accrued payrolls, vacation, and variable-incentive compensation	118	166
Accrued taxes	38	44
Post-employment obligations	57	62
Interest payable	25	21
Other	194	150
Total payables and other current liabilities	\$ 1,047	\$ 1,012

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

6. PROVISION FOR INCOME TAXES

(Dollars in millions)	Third Quarter		First Nine Months	
	2011	2010	2011	2010
Provision for income taxes	\$ 73	\$ 82	\$ 258	\$ 207
Effective tax rate	31 %	34 %	32 %	34 %

The first nine months 2011 effective tax rate includes an \$8 million tax benefit recognized due to an increased level of capital investment which qualified for additional state tax credits. The Company expects the full year tax rate on reported earnings from continuing operations before income tax to be approximately 32 percent.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7. BORROWINGS

(Dollars in millions)	September 30, 2011	December 31, 2010
Borrowings consisted of:		
7% notes due 2012	\$ 149	\$ 151
3% debentures due 2015	250	250
6.30% notes due 2018	176	178
5.5% notes due 2019	250	250
4.5% debentures due 2021	250	250
7 1/4% debentures due 2024	243	243
7 5/8% debentures due 2024	54	54
7.60% debentures due 2027	222	222
Credit facility borrowings	--	--
Other	5	6
Total borrowings	1,599	1,604
Borrowings due within one year	(154)	(6)
Long-term borrowings	\$ 1,445	\$ 1,598

The increase in borrowings due within one year was primarily a result of reclassification of the 7% notes due 2012 from long-term to short-term.

At September 30, 2011, the Company had a \$700 million revolving credit facility (the "Credit Facility") in two tranches, with \$125 million expiring in April 2012 and \$575 million expiring in April 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 requirement to maintain compliance with certain financial ratios. The Company was in compliance with all such covenants for all periods presented. At September 30, 2011 and December 31, 2010, the Company had no outstanding borrowings under the Credit Facility. The Credit Facility provides liquidity support for general corporate purposes.

At September 30, 2011, 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 2011. 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, as well as the requirement to maintain compliance with certain financial ratios. The Company was in compliance with all such covenants for all periods presented. At September 30, 2011 and December 31, 2010, the Company had no outstanding borrowings under the A/R Facility.

Fair Value of Borrowings

The fair value for fixed-rate borrowings is based on current interest rates for comparable securities. The Company's floating-rate borrowings approximate fair value.

(Dollars in millions)	September 30, 2011 Fair Value	December 31, 2010 Fair Value
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	Recorded Amount		Recorded Amount		Recorded Amount		
Long-term borrowings	\$ 1,445	\$	1,589	\$	1,598	\$	1,688

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

8. DERIVATIVES

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 when appropriate 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 12, "Derivatives", to the consolidated financial statements in Part II, Item 8 of the Company's 2010 Annual Report on Form 10-K.

Fair Value Hedges

Fair value hedges are defined as derivative or non-derivative instruments designated as and used to hedge the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. As of September 30, 2011, the Company had no fair value hedges. As of December 31, 2010, the Company had fair value hedges in the form of interest rate swaps with a total notional amount of \$146 million.

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.

As of September 30, 2011, the total notional amounts of the Company's foreign exchange forward and option contracts were €548 million (approximately \$735 million equivalent) and ¥14.6 billion (approximately \$195 million equivalent), the total notional volume hedged for energy was approximately 2 million mmbtu (million british thermal units), and the total notional volume hedged for feedstock was approximately 2 million barrels. Additionally, at September 30, 2011, the total notional value of the interest rate swaps for the future issuance of debt ("forward starting interest rate swaps") was \$300 million.

As of December 31, 2010, the total notional amounts of the Company's foreign exchange forward and option contracts were €354 million (approximately \$475 million equivalent) and ¥12.8 billion (approximately \$160 million equivalent), the total notional volume hedged for energy was approximately 4 million mmbtu, and the total notional volume hedged for feedstock was approximately 1 million barrels. Additionally, at December 31, 2010, the total notional value of the forward starting interest rate swaps was \$300 million.

Fair Value Measurements

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For additional information on fair value measurement, see Note 1, "Significant Accounting Policies" to the consolidated financial statements in Part II, Item 8 of the Company's 2010 Annual Report on Form 10-K.

The Company has determined that its derivative assets and liabilities are level 2 in the fair value hierarchy. The following chart shows the financial assets and liabilities valued on a recurring basis and their location in the Statement of Financial Position. The Company currently has no nonqualifying derivatives or derivatives that are not designated as hedges.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Derivatives Designated as Hedging Instruments

(Dollars in millions)

Derivative Assets	Statement of Financial Position Location	Fair Value Measurements Significant Other Observable Inputs (Level 2)	
		September 30, 2011	December 31, 2010
Fair Value Hedges			
Interest rate swaps	Other noncurrent assets	\$ --	\$ 2
Cash Flow Hedges			
Commodity contracts	Other current assets	--	4
Foreign exchange contracts	Other current assets	30	23
Foreign exchange contracts	Other noncurrent assets	17	12
Forward starting interest rate swap contracts	Other current assets	--	4
		\$ 47	\$ 45

(Dollars in millions)

Derivative Liabilities	Statement of Financial Position Location	Fair Value Measurements Significant Other Observable Inputs (Level 2)	
		September 30, 2011	December 31, 2010
Cash Flow Hedges			
Commodity contracts	Payables and other current liabilities	\$ 5	\$ 2
Foreign exchange contracts	Payables and other current liabilities	8	6
Foreign exchange contracts	Other long-term liabilities	10	9
Forward starting interest rate swap contracts	Payables and other current liabilities	43	--
		\$ 66	\$ 17

The fair value of the Company's derivative assets is based on estimates using standard pricing models. These standard pricing models use inputs which are derived from or corroborated by observable market data such as interest rate yield curves and currency spot and forward rates. The fair value of commodity contracts is derived using forward curves supplied by an industry recognized and unrelated third party. In addition, on an ongoing basis, the Company tests a subset of its valuations against valuations received from the transaction's counterparty to validate the accuracy of its standard pricing models. Counterparties to these derivative contracts are highly rated financial institutions which the Company believes carry only a minimal risk of nonperformance.

Derivatives' Hedging Relationships

Third Quarter

(Dollars in millions)	Amount after tax of gain/ (loss) recognized in Other	Location of gain/(loss)	Pre-tax amount of gain/(loss) reclassified from Accumulated Other
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Derivatives' Cash Flow Hedging Relationships	Comprehensive Income on derivatives (effective portion)		reclassified from Accumulated Other Comprehensive Income into income (effective portion) Cost of sales	Comprehensive Income into income (effective portion)	
	September 30, 2011	September 30, 2010		September 30, 2011	September 30, 2010
Commodity contracts	\$ (3)	\$ 6		\$ --	\$ (2)
Foreign exchange contracts	31	(30)	Sales	(2)	11
Forward starting interest rate swap contracts	(23)	(9)			
	\$ 5	\$ (33)		\$ (2)	\$ 9

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

First Nine Months

(Dollars in millions)	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, 2011	September 30, 2010		September 30, 2011	September 30, 2010
Derivatives' Cash Flow Hedging Relationships					
Commodity contracts	\$ (4)	\$ (6)	Cost of sales	\$ 5	\$ 2
Foreign exchange contracts	6	(7)	Sales	(5)	34
Forward starting interest rate swap contracts	(30)	(12)			
	\$ (28)	\$ (25)		\$ --	\$ 36

For nine months ended September 30, 2011 and September 30, 2010, there was no material ineffectiveness with regard to the Company's qualifying hedges.

Hedging Summary

At September 30, 2011 and 2010, monetized positions and mark-to-market gains and losses from raw materials and energy, currency, and certain interest rate hedges that were included in accumulated other comprehensive income before taxes totaled approximately \$18 million in losses and \$3 million in gains, respectively. If realized, approximately \$13 million in gains in third quarter 2011 will be reclassified into earnings during the next 12 months, primarily related to foreign exchange contracts. Ineffective portions of hedges are immediately recognized in cost of sales or other charges (income), net. There were no material gains or losses related to the ineffective portion of hedges recognized in 2011 or 2010.

The gains or losses on nonqualifying derivatives or derivatives that are not designated as hedges are marked to market in the line item "Other charges (income), net" of the Statements of Earnings, and, in all periods presented, represent foreign exchange derivatives denominated in multiple currencies. The Company recognized approximately \$3 million net gain and \$11 million net loss on nonqualifying derivatives during third quarter 2011 and 2010, respectively. The Company recognized approximately \$1 million net loss and \$4 million net gain on nonqualifying derivatives during first nine months 2011 and 2010, respectively.

9. RETIREMENT PLANS

Eastman offers various postretirement benefits to its employees.

DEFINED BENEFIT PENSION PLANS AND POSTRETIREMENT WELFARE PLANS

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.

Postretirement Welfare Plans:

Eastman provides a subsidy toward life insurance, health care, and dental benefits for eligible retirees hired prior to January 1, 2007, and a subsidy toward health care and dental benefits for retirees' eligible survivors. In general, Eastman provides those benefits to retirees eligible under the Company's U.S. plans.

Eligible employees hired on or after January 1, 2007 have access to postretirement health care benefits, but Eastman does not provide a subsidy toward the premium cost of postretirement benefits for those employees. A few of the Company's non-U.S. operations have supplemental health benefit plans for certain retirees, the cost of which is not significant to the Company.

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.

Components of net periodic benefit cost were as follows:

(Dollars in millions)	Third Quarter				First Nine Months			
	Pension Plans		Postretirement Welfare Plans		Pension Plans		Postretirement Welfare Plans	
	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	\$ 11	\$ 11	\$ 3	\$ 2	\$ 34	\$ 33	\$ 7	\$ 7
Interest cost	22	21	11	11	64	63	33	33
Expected return on assets	(28)	(24)	(1)	(1)	(82)	(77)	(2)	(2)
Curtailment gain (1)	--	--	--	--	--	--	(5)	--
Settlement charge	3	--	--	--	3	--	--	--
Amortization of:								
Prior service credit	(3)	(4)	(6)	(6)	(10)	(12)	(16)	(18)
Actuarial loss	14	10	4	4	41	32	11	10
Net periodic benefit cost	\$ 19	\$ 14	\$ 11	\$ 10	\$ 50	\$ 39	\$ 28	\$ 30

(1) Includes \$5 million gain for the Performance Polymers segment that was sold January 31, 2011 and is included in discontinued operations. For more information, see Note 2, "Discontinued Operations and Assets Held for Sale."

Third quarter and first nine months 2011 reflects the impact on the U.S. defined benefit pension plan and the other postretirement welfare plan of the Sterling acquisition described in Note 3, "Acquisitions and Investments in Joint Ventures".

The Company contributed \$102 million and \$35 million to its U.S. defined benefit pension plans in first nine months 2011 and 2010, respectively.

10. COMMITMENTS

Purchase Obligations and Lease Commitments

At September 30, 2011, the Company had various purchase obligations totaling approximately \$1.4 billion over a period of approximately 15 years for materials, supplies, and energy incident to the ordinary conduct of business. The Company also had various lease commitments for property and equipment under cancelable, noncancelable, and month-to-month operating leases totaling \$101 million over a period of several years. Of the total lease commitments, approximately 20 percent relate to machinery and equipment, including computer and communications equipment and production equipment; approximately 40 percent relate to real property, including office space, storage facilities and land; and approximately 40 percent relate to railcars.

Accounts Receivable Securitization Program

Effective January 1, 2010, the Company adopted amended accounting guidance for transfers of financial assets which impacts the financial statement presentation for activity under the Company's \$200 million accounts receivable securitization program. Beginning for periods after December 31, 2009, transfers of receivables interests that were previously treated as sold and removed from the balance sheet will be included in trade receivables, net and reflected as secured borrowings on the balance sheet. The Company's Statement of Financial Position at December 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 be accounted for as secured borrowings and disclosed in Note 7, "Borrowings".

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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, 2011 totaled \$184 million and consisted primarily of leases for railcars and company aircraft. Leases with guarantee amounts totaling \$139 million and \$45 million will expire in 2012 and 2016 and beyond, respectively. The Company believes, based on current facts and circumstances, that the likelihood of material residual guarantee payments is remote.

Variable Interest Entities

Accounting guidance on the consolidation of Variable Interest Entities ("VIEs") is effective for all VIEs or potential VIEs with which the Company is involved 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 guidance and concluded that the entities involved in these relationships are not VIEs or, in the case of Primester, a joint venture that manufactures cellulose acetate at the Company's Kingsport, Tennessee plant, the Company has shared control of the VIE. As such, the Company is not required to consolidate these entities.

11. 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 2010 Annual Report on Form 10-K. Because of expected sharing of costs, the availability of legal defenses, and the Company's preliminary assessment of actions that may be required, management does not believe that the Company's liability for these environmental matters, individually or in the aggregate, will be material to the Company's consolidated financial position, results of operations or cash flows. The Company's total reserve for environmental contingencies was \$39 million and \$40 million at September 30, 2011 and December 31, 2010, respectively.

Estimated future environmental expenditures for remediation costs range from the minimum or best estimate of \$12 million to the maximum of \$29 million at September 30, 2011, and from the minimum or best estimate of \$10 million to the maximum of \$27 million at December 31, 2010. The best estimate accrued to date over the facilities' estimated useful lives for asset retirement obligation costs are \$27 million and \$30 million at September 30, 2011 and December 31, 2010, respectively.

During third quarter 2011, as described in Note 3, "Acquisitions and Investments in Joint Ventures" the Company completed the acquisitions of Sterling and Scandiflex, resulting in a \$4 million increase to the reserve for environmental contingencies consisting of an additional \$1 million in asset retirement obligation costs and a minimum or best estimate of \$3 million to a maximum of \$4 million of estimated future environmental expenditures for remediation.

The Company completed the sale of the PET business on January 31, 2011. As a result, \$3 million in asset retirement obligation costs were divested.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

12. 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.

13. STOCKHOLDERS' EQUITY

A reconciliation of the changes in stockholders' equity for first nine months 2011 is provided below:

(Dollars in millions)	Common Stock at		Accumulated Other		Treasury	Total
	Par Value	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Stock at Cost	Stockholders' Equity
	\$	\$	\$	\$	\$	\$
Balance at December 31, 2010 (1)	2	793	2,879	(432)	(1,615)	1,627
Net Earnings	--	--	596	--	--	596
Cash Dividends Declared (2)	--	--	(103)	--	--	(103)
Other Comprehensive Income (Loss)	--	--	--	(15)	--	(15)
Share-Based Compensation Expense (3)	--	29	--	--	--	29
Stock Option Exercises	--	58	--	--	--	58
Other (4)	--	8	--	--	1	9
Stock Repurchases	--	--	--	--	(292)	(292)
Balance at September 30, 2011	2	888	3,372	(447)	(1,906)	1,909

(1) Common Stock at Par Value and Retained Earnings have been adjusted for the two-for-one stock split on October 3, 2011. For additional information, see Note 1, "Basis of Presentation" and Note 14, "Earnings and Dividends Per Share".

(2) Includes cash dividends declared, but unpaid.

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

(4) 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

Unrecognized Losses and	Unrealized Gains	Accumulated Other
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(Dollars in millions)	Cumulative Translation Adjustment	Prior Service Credits for Benefit Plans	(Losses) on Derivative Instruments	Unrealized Losses on Investments	Comprehensive Income (Loss)
	\$	\$	\$	\$	\$
Balance at December 31, 2009	77	(488)	27	(1)	(385)
Period change	2	(39)	(10)	--	(47)
Balance at December 31, 2010	79	(527)	17	(1)	(432)
Period change	--	13	(28)	--	(15)
Balance at September 30, 2011	79	(514)	(11)	(1)	(447)

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	
	2011	2010	2011	2010
Shares used for earnings per share calculation (in millions):				
Basic	139.1	143.8	140.6	144.3
Diluted	142.4	146.6	144.1	147.2

On August 5, 2011, the Company's Board of Directors declared a two-for-one split of the Company's common stock. The stock split was in the form of a 100 percent stock dividend and was distributed on October 3, 2011 to stockholders of record as of September 15, 2011. Stockholders were issued one additional share for each share owned. Treasury shares were treated as shares outstanding in the stock split. All shares and per share amounts in this Quarterly Report on Form 10-Q have been adjusted for all periods presented for the stock split.

In third quarter 2011, common shares underlying options to purchase 161,800 shares of common stock 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. In first nine months 2011, there were no outstanding options to purchase shares of common stock excluded from the computation of diluted earnings per share. Third quarter and first nine months 2011 reflect the impact of share repurchases of 6.6 million shares.

In third quarter and first nine months 2010, common shares underlying options to purchase 1,179,170 shares of common stock and 1,392,370 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 2.3 million shares.

The Company declared cash dividends of \$0.26 and \$0.22 per share in third quarter 2011 and 2010, respectively and \$0.73 and \$0.66 per share in first nine months 2011 and 2010, respectively.

15. ASSET IMPAIRMENTS AND RESTRUCTURING CHARGES (GAINS), NET

In third quarter 2011, there were \$7 million in restructuring charges primarily for severance associated with the acquisition and integration of Sterling. In second quarter 2011, there was a \$15 million gain from the sale of the previously impaired methanol and ammonia assets related to the terminated Beaumont, Texas industrial gasification project.

In second quarter 2010, there were \$3 million in restructuring charges primarily for severance associated with the acquisition and integration of Genovique.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

The following table summarizes the beginning reserves, charges to and changes in estimates to the reserves as described above, and the cash and non-cash reductions to the reserves attributable to asset impairments and the cash payments for severance and site closure costs for full year 2010 and first nine months 2011:

(Dollars in millions)	Balance at January 1, 2010	Provision/ Adjustments	Non-cash Reductions	Cash Reductions	Balance at December 31, 2010
Non-cash charges	\$ --	\$ 8	\$ (8)	\$ --	--
Severance costs	3	18	--	(6)	15
Site closure and other restructuring costs	6	3	(3)	--	6
Total	\$ 9	\$ 29	\$ (11)	\$ (6)	21

	Balance at January 1, 2011	Provision/ Adjustments	Non-cash Reductions	Cash Reductions	Balance at September 30, 2011
Non-cash charges	\$ --	\$ (15)	\$ 15	\$ --	--
Severance costs	15	7	--	(16)	6
Site closure and other restructuring costs	6	--	--	--	6
Total	\$ 21	\$ (8)	\$ 15	\$ (16)	12

16. 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 2011 and 2010, approximately \$9 million and \$6 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 2011 and 2010 net earnings of approximately \$5 million and \$4 million, respectively, is net of deferred tax expense related to share-based award compensation for each period.

In first nine months 2011 and 2010, \$28 million and \$16 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 2011 and 2010 net earnings of \$17 million and \$10 million, respectively, is net of deferred tax expense related to share-based award compensation.

For additional information regarding share-based compensation plans and awards, see Note 21, "Share-Based Compensation Plans and Awards", to the consolidated financial statements in Part II, Item 8 of the Company's 2010 Annual Report on Form 10-K.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

(Dollars in millions)	First Nine Months	
	2011	2010
Current assets	\$ 13	\$ --
Other assets	3	6
Current liabilities	(16)	34
Long-term liabilities and equity	7	6
Total	\$ 7	\$ 46

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.

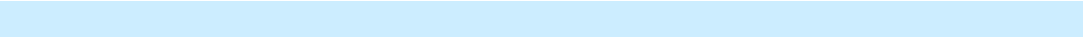
18. SEGMENT INFORMATION

The Company's products and operations are managed and reported in four reportable operating segments, consisting of the CASPI segment, the Fibers segment, the PCI segment, and the Specialty Plastics segment. For additional information concerning the Company's segments' businesses and products, see Note 23, "Segment Information", to the consolidated financial statements in Part II, Item 8 of the Company's 2010 Annual Report on Form 10-K.

Research and development and other expenses and asset impairments and restructuring charges (gains), net, 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 earnings (loss).

(Dollars in millions)	Third Quarter	
	2011	2010
Sales		
CASPI	\$ 461	\$ 406
Fibers	334	301
PCI	740	534
Specialty Plastics	277	266
Total Sales	\$ 1,812	\$ 1,507

(Dollars in millions)	First Nine Months	
	2011	2010
Sales		
CASPI	\$ 1,419	\$ 1,195
Fibers	955	842
PCI	2,163	1,557
Specialty Plastics	918	785



Total Sales	\$	5,455	\$	4,379
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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	Third Quarter	
	2011	2010
Operating Earnings (Loss)		
CASPI	\$ 82	\$ 89
Fibers	92	89
PCI (1)	71	74
Specialty Plastics	29	29
Total Operating Earnings by Segment	274	281
Other	(18)	(15)
Total Operating Earnings	\$ 256	\$ 266

- (1) Third quarter 2011 includes \$7 million in restructuring charges primarily for severance associated with the acquisition and integration of Sterling. See Note 15, "Asset Impairments and Restructuring Charges (Gains), Net" for additional information.

(Dollars in millions)	First Nine Months	
	2011	2010
Operating Earnings (Loss)		
CASPI	\$ 279	\$ 246
Fibers	266	248
PCI (1)	247	177
Specialty Plastics	96	69
Total Operating Earnings by Segment	888	740
Other (2)	(30)	(39)
Total Operating Earnings	\$ 858	\$ 701

- (1) First nine months 2011 includes \$7 million in restructuring charges primarily for severance associated with the acquisition and integration of Sterling. First nine months 2010 includes restructuring charges of \$3 million, primarily for severance. See Note 15, "Asset Impairments and Restructuring Charges (Gains), Net" for additional information.

- (2) First nine months 2011 includes a \$15 million gain from the sale of the previously impaired methanol and ammonia assets related to the terminated Beaumont, Texas industrial gasification project. See Note 15, "Asset Impairments and Restructuring Charges (Gains), Net" for additional information.

(Dollars in millions)	September	December
	30, 2011	31, 2010
Assets by Segment (1)		
CASPI	\$ 1,416	\$ 1,280
Fibers	924	874
PCI	1,524	1,235
Specialty Plastics	1,205	1,017
Total Assets by Segment	5,069	4,406
Corporate Assets	1,114	966
Assets Held for Sale (2)	--	614

Total Assets \$ 6,183 \$ 5,986

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

(2)
For information regarding assets held for sale, see Note 2, "Discontinued Operations and Assets Held for Sale".

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

19. RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2011, the Financial Accounting Standards Board ("FASB") issued amended accounting guidance related to fair value measurements and disclosures with the purpose of converging the fair value measurement and disclosure guidance issued by the FASB and the International Accounting Standards Board. The guidance is effective for reporting periods beginning after December 15, 2011. The guidance includes amendments that clarify the intent of the application of existing fair value measurement requirements along with amendments that change a particular principle or requirement for fair value measurements and disclosures. The Company has concluded that the new guidance will not have a material impact on its Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings, Consolidated Statements of Financial Position, or related disclosures.

In June 2011, the FASB issued amended accounting guidance related to presentation of comprehensive income. The standards update is intended to help financial statement users better understand the causes of an entity's change in financial position and results of operation. It is effective for reporting periods beginning after December 15, 2011. The amendments eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance also requires that reclassification adjustments for items that are reclassified from other comprehensive income to net income be presented on the face of the financial statement where the components of net income and other comprehensive income are presented. Upon adoption, the Company will continue to present components of comprehensive income in its Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings. These statements will include reclassification adjustments as required by the new guidance for all periods presented. Since this new guidance will affect disclosure requirements only, the Company has concluded that it will not have a material impact on the Company's financial position or results of operations.

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

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This Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the consolidated financial statements for Eastman Chemical Company ("Eastman" or the "Company"), which have been prepared in accordance with accounting principles generally accepted ("GAAP") in the United States, and should be read in conjunction with the Company's 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 2010 Annual Report on Form 10-K, and the Company's unaudited consolidated financial statements, including related notes, included elsewhere in this Quarterly Report on Form 10-Q. All references to earnings per share ("EPS") contained in this report are diluted earnings per share unless otherwise noted.

On January 31, 2011, the Company completed the sale of the polyethylene terephthalate ("PET") business, related assets at the Columbia, South Carolina site, and technology of its Performance Polymers segment for \$615 million and recognized a gain of approximately \$30 million, net of tax. The Company contracted with the buyer for transition services to supply certain raw materials and services for a period of less than one year. The PET business, assets, and technology sold were substantially all of the Performance Polymers segment. Performance Polymers segment operating results are presented as discontinued operations for all periods presented and are therefore not included in results from continuing operations in accordance with U.S. GAAP. The assets and liabilities of this business were reclassified as assets held for sale as of December 31, 2010. The sale is not expected to impact product lines in the Specialty Plastics segment. For additional information, see Note 2, "Discontinued Operations and Assets Held for Sale", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In third quarter 2011, the Company's Board of Directors declared a two-for-one split of the Company's common stock, distributed October 3, 2011 in the form of a 100 percent stock dividend. All shares and per share amounts in this

Quarterly Report on Form 10-Q have been adjusted for all periods presented for the stock split. For additional information, see Note 14, "Earnings and Dividends Per Share" to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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

CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated financial statements in conformity with GAAP, the Company's management must make decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and assumptions on which to base estimates and judgments that affect the reported amounts of assets, liabilities, sales revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to allowances for doubtful accounts, impairment of long-lived assets, environmental costs, 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 2010 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, Company earnings from continuing operations, and diluted earnings per share excluding the asset impairments and restructuring charges (gains), net, described below; and
- Cash flows from operating activities excluding the impact of adoption of amended accounting guidance for transfers of financial assets and the impact of tax payment for the gain on the sale of the PET business, described below.

In third quarter and first nine months 2011, there were \$7 million in restructuring charges primarily for severance associated with the acquisition and integration of Sterling Chemicals, Inc. ("Sterling"). In addition, in first nine months 2011, there was a \$15 million gain from the sale of the previously impaired methanol and ammonia assets related to the terminated Beaumont, Texas industrial gasification project.

In first nine months 2011, cash flows included the use of \$83 million of a total anticipated \$110 million tax payment for the tax gain on the sale of the PET business completed in first quarter 2011.

In first nine months 2010, there were \$3 million in restructuring charges, primarily for severance associated with the acquisition and integration of Genovique Specialties Corporation ("Genovique").

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

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

For evaluation and analysis of ongoing business results and of the impact on the Company and its 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 (gains), net. 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 these items. In addition, management believes that cash provided by and used in operating activities should be considered both with and without the impact of adoption of amended accounting guidance for transfers of financial assets and tax payments for the gain on the sale of the PET business. Management utilizes these measures to evaluate its operating results, cash flows, and 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.

OVERVIEW

The Company generated sales revenue of \$1.8 billion and \$1.5 billion in third quarter 2011 and 2010, respectively. The increase in sales revenue was primarily due to higher selling prices which were in response to higher raw material and energy costs.

The Company generated sales revenue of \$5.5 billion and \$4.4 billion in first nine months 2011 and 2010, respectively. Sales revenue increases were due to higher selling prices and higher sales volume. The higher selling prices were in response to higher raw material and energy costs and were also attributed to strengthened demand, particularly in the U.S., and tight industry supply. The higher sales volume was primarily due to growth in plasticizer product lines, the fourth quarter 2010 restart of a previously idled olefin cracking unit at the Longview, Texas facility, and strengthened end-use demand primarily in the packaging and transportation markets. The increase was also due to growth initiatives including the increased utilization of the Korean acetate tow manufacturing facility and the Eastman Tritan™ copolyester resin manufacturing facility, and the acquisition of the Genovique plasticizer product lines.

Operating earnings were \$256 million in third quarter 2011 compared with \$266 million in third quarter 2010. Operating earnings were negatively impacted by restructuring charges of \$7 million primarily for severance associated with the acquisition and integration of Sterling in third quarter 2011. Operating earnings in third quarter 2011 also included \$11 million of costs from an unplanned outage of an olefin cracking unit in Longview, Texas and \$8 million from an acetyl technology license. Operating earnings in third quarter 2010 were positively impacted by \$22 million from the partial settlement of an insurance claim related to a power outage at the Longview, Texas manufacturing facility. Outage costs and insurance settlements were primarily reflected in the Performance Chemicals and Intermediates ("PCI") and Coatings, Adhesives, Specialty Polymers, and Inks ("CASPI") segments. In third quarter 2011 compared to third quarter 2010, higher selling prices more than offset higher raw material and energy costs.

Operating earnings were \$858 million in first nine months 2011 compared with \$701 million in first nine months 2010. Operating earnings included \$7 million in restructuring charges, primarily for severance associated with the acquisition and integration of Sterling, and a \$15 million gain from the sale of the previously impaired methanol and ammonia assets related to the terminated Beaumont, Texas industrial gasification project in first nine months 2011. Operating earnings included restructuring charges of \$3 million in first nine months 2010. Excluding these items, operating earnings increased primarily due to higher selling prices and higher sales volume more than offsetting higher raw material and energy costs.

The Company generated \$273 million of cash from operating activities during first nine months 2011, including \$102 million in contributions to its U.S. defined benefit pension plans and \$83 million of a total anticipated \$110 million tax payment for the tax gain on the sale of the PET business completed in first quarter 2011. Working capital increased by \$338 million due to increased inventory and increased accounts receivable. The Company generated \$297 million cash from operating activities during the first nine months of 2010 including a \$200 million increase in working capital resulting from the adoption of amended accounting guidance for transfers of financial assets which impacted the financial statement presentation for activity under the Company's accounts receivable securitization program.

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

In the first nine months of 2011 the Company has made progress on its growth initiatives by:

- entering into a joint venture in China for a 30,000-ton acetate tow manufacturing facility, expected to be operational in 2013;
- completing a demonstration facility for market testing of acetylated wood, which is expected to support a market launch beginning in early 2012 to select markets;
- acquiring Sterling, a single site North American petrochemical producer, to produce non-phthalate plasticizers, including Eastman 168™ non-phthalate plasticizers, and acetic acid;
- acquiring Scandiflex do Brasil S.A. Indústrias Químicas ("Scandiflex"), a manufacturer of plasticizers located in São Paulo, Brazil;
- acquiring Dynaloy, LLC, a producer of formulated solvents;
- continuing commercial introduction of the new Eastman Cerfis™ technology;
- announcing the new Eastman™ microfiber technology; and
- announcing several manufacturing capacity expansions to support its plasticizer business, including at the Kohtla-Järve, Estonia, Chestertown, Maryland, and Kingsport, Tennessee sites.

For additional information on acetylated wood, Eastman Cerfis™ technology, and Eastman™ microfiber technology, see "Summary by Operating Segment" in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS

(Dollars in millions)	Third Quarter			Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
	2011	2010	Change				
Sales	\$ 1,812	\$ 1,507	20 %	-- %	16 %	4 %	-- %

(Dollars in millions)	First Nine Months			Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
	2011	2010	Change				
Sales	\$ 5,455	\$ 4,379	25 %	7 %	15 %	2 %	1 %

Sales revenue in third quarter 2011 compared to third quarter 2010 increased \$305 million. The increase was primarily due to higher selling prices in all segments. The higher selling prices were in response to higher raw material and energy costs.

Sales revenue in first nine months 2011 compared to first nine months 2010 increased \$1,076 million. The increase was primarily due to higher selling prices in all segments (particularly in the PCI segment) and higher sales volume primarily in the PCI segment. The higher selling prices were in response to higher raw material and energy costs and were also attributed to strengthened demand, particularly in the U.S., and tight industry supply. The higher sales volume was primarily due to growth in plasticizer product lines, the fourth quarter 2010 restart of a previously idled olefins cracking unit at the Longview, Texas facility, and strengthened end-use demand primarily in the packaging and transportation markets. The increase was also due to growth initiatives including the increased utilization of the Korean acetate tow manufacturing facility and the Eastman Tritan™ copolyester resin manufacturing facility, and the acquisition of the Genovique plasticizer product lines.

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

(Dollars in millions)	Third Quarter			First Nine Months		
	2011	2010	Change	2011	2010	Change
Gross Profit	\$ 420	\$ 422	-- %	\$ 1,316	\$ 1,123	17 %
As a percentage of sales	23 %	28 %		24 %	26 %	

Gross profit in third quarter 2011 decreased compared to third quarter 2010 with decreases in the CASPI and Specialty Plastics segments mostly offset by increases in the PCI and Fibers segments. Gross profit in third quarter 2011 included \$11 million of costs from the unplanned outage of an olefin cracking unit reflected in the PCI and CASPI segments and \$8 million from the acetyl technology license reflected in the PCI segment. 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. Gross profit as a percentage of sales in third quarter 2011 decreased compared to third quarter 2010 as a result of higher raw material and energy costs.

Gross profit in first nine months 2011 increased compared to first nine months 2010 in all segments. Gross profit increased primarily due to higher selling prices and higher sales volume more than offsetting higher raw material and energy costs. Gross profit as a percentage of sales in first nine months 2011 decreased slightly compared to first nine months 2010.

(Dollars in millions)	Third Quarter			First Nine Months		
	2011	2010	Change	2011	2010	Change
Selling, General and Administrative Expenses	\$ 116	\$ 114	2 %	\$ 350	\$ 311	13 %
Research and Development Expenses	41	42	(2) %	116	108	7 %
	\$ 157	\$ 156	1 %	\$ 466	\$ 419	11 %
As a percentage of sales	9 %	10 %		9 %	10 %	

Selling, general and administrative expenses in third quarter 2011 were slightly higher compared to third quarter 2010 primarily due to higher costs of growth and business development initiatives partially offset by lower performance-based compensation expense.

Selling, general and administrative expenses in first nine months 2011 were higher compared to first nine months 2010 primarily due to increased compensation expense and higher costs of growth and business development initiatives.

Research and development ("R&D") expenses were relatively unchanged for third quarter 2011 compared to third quarter 2010. R&D expenses were higher for first nine months 2011 compared to first nine months 2010 primarily due to higher R&D expenses for growth initiatives. R&D expenses in third quarter 2010 reflected increased spending for acetylated wood compared to previous periods resulting in comparable expenses between third quarter 2011 and third quarter 2010, but increased expenses in first nine months 2011 compared to first nine months 2010.

Asset Impairments and Restructuring Charges (Gains), Net

In third quarter and first nine months 2011, there were \$7 million in restructuring charges primarily for severance associated with the acquisition and integration of Sterling. In first nine months 2011, there was also a \$15 million

gain from the sale of the previously impaired methanol and ammonia assets related to the terminated Beaumont, Texas industrial gasification project.

In first nine months 2010, there were \$3 million in restructuring charges primarily for severance associated with the acquisition and integration of Genovique.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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For more information regarding asset impairments and restructuring charges (gains), net, see the segment discussions and Note 15, "Asset Impairments and Restructuring Charges (Gains), 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			First Nine Months		
	2011	2010	Change	2011	2010	Change
Operating earnings	\$ 256	\$ 266	(4) %	\$ 858	\$ 701	22 %
Asset impairments and restructuring charges (gains), net	7	--		(8)	3	
Operating earnings excluding asset impairments and restructuring charges (gains), net	\$ 263	\$ 266	(1) %	\$ 850	\$ 704	21 %

Net Interest Expense

(Dollars in millions)	Third Quarter			First Nine Months		
	2011	2010	Change	2011	2010	Change
Gross interest costs	\$ 23	\$ 27		\$ 69	\$ 81	
Less: Capitalized interest	2	1		7	2	
Interest expense	21	26	(19) %	62	79	(22) %
Interest income	1	1		5	4	
Net interest expense	\$ 20	\$ 25	(20) %	\$ 57	\$ 75	(24) %

Net interest expense decreased \$5 million and \$18 million in third quarter and first nine months 2011, respectively, compared to comparable 2010 periods primarily due to lower borrowing costs resulting from the debt restructuring in fourth quarter 2010 and higher capitalized interest resulting from higher capital spending.

For 2011, the Company expects net interest expense to decrease compared with 2010 primarily due to lower borrowing costs resulting from the debt restructuring in fourth quarter 2010 and higher capitalized interest resulting from higher capital spending.

Other Charges (Income), Net

(Dollars in millions)	Third Quarter		First Nine Months	
	2011	2010	2011	2010
Foreign exchange transaction losses	\$ --	\$ (2)	\$ (1)	\$ 7
Investment (gains) losses, net	(3)	(3)	(13)	(2)
Other, net	1	2	--	6
Other charges (income), net	\$ (2)	\$ (3)	\$ (14)	\$ 11

First nine months 2011 investment gains included gains from equity investments and joint ventures and sales of business venture investments.

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Provision for Income Taxes

(Dollars in millions)	Third Quarter		First Nine Months	
	2011	2010	2011	2010
Provision for income taxes	\$ 73	\$ 82	\$ 258	\$ 207
Effective tax rate	31 %	34 %	32 %	34 %

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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The first nine months 2011 effective tax rate includes an \$8 million tax benefit recognized due to an increased level of capital investment which qualified for additional state tax credits. The Company expects the full year tax rate on reported earnings from continuing operations before income tax to be approximately 32 percent.

Earnings from Continuing Operations and Diluted Earnings per Share

(Dollars in millions, except diluted EPS)	Third Quarter			
	2011	EPS	2010	EPS
Earnings from continuing operations	\$ 165	\$ 1.16	\$ 162	\$ 1.11
Asset impairments and restructuring charges (gains), net of tax	5	0.03	--	--
Earnings from continuing operations excluding asset impairments and restructuring charges (gains), net of tax	\$ 170	\$ 1.19	\$ 162	\$ 1.11

(Dollars in millions, except diluted EPS)	First Nine Months			
	2011	EPS	2010	EPS
Earnings from continuing operations	\$ 557	\$ 3.86	\$ 408	\$ 2.77
Asset impairments and restructuring charges (gains), net of tax	(5)	(0.03)	2	0.02
Earnings from continuing operations excluding asset impairments and restructuring charges (gains), net of tax	\$ 552	\$ 3.83	\$ 410	\$ 2.79

Net Earnings and Diluted Earnings per Share

(Dollars in millions, except diluted EPS)	Third Quarter			
	2011	EPS	2010	EPS
Earnings from continuing operations	\$ 165	\$ 1.16	\$ 162	\$ 1.11
Earnings from discontinued operations, net of tax	--	--	8	0.05
Gain from disposal of discontinued operations, net of tax	--	--	--	--
Net earnings	\$ 165	\$ 1.16	\$ 170	\$ 1.16

(Dollars in millions, except diluted EPS)	First Nine Months			
	2011	EPS	2010	EPS
Earnings from continuing operations	\$ 557	\$ 3.86	\$ 408	\$ 2.77
Earnings from discontinued operations, net of tax	8	0.06	11	0.08
Gain from disposal of discontinued operations, net of tax	31	0.21	--	--
Net earnings	\$ 596	\$ 4.13	\$ 419	\$ 2.85

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 four reportable operating segments, consisting of the CASPI segment, the Fibers segment, the PCI segment, and the Specialty Plastics segment. For additional information concerning the Company's operating businesses and products, see Note 23, "Segment Information" to the consolidated financial statements in Part II, Item 8 of the Company's 2010 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 "other" operating earnings (loss) when applicable. For more information, refer to Note 18. "Segment Information", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q. Included in first nine months 2011 is a \$15 million gain from the sale of the previously impaired methanol and ammonia assets related to the terminated Beaumont, Texas industrial gasification project.

The Company continues to explore and invest in R&D initiatives at a corporate level that are aligned with macro trends in sustainability, consumerism, and energy efficiency with a focus on high performance materials, advanced cellulose, and environmentally-friendly chemistry. The Company recently announced several innovation projects that are in various stages of development. One such project is the Company's process technology for wood acetylation, which chemically modifies wood to increase dimensional stability and durability and improve performance. This new technology leverages the Company's integrated manufacturing streams to enable new market opportunities in sustainable products. The Company is also developing Eastman Cerfis™ technology for wood finishing which uses its proprietary copolyesters and technology to extrusion-coat solid or engineered woods; and Eastman™ microfibers technology which leverages its polymers and applications technology expertise in high purity air filtration, liquid filtration, and energy storage media.

CASPI Segment

(Dollars in millions)	Third Quarter				First Nine Months			
	2011	2010	Change		2011	2010	Change	
			\$	%			\$	%
Sales	\$ 461	\$ 406	\$ 55	14 %	\$ 1,419	\$ 1,195	\$ 224	19 %
Volume effect			2	1 %			69	6 %
Price effect			52	13 %			159	13 %
Product mix effect			(4)	(1) %			(12)	(1) %
Exchange rate effect			5	1 %			8	1 %
Operating earnings	82	89	(7)	(8) %	279	246	33	13 %

Sales revenue increased in third quarter 2011 compared to third quarter 2010 primarily due to higher selling prices which were in response to higher raw material and energy costs.

Sales revenue increased in first nine months 2011 compared to first nine months 2010 primarily due to higher selling prices and higher sales volume. The higher selling prices were in response to higher raw material and energy costs and were also attributed to strengthened demand, particularly in the U.S., and tight industry supply. The higher sales volume was attributed primarily to strengthened end-use demand in the packaging, durable goods, and transportation

markets, particularly in the U.S.

Operating earnings decreased in third quarter 2011 compared to third quarter 2010. Third quarter 2011 operating earnings included \$3 million of costs from the unplanned outage of an olefin cracking unit, while third quarter 2010 operating earnings included \$9 million from the partial settlement of an insurance claim. Third quarter 2011 operating earnings were positively impacted by higher selling prices which more than offset higher raw material and energy costs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Operating earnings increased in first nine months 2011 compared to first nine months 2010 primarily due to higher selling prices, higher sales volume, and the increased benefits from cracking propane to produce low-cost propylene, which more than offset higher raw material and energy costs. In first nine months 2010, operating earnings included \$12 million of the insurance proceeds from the partial settlement related to the Longview, Texas outage.

The Company is progressing on both organic and inorganic growth initiatives in the CASPI segment. The Company is expanding capacity for its specialty hydrocarbon resins through an additional expansion of the Company's hydrogenated hydrocarbon resins manufacturing capacity in Middelburg, the Netherlands which is expected to be operational in fourth quarter 2011, an additional debottleneck of the hydrogenated hydrocarbon facility in Longview, Texas, which was operational in first quarter 2011, and an expansion of the pure monomer and hydrogenated resins production capacity in Jefferson, Pennsylvania, which is expected to be operational in the first half of 2012. In third quarter 2011, the Company purchased Dynaloy, LLC, a producer of formulated solvents, to support the segment's growth efforts for the electronic materials product line.

Fibers Segment

(Dollars in millions)	Third Quarter				First Nine Months			
	2011	2010	Change		2011	2010	Change	
			\$	%			\$	%
Sales	\$ 334	\$ 301	\$ 33	11 %	\$ 955	\$ 842	\$ 113	13 %
Volume effect			1	-- %			30	3 %
Price effect			14	5 %			33	4 %
Product mix effect			16	6 %			48	6 %
Exchange rate effect			2	-- %			2	-- %
Operating earnings	92	89	3	3 %	266	248	18	7 %

Sales revenue increased in third quarter 2011 compared to third quarter 2010 primarily due to a favorable shift in product mix and higher selling prices. The favorable shift in product mix was mainly due to higher acetate tow sales volume resulting from increased utilization of the recently completed acetate tow manufacturing facility in Korea. The higher selling prices were in response to higher raw material and energy costs, particularly for wood pulp. The higher acetate tow sales volume was mostly offset by lower acetyl chemicals sales volume.

Sales revenue increased in first nine months 2011 compared to first nine months 2010 primarily due to a favorable shift in product mix, higher selling prices, and higher sales volume. The favorable shift in product mix was mainly due to higher acetate tow sales volume resulting from increased utilization of the recently completed acetate tow manufacturing facility in Korea. The higher selling prices were in response to higher raw material and energy costs, particularly for wood pulp.

Operating earnings increased in third quarter and first nine months 2011 compared to third quarter and first nine months 2010 primarily due to higher acetate tow sales volume in Asia Pacific and higher selling prices, mostly offset by higher raw material and energy costs.

The Company has entered into a joint venture for a 30,000-ton acetate tow manufacturing facility in China. The facility is expected to be operational in 2013. Eastman will have 45 percent ownership of the joint venture and will provide 100 percent of the acetate flake raw material to the joint venture from the Company's manufacturing facility in Kingsport.

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

PCI Segment

(Dollars in millions)	Third Quarter				First Nine Months			
	2011	2010	Change		2011	2010	Change	
			\$	%			\$	%
Sales	\$ 740	\$ 534	\$ 206	39 %	\$ 2,163	\$ 1,557	\$ 606	39 %
Volume effect			21	4 %			212	14 %
Price effect			134	25 %			323	21 %
Product mix effect			47	9 %			63	4 %
Exchange rate effect			4	1 %			8	-- %
Operating earnings	71	74	(3)	(4) %	247	177	70	40 %
Asset impairments and restructuring charges, net	7	--	7		7	3	4	
Operating earnings excluding asset impairments and restructuring charges, net	78	74	4	5 %	254	180	74	41 %

Sales revenue increased in third quarter 2011 compared to third quarter 2010 due to higher selling prices and a favorable shift in product mix. The higher selling prices were in response to higher raw material and energy costs. The favorable shift in product mix was due to increased sales revenue from plasticizer product lines, \$8 million from the acetyl technology license, and \$15 million of sales revenue from the recently acquired Sterling business.

Sales revenue increased in first nine months 2011 compared to first nine months 2010 due to higher selling prices and higher sales volume. The increased selling prices were in response to higher raw material and energy costs and also attributed to strengthened demand in the U.S. and tight industry supply, particularly for olefin-derivative product lines. The higher sales volume was primarily due to growth in plasticizer product lines, which included the acquired Genovique plasticizer product lines, particularly in the U.S. and Europe, and the restart of the previously idled Texas olefin cracking unit.

Excluding asset impairments and restructuring charges, net, in third quarter 2011 primarily for severance related to the acquisition and integration of Sterling, operating earnings increased due to higher selling prices and a favorable shift in product mix more than offsetting higher raw material and energy costs. Operating earnings in third quarter 2011 included \$8 million from the acetyl technology license and \$8 million of costs from the unplanned outage of an olefin cracking unit. Operating earnings in third quarter 2010 were positively impacted by \$12 million from the partial settlement of an insurance claim.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Excluding asset impairments and restructuring charges, net, operating earnings increased in first nine months 2011 compared to first nine months 2010 primarily due to higher selling prices, higher sales volume, and the increased benefits from cracking propane to produce low-cost propylene, which more than offset higher raw material and energy costs. First nine months 2011 operating earnings included \$8 million from the acetyl technology license and costs of \$10 million from the unplanned outage of an olefin cracking unit at the Longview, Texas facility. First nine months 2010, operating earnings included \$12 million from the acetyl technology license and \$18 million of the insurance proceeds from partial settlement related to the 2010 Longview, Texas manufacturing outage. In first nine months 2011, operating earnings included \$7 million in restructuring charges, primarily for severance associated with the acquisition and integration of Sterling, and in first nine months 2010 included \$3 million in restructuring charges, primarily for severance associated with the acquisition and integration of Genovique.

In third quarter 2011, the Company acquired Sterling, a single site North American petrochemical producer. The transaction includes Sterling's acetic acid contract and plasticizer manufacturing assets in Texas City, Texas. Eastman plans to modify and restart Sterling's currently idled plasticizer manufacturing facility to produce non-phthalate plasticizers, including Eastman 168™ non-phthalate plasticizers. Also, in third quarter 2011, the Company acquired Scandiflex, a manufacturer of plasticizers located in São Paulo, Brazil. Scandiflex's manufacturing capabilities and customer relationships in Brazil are expected to enable Eastman to accelerate growth of its PCI segment's non-phthalate plasticizer business in the Latin America region.

In addition to its recent acquisitions, the Company has announced several manufacturing expansions to support its plasticizer business at its Kohtla-Järve, Estonia, Chestertown, Maryland, and Kingsport, Tennessee sites. These expansions are expected to be completed by the end of second quarter 2012. The Company is increasing capacity to produce its largest oxo aldehyde chemical, 2-ethyl hexanol ("2-EH"), which is expected to be operational in 2012. The Company both sells 2-EH to external markets and uses it internally in its plasticizers production. End markets for 2-EH include building and construction, transportation, medical, and consumer and industrial.

Specialty Plastics Segment

(Dollars in millions)	Third Quarter				First Nine Months			
	2011	2010	Change		2011	2010	Change	
			\$	%			\$	%
Sales	\$ 277	\$ 266	\$ 11	4 %	\$ 918	\$ 785	\$ 133	17 %
Volume effect			(31)	(12) %			(2)	-- %
Price effect			42	16 %			126	16 %
Product mix effect			(2)	(1) %			5	1 %
Exchange rate effect			2	1 %			4	-- %
Operating earnings	29	29	--	-- %	96	69	27	39 %

Sales revenue increased in third quarter 2011 compared to third quarter 2010 primarily due to higher selling prices, partially offset by lower sales volume. Selling prices increased in response to higher raw material and energy costs, particularly for paraxylene. The lower sales volume was attributed to weakened demand for copolyester product lines, particularly in packaging, consumer durable goods, and liquid crystal display ("LCD") end markets, customer inventory destocking, and some customer shift to other plastic materials that do not use paraxylene as a raw material.

Sales revenue increased in first nine months 2011 compared to first nine months 2010 primarily due to higher selling prices. Selling prices increased in response to higher raw material and energy costs, particularly for paraxylene.

Operating earnings were unchanged in third quarter 2011 compared to third quarter 2010 as higher selling prices were offset by higher raw materials and energy costs and lower sales volume.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Operating earnings increased in first nine months 2011 compared to first nine months 2010 primarily due to increased selling prices which more than offset higher raw material and energy costs.

The monomer manufacturing facility and the first Eastman Tritan™ copolyester resin manufacturing facility in Kingsport, Tennessee commenced production in first quarter 2010. The Company is adding another 30,000 metric tons of resin capacity for Tritan™, which is expected to be operational in early 2012. The Company is also expanding its capacity for cyclohexane dimethanol ("CHDM"), a monomer used in the manufacture of copolyester, by approximately 25 percent and expects the capacity to be operational in two phases in fourth quarter 2011 and in early 2012, and is expanding its cellulose triacetate capacity by approximately 70 percent, with the new capacity expected to be operational in second quarter 2012.

SUMMARY BY CUSTOMER LOCATION

Sales Revenue

(Dollars in millions)	Third Quarter			Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
	2011	2010	Change				
United States and Canada	\$ 978	\$ 771	27 %	1 %	21 %	5 %	-- %
Asia Pacific	433	369	17 %	-- %	11 %	5 %	1 %
Europe, Middle East, and Africa	323	291	11 %	(2) %	11 %	(1) %	3 %
Latin America	78	76	4 %	(13) %	9 %	8 %	-- %
	\$ 1,812	\$ 1,507	20 %	-- %	16 %	4 %	-- %

Sales revenue in the United States and Canada increased in third quarter 2011 compared to third quarter 2010 primarily due to higher selling prices, particularly in the PCI segment.

Sales revenue in Asia Pacific increased in third quarter 2011 compared to third quarter 2010 primarily due to higher selling prices in all segments and a favorable shift in product mix in the Fibers segment.

Sales revenue in Europe, Middle East, and Africa increased in third quarter 2011 compared to third quarter 2010 primarily due to higher selling prices, particularly in the CASPI segment.

Sales revenue in Latin America increased in third quarter 2011 compared to third quarter 2010 primarily due to higher selling prices, particularly in the CASPI and PCI segments, and a favorable shift in product mix primarily in the PCI segment partially offset by lower sales volume in all segments. Lower sales volume was primarily due to sales being redirected to other regions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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(Dollars in millions)	First Nine Months			Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
	2011	2010	Change				
United States and Canada	\$ 2,900	\$ 2,253	29 %	9 %	17 %	3 %	-- %
Asia Pacific	1,264	1,058	19 %	4 %	11 %	4 %	-- %
Europe, Middle East, and Africa	1,048	851	23 %	8 %	13 %	1 %	1 %
Latin America	243	217	12 %	(2) %	13 %	1 %	-- %
	\$ 5,455	\$ 4,379	25 %	7 %	15 %	2 %	1 %

Sales revenue in the United States and Canada increased in first nine months 2011 compared to first nine months 2010 due to higher selling prices and higher sales volume, particularly in the PCI segment.

Sales revenue in Asia Pacific increased in first nine months 2011 compared to first nine months 2010 primarily due to higher selling prices in all segments, and higher sales volume and a favorable shift in product mix, primarily in the Fibers segment.

Sales revenue in Europe, Middle East, and Africa increased in first nine months 2011 compared to first nine months 2010 due to higher selling prices in all segments and higher sales volume, particularly in the PCI segment.

Sales revenue in Latin America increased in first nine months 2011 compared to first nine months 2010 primarily due to higher selling prices, particularly in the PCI and CASPI segments.

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 12, "Derivatives", to the consolidated financial statements in Part II, Item 8 and Part II, Item 7A "Qualitative and Quantitative Disclosures About Market Risk" of the Company's 2010 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	
	2011	2010
Net cash provided by (used in)		
Operating activities	\$ 273	\$ 297
Investing activities	(16)	(323)
Financing activities	(326)	(126)
Effect of exchange rate changes on cash and cash equivalents	1	1

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Net change in cash and cash equivalents	(68)	(151)
Cash and cash equivalents at beginning of period	516	793
Cash and cash equivalents at end of period	\$ 448	\$ 642

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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(Dollars in millions)	First Nine Months	
	2011	2010
Net cash provided by (used in) operating activities	\$ 273	\$ 297
Impact of adoption of amended accounting guidance (1)	--	200
Impact of tax payment on the sale of the PET business (2)	83	--
Net cash provided by operating activities excluding items	356	497
Additions to properties and equipment	(333)	(133)
Dividends paid to stockholders	(100)	(96)
Free Cash Flow	\$ (77)	\$ 268

- (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.
- (2) Third quarter and first nine months 2011 cash flows included the use of \$28 million and \$83 million, respectively, of a total anticipated \$110 million tax payment for the tax gain on the sale of the PET business completed in first quarter 2011.

Cash provided by operating activities was \$273 million during first nine months 2011. The Company contributed \$102 million to its U.S. defined benefit pension plans, which is reflected as a reduction in "Post-employment obligations" on the Consolidated Statement of Financial Position. Additionally, the Company paid \$83 million of a total anticipated \$110 million tax payment for the tax gain on the sale of the PET business completed in first quarter 2011. Working capital increased by \$338 million due to increased inventory resulting from increased raw material costs and in preparation for planned manufacturing maintenance in fourth quarter 2011 as well as increased accounts receivable primarily attributed to increased sales revenue. The Company generated \$297 million cash from operating activities during the first nine months of 2010 including a \$200 million increase in working capital resulting from the adoption of amended accounting guidance for transfers of financial assets which impacted the financial statement presentation for activity under the Company's accounts receivable securitization program.

Cash used in investing activities was \$16 million in first nine months 2011 compared to \$323 million used in investing activities in first nine months 2010. First nine months 2011 included the receipt of \$615 million from the sale of the PET business, payments for acquisitions including approximately \$120 million for Sterling and Scandiflex, and capital expenditures of \$333 million. Also, in first nine months 2011 the Company invested \$200 million in short-term time deposits having staggered maturities between three and ten months at the investment date. First nine months 2010 included the acquisition of Genovique, payments for the acquisition of the Korean acetate tow facility, and capital expenditures of \$133 million.

Cash used in financing activities totaled \$326 million in first nine months 2011 compared to \$126 million used in financing activities in first nine months 2010. Share repurchases in first nine months 2011 were \$292 million compared to share repurchases of \$68 million in first nine months 2010.

The payment of dividends and proceeds from stock option exercises are also reflected in financing activities in all periods.

The Company expects free cash flow (cash from operating activities less capital expenditures and dividends, excluding the tax payments on the sale of the PET business) in 2011 of between \$175 million and \$200 million, assuming capital expenditures of approximately \$475 million and \$102 million U.S. defined benefit pension plans funding in first nine months 2011. The priorities for uses of available cash in 2011 are payment of the quarterly cash dividend, funding targeted growth initiatives (including organic initiatives and joint ventures and acquisitions) and defined benefit pension plans, and repurchasing shares.

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

Liquidity

The Company had cash and cash equivalents and short-term time deposits at September 30, 2011 and December 31, 2010 as follows:

(Dollars in millions)	September 30, 2011	December 31, 2010
Cash and cash equivalents	\$ 448	\$ 516
Short-term time deposits	201	--
Total cash and cash equivalents and short-term time deposits	\$ 649	\$ 516

In addition, at September 30, 2011, the Company had access to the sources of liquidity described below.

The Company had a \$700 million revolving credit facility ("Credit Facility") in two tranches, with \$125 million expiring in April 2012 and \$575 million expiring in April 2013. The Company expects to renew or replace the Credit Facility on similar terms, subject to market conditions, before the end of second quarter 2012. 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, 2011 and December 31, 2010, the Company had no outstanding borrowings under the Credit Facility. The Credit Facility provides liquidity support for general corporate purposes.

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 2011. 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, 2011 and December 31, 2010, the Company had no outstanding borrowings under the A/R Facility.

For more information regarding interest rates, refer to Note 7, "Borrowings", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In first nine months 2011, the Company made \$102 million in contributions to its U.S. defined benefit pension plans. In 2010, the Company made \$35 million in contributions to its U.S. defined benefit pension plan.

Cash flows from operations, cash and cash equivalents, short-term time deposits, 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.

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

Capital Expenditures

Capital expenditures were \$333 million and \$133 million in first nine months 2011 and 2010, respectively. The higher expenditures in first nine months 2011 were primarily due to capital spending on organic growth initiatives, particularly in the Specialty Plastics, CASPI, and PCI segments. The lower expenditures in first nine months 2010 were primarily due to the deferral of discretionary spending in response to the global recession. The Company expects that 2011 capital spending will be approximately \$475 million for required maintenance, organic growth initiatives, and environmental infrastructure.

Other Commitments

At September 30, 2011, the Company's obligations related to notes and debentures totaled approximately \$1.6 billion to be paid over a period of approximately 15 years. The Company has \$149 million principal amount of 7% notes maturing in second quarter 2012. The Company expects to fund this obligation through available cash, other available sources of liquidity, or new borrowings. See Note 7, "Borrowings", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

Other borrowings, related primarily to credit facility borrowings, totaled \$5 million.

The Company had various purchase obligations at September 30, 2011 totaling approximately \$1.4 billion over a period of approximately 15 years for materials, supplies and energy incident to the ordinary conduct of business. For information regarding the Company's lease commitments, refer to Note 10, "Commitments", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In addition, the Company had other liabilities at September 30, 2011 totaling approximately \$1.3 billion primarily related to pension, retiree medical, and other post-employment obligations.

The items described above are summarized in the following table:

Period	Payments Due for							Total
	Notes and Debentures	Credit Facility Borrowings and Other	Interest Payable	Purchase Obligations	Operating Leases	Other Liabilities (a)		
2011	\$ --	\$ --	\$ 23	\$ 74	\$ 7	\$ 98	\$ 202	
2012	149	5	87	269	26	48	584	
2013	--	--	81	248	20	49	398	
2014	--	--	81	131	10	52	274	
2015	250	--	81	130	12	56	529	
2016 and beyond	1,195	--	528	589	26	1,043	3,381	
Total	\$ 1,594	\$ 5	\$ 881	\$ 1,441	\$ 101	\$ 1,346	\$ 5,368	

- (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.

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

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 10, "Commitments", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The accounting guidance on consolidation of Variable Interest Entities ("VIEs") is effective for all VIEs or potential VIEs with which the Company is involved 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 c