

SKINNER SAMUEL K
Form 4
May 24, 2012

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
SKINNER SAMUEL K

2. Issuer Name and Ticker or Trading Symbol
NAVIGANT CONSULTING INC
[NCI]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction
(Month/Day/Year)

Director 10% Owner
 Officer (give title below) Other (specify below)

30 S. WACKER DRIVE, SUITE 3550

05/22/2012

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)

Form filed by One Reporting Person
 Form filed by More than One Reporting Person

CHICAGO, IL 60606

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D)	Price		
				Code	V	Amount	
Common Stock	05/22/2012		A	5,049	A	\$ 0	47,636 D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Title and Amount of Underlying Securities (Instr. 3 and 4)
Stock Option (Right to Buy)	\$ 12.29	05/22/2012		A	5,909	(1) 05/22/2018	Common Stock	5,909

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SKINNER SAMUEL K 30 S. WACKER DRIVE SUITE 3550 CHICAGO, IL 60606	X			

Signatures

Monica M. Weed, as attorney in fact for Samuel K. Skinner 05/24/2012

**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The stock option vests annually over a three-year period beginning on the first anniversary of the grant date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

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Net deferred tax benefits related to the previous divestiture of businesses

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(11)

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Earnings from continuing operations excluding accelerated depreciation costs, net of tax, asset impairments and restructuring charges, net of tax, and net deferred tax benefits related to the previous divestiture of businesses

\$
63
\$
119
\$
81
\$
236

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

Net Earnings

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

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

SUMMARY BY OPERATING SEGMENT

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

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

CASPI Segment

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

Explanation of Responses:

Operating earnings	50	53	(3)	(6) %	64	112	(48)	(43) %
Asset impairments and restructuring charges, net	(2)	(2)	--		5	(2)	7	
Operating earnings excluding asset impairments and restructuring charges, net	48	51	(3)	(6) %	69	110	(41)	(37) %

Sales revenue decreased \$112 million in second quarter 2009 compared to second quarter 2008 and \$251 million in first six months 2009 compared to first six months 2008 primarily due to lower sales volume. The lower sales volume was due to weak customer demand, in all regions except Asia Pacific, attributed to the global recession, particularly for products sold into the automotive, building and construction, and packaging markets.

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

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

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

Fibers Segment

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

Explanation of Responses:

impairments
and
restructuring
charges, net

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

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

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

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

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

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

PCI Segment

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

Explanation of Responses:

Operating earnings excluding accelerated depreciation costs and asset impairments and restructuring charges, net	5	58	(53)	(91) %	8	119	(111)	(93) %
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Sales revenue decreased \$316 million in second quarter 2009 compared to second quarter 2008 and \$586 million in first six months 2009 compared to first six months 2008. Excluding contract ethylene sales under the transition agreement resulting from the divestiture of the Performance Polymers segment's PE business in the fourth quarter 2006, sales revenue decreased \$215 million in second quarter and \$410 million in first six months 2009 compared to the same period 2008 due to lower selling prices and lower sales volume. The lower selling prices were primarily due to lower raw material and energy costs. The lower sales volume was primarily in olefin-based derivatives and was attributed to the global recession.

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

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

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

Performance Polymers Segment

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

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

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

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

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

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

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

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

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

SP Segment

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

Explanation of Responses:

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

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

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

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

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

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

SUMMARY BY CUSTOMER LOCATION

Sales Revenue

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

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

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

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

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

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

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

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

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

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

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

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

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

LIQUIDITY, CAPITAL RESOURCES, AND OTHER FINANCIAL INFORMATION

Cash Flows

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

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

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

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

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

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

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

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

Liquidity

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

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

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

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

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

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

Capital Expenditures

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

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

Other Commitments

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

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

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

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

The items described above are summarized in the following table:

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

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

Off-Balance Sheet and Other Financing Arrangements

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

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

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

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

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

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

Treasury Stock

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

Dividends

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

RECENTLY ISSUED ACCOUNTING STANDARDS

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

Explanation of Responses:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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OUTLOOK

For 2009, the Company expects:

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

Explanation of Responses:

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

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

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

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

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

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

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

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

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

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

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

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

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

General

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

Jefferson (Pennsylvania) Environmental Proceeding

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

ITEM 1A. RISK FACTORS

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

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

(c) Purchases of Equity Securities by the Issuer

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 6. EXHIBITS

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

Explanation of Responses:

SIGNATURES

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

Eastman Chemical Company

Date: July 30, 2009

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

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

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

4.09	\$200,000,000 Accounts Receivable Securitization agreement dated July 9, 2008 (amended February 18, 2009, and July 8, 2009), between the Company and The Bank of Tokyo-Mitsubishi UFJ, Ltd. and SunTrust Robinson Humphrey, Inc., as agents.	51
4.10	Amended and Restated Credit Agreement, dated as of April 3, 2006 (the "Credit Agreement") among Eastman Chemical Company, the Lenders named therein, and Citigroup Global Markets , Inc. and J. P. Morgan Securities Inc., as joint lead arrangers (incorporated herein by reference to Exhibit 4.11 to Eastman Chemical Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006)	

EXHIBIT INDEX		
Exhibit Number	Description	Sequential Page Number
4.11	Letter Amendments dated November 16, 2007 and March 10, 2008, to the Credit Agreement (incorporated herein by reference to Exhibit 4.10 to Eastman Chemical Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008)	
4.12	Form of 6.30% Notes due 2018 (incorporated herein by reference to Exhibit 4.14 to Eastman Chemical Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)	
12.01	<u>Statement re: Computation of Ratios of Earnings (Loss) to Fixed Charges</u>	52
31.01	<u>Rule 13a – 14(a) Certification by James P. Rogers, President and Chief Executive Officer, for the quarter ended June 30, 2009</u>	53
31.02	<u>Rule 13a – 14(a) Certification by Curtis E. Espeland, Senior Vice President and Chief Financial Officer, for the quarter ended June 30, 2009</u>	54
32.01	<u>Section 1350 Certification by James P. Rogers, President and Chief Executive Officer, for the quarter ended June 30, 2009</u>	55
32.02	<u>Section 1350 Certification by Curtis E. Espeland, Senior Vice President and Chief Financial Officer, for the quarter ended June 30, 2009</u>	56
101.INS	XBRL Instance Document (furnished, not filed)	
101.SCH	XBRL Taxonomy Extension Schema (furnished, not filed)	
101.CAL	XBRL Taxonomy Calculation Linkbase (furnished, not filed)	
101.LAB	XBRL Taxonomy Label Linkbase (furnished, not filed)	
101.PRE	XBRL Definition Linkbase Document (furnished, not filed)	

