

EASTMAN CHEMICAL CO
Form 10-Q
November 01, 2010

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, 2010
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-12626

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

37662
(Zip Code)

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

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

YES 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, 2010
Common Stock, par value \$0.01 per share	72,127,905

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UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS,
COMPREHENSIVE INCOME AND RETAINED EARNINGS

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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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 2009 Annual Report on Form 10-K and should be read in conjunction with the consolidated financial statements in Part II, Item 8 of the Company's 2009 Annual Report on Form 10-K. The unaudited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States ("GAAP") and, of necessity, include some amounts that are based upon management estimates and judgments. Future actual results could differ from such current estimates. The unaudited consolidated financial statements include assets, liabilities, revenues, and expenses of all majority-owned subsidiaries and joint ventures. Eastman accounts for other joint ventures and investments where it exercises significant influence, but does not have control, on the equity basis. Intercompany transactions and balances are eliminated in consolidation. Certain prior period data has been reclassified in the Consolidated Financial Statements and accompanying footnotes to conform to current period presentation.

Effective January 1, 2010, the Company adopted amended accounting guidance on transfers of financial assets. The impact of this guidance was prospective with changes in first nine months Statements of Consolidated Financial Position and the Statements of Cash Flows. For additional information, refer to Notes 8, "Borrowings", and 11, "Commitments".

2. ACQUISITIONS

Genovique Specialties Corporation

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

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

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

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Korean Acetate Tow Facility

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

The fair value of total consideration was \$111 million, which was paid in installments beginning first quarter 2009 and completed second quarter 2010. The Company has determined the preliminary fair value of the acquired assets to be as follows: property, plant, and equipment of \$101 million, inventory of \$5 million, and technology of \$5 million.

3. ASSET IMPAIRMENTS AND RESTRUCTURING CHARGES, NET

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

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

The following table summarizes the beginning reserves, charges to and changes in estimates to the reserves as described above, and the cash and non-cash reductions to the reserves attributable to asset impairments and the cash payments for severance and site closure costs for full year 2009 and first nine months 2010:

(Dollars in millions)	Balance at January 1, 2009	Provision/ Adjustments	Non-cash Reductions	Cash Reductions	Balance at December 31, 2009
Non-cash charges	\$ --	\$ 179	\$ (179)	\$ --	\$ --
Severance costs	5	23	--	(23)	5
Site closure and other restructuring costs	25	(2)	--	(18)	5
Total	\$ 30	\$ 200	\$ (179)	\$ (41)	\$ 10
	Balance at January 1, 2010	Provision/ Adjustments	Non-cash Reductions	Cash Reductions	Balance at September 30, 2010
Non-cash charges	\$ --	\$ --	\$ --	\$ --	\$ --
Severance costs	5	3	--	(6)	2
Site closure and other restructuring costs	5	--	--	--	5
Total	\$ 10	\$ 3	\$ --	\$ (6)	\$ 7

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. INVENTORIES

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

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

5. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

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

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

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

Refer to [Note 2, "Acquisitions"](#), for further details regarding the acquisition of Genovique.

6. PAYABLES AND OTHER CURRENT LIABILITIES

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

Accrued payrolls, vacation, and variable-incentive
compensation

Accrued taxes	35	33
Post-employment obligations	63	61
Interest payable	29	32
Other	152	116
Total payables and other current liabilities	\$ 936	\$ 800

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7. PROVISION FOR INCOME TAXES

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

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

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

The Company or one of its subsidiaries files tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2005.

8. BORROWINGS

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

At September 30, 2010, the Company had a \$700 million revolving credit facility ("Credit Facility") in two tranches, with \$125 million expiring in 2012 and \$575 million expiring in 2013. Borrowings under the Credit Facility are subject to interest at varying spreads above quoted market rates and a facility fee is paid on the total commitment. In addition, the Credit Facility contains a number of customary covenants and events of default, including the maintenance of certain financial ratios. The Company was in compliance with all such covenants for all periods presented. At September 30, 2010 and December 31, 2009, the Company had no outstanding borrowings under the Credit Facility.

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2010, the Company also had a \$200 million line of credit under its annually renewable accounts receivable securitization agreement ("A/R Facility"). The A/R Facility was renewed in July 2010. Borrowings under the A/R Facility are subject to interest rates based on a spread over the lender's borrowing costs, and the Company pays a fee to maintain availability of the A/R Facility. In addition, the A/R Facility contains a number of customary covenants and events of default, including the maintenance of certain financial ratios. The Company was in compliance with all such covenants for all periods presented. At September 30, 2010, the Company had no outstanding borrowings under the A/R Facility. Refer to Note 11, "Commitments", for further details regarding the A/R Facility.

9. RETIREMENT PLANS

DEFINED BENEFIT PENSION PLANS

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

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

Summary of Components of Net Periodic Benefit Costs

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

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

POSTRETIREMENT WELFARE PLANS

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

Eligible employees hired on or after January 1, 2007 have access to postretirement life insurance and health care and dental benefits, but Eastman does not provide a subsidy toward the premium cost of postretirement benefits for those employees.

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Summary of Components of Net Periodic Benefit
Costs

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

10. ENVIRONMENTAL MATTERS

Certain Eastman manufacturing sites generate hazardous and nonhazardous wastes; the treatment, storage, transportation, and disposal of which are regulated by various governmental agencies. In connection with the cleanup of various hazardous waste sites, the Company, along with many other entities, has been designated a potentially responsible party ("PRP"), by the U.S. Environmental Protection Agency under the Comprehensive Environmental Response, Compensation and Liability Act, which potentially subjects PRPs to joint and several liability for such cleanup costs. In addition, the Company will be required to incur costs for environmental remediation and closure and postclosure under the federal Resource Conservation and Recovery Act. Reserves for environmental contingencies have been established in accordance with Eastman's policies described in Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2009 Annual Report on Form 10-K. Because of expected sharing of costs, the availability of legal defenses, and the Company's preliminary assessment of actions that may be required, management does not believe that the Company's liability for these environmental matters, individually or in the aggregate, will be material to the Company's consolidated financial position, results of operations or cash flows. The Company's total reserve for environmental contingencies was \$40 million and \$42 million at September 30, 2010 and December 31, 2009, respectively. Estimated future environmental expenditures for remediation costs range from the minimum or best estimate of \$10 million to the maximum of \$21 million at September 30, 2010, and \$10 million to the maximum of \$20 million at December 31, 2009. The best estimate accrued to date over the facilities' estimated useful lives for asset retirement obligation costs is \$30 million and \$32 million at September 30, 2010 and December 31, 2009, respectively.

11. COMMITMENTS

Purchasing Obligations and Lease Commitments

At September 30, 2010, the Company had various purchase obligations totaling approximately \$1 billion over a period of approximately 15 years for materials, supplies, and energy incident to the ordinary conduct of business. The Company also had various lease commitments for property and equipment under cancelable, noncancelable, and month-to-month operating leases totaling \$88 million over a period of several years. Of the total lease commitments, approximately 15 percent relates to machinery and equipment, including computer and communications equipment

and production equipment; approximately 50 percent relates to real property, including office space, storage facilities, and land; and approximately 35 percent relates to railcars.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable Securitization Program

Effective January 1, 2010, the Company adopted amended accounting guidance for transfers of financial assets which impacts the financial statement presentation for activity under the Company's \$200 million accounts receivable securitization program. Beginning for periods after December 31, 2009, transfers of receivables interests that were previously treated as sold and removed from the balance sheet will be included in trade receivables, net and reflected as secured borrowings on the balance sheet. The Company's Statement of Financial Position at September 30, 2010 reflects an increase in trade receivables, \$200 million of which was transferred at December 31, 2009 under the securitization program and reduced cash flows from operating activities by that amount for first nine months 2010. As a result of the adoption of this accounting guidance, any amounts drawn on this accounts receivable securitization program would now be reflected as secured borrowings and disclosed in Note 8, "Borrowings". At December 31, 2009 and September 30, 2009 the accounts receivable securitization program was fully drawn.

Guarantees

The Company has operating leases with terms that require the Company to guarantee a portion of the residual value of the leased assets upon termination of the lease. These residual value guarantees at September 30, 2010 totaled \$160 million and consisted primarily of leases for railcars and company aircraft. Leases with guarantee amounts totaling \$11 million, \$139 million, and \$10 million will expire in 2011, 2012, and 2014 and beyond, respectively. The Company believes, based on current facts and circumstances, that the likelihood of material payments pursuant to such guarantees is remote.

Variable Interest Entities

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

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value of Borrowings

The fair value for fixed-rate borrowings is based on current interest rates for comparable securities.

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

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements

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

(Dollars in millions)

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

(Dollars in millions)

Description	Fair Value Measurements at December 31, 2009			
	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Assets	\$ 52	\$ --	\$ 52	\$ --
Derivative Liabilities	(21)	--	(21)	--
	\$ 31	\$ --	\$ 31	\$ --

Hedging Programs

The Company is exposed to market risk, such as changes in currency exchange rates, raw material and energy costs and interest rates. The Company uses various derivative financial instruments pursuant to the Company's hedging policies to mitigate these market risk factors and their effect on the cash flows of the underlying transactions. Designation is performed on a specific exposure basis to support hedge accounting. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the cash flows of the underlying exposures being hedged. The Company does not hold or issue derivative financial instruments for trading purposes. For further information, see Note 9, "Fair Value of Financial Instruments", to the consolidated financial statements in Part II, Item 8 of the Company's 2009 Annual Report on Form 10-K.

Fair Value Hedges

Fair value hedges are derivative or non-derivative instruments designated as and used to hedge the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings.

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

Cash Flow Hedges

Cash flow hedges are derivative instruments designated as and used to hedge the exposure to variability in expected future cash flows that is attributable to a particular risk. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income, net of income taxes and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivatives representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

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

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Derivatives Designated as Cash Flow Hedging Instruments

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

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

Derivatives' Cash Flow Hedging Relationships

Third Quarter

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

First Nine Months

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(Dollars in millions)

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

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Nondesignated / Nonqualifying Derivative Instruments

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

13. STOCKHOLDERS' EQUITY

A reconciliation of the changes in stockholders' equity for first nine months 2010 is provided below:

(Dollars in millions)	Common Stock at		Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Treasury	Total
	Par Value	Paid-in Capital		Stock at Cost	Stockholders' Equity		
	\$	\$	\$	\$	\$	\$	\$
Balance at December 31, 2009	1	661	2,571	(385)	(1,335)	1,513	
Net Earnings	--	--	419	--	--	419	
Cash Dividends Declared (1)	--	--	(96)	--	--	(96)	
Other Comprehensive Income (Loss)	--	--	--	(7)	--	(7)	
Share-Based Compensation Expense (2)	--	15	--	--	--	15	
Stock Option Exercises	--	35	--	--	--	35	
Other (3)	--	(1)	--	--	--	(1)	
Stock Repurchases	--	--	--	--	(68)	(68)	
Balance at September 30, 2010	1	710	2,894	(392)	(1,403)	1,810	

(1) Includes cash dividends declared, but unpaid.

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

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

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX

(Dollars in millions)	Cumulative Translation Adjustment	Unrecognized Losses and Prior Service Credits for Benefit Plans	Unrealized Gains (Losses) on Derivative Instruments	Unrealized Losses on Investments	Accumulated
					Other Comprehensive Income (Loss)
	\$	\$	\$	\$	\$
	60	(414)	20	(1)	(335)

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

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

14. EARNINGS AND DIVIDENDS PER SHARE

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

In third quarter and first nine months 2010, common shares underlying options to purchase 589,585 shares of common stock and 696,185 shares of common stock, respectively, were excluded from the computation of diluted earnings per share because the total market value of option exercises for these awards was less than the total proceeds that would be received for these awards. Third quarter and first nine months 2010 reflect the impact of share repurchases of 1.1 million shares.

In third quarter and first nine months 2009, common shares underlying options to purchase 3,037,007 shares of common stock and 3,720,448 shares of common stock, respectively, were excluded from the computation of diluted earnings per share because the total market value of option exercises for these awards was less than the total proceeds that would be received for these awards. There were no share repurchases in first nine months 2009.

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

15. SHARE-BASED COMPENSATION AWARDS

The Company utilizes share-based awards under employee and non-employee director compensation programs. These share-based awards may include restricted and unrestricted stock, restricted stock units, stock options, and performance shares. In third quarter 2010 and 2009, approximately \$6 million and \$4 million, respectively, of compensation expense before tax were recognized in selling, general and administrative expense in the earnings statement for all share-based awards. The impact on third quarter 2010 and 2009 net earnings of approximately \$4 million and \$3 million, respectively, is net of deferred tax expense related to share-based award compensation for each period.

In first nine months 2010 and 2009, \$16 million and \$13 million, respectively, of compensation expense before tax were recognized in selling, general and administrative expense in the earnings statement for all share-based awards. The impact on first nine months 2010 and 2009 net earnings of \$10 million and \$8 million, respectively, is net of deferred tax expense related to share-based award compensation.

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

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

(Dollars in millions)

First Nine Months
2010 2009

Current assets	\$	--	\$	7
Other assets		6		35
Current liabilities		34		5
Long-term liabilities and equity		6		1
Total	\$	46	\$	48

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

17. SEGMENT INFORMATION

The Company's products and operations are managed and reported in five reportable operating segments, consisting of the CASPI segment, the Fibers segment, the PCI segment, the Performance Polymers segment, and the Specialty Plastics segment. For additional information concerning the Company's segments' businesses and products, see Note 22, "Segment Information", to the consolidated financial statements in Part II, Item 8 of the Company's 2009 Annual Report on Form 10-K.

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

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

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

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

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

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

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

18. LEGAL MATTERS

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

19. SUBSEQUENT EVENTS

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Eastman Chemical Company's (the "Company" or "Eastman") audited consolidated financial statements, including related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's 2009 Annual Report on Form 10-K, and the Company's unaudited consolidated financial statements, including related notes, included elsewhere in this report. All references to earnings per share contained in this report are diluted earnings per share unless otherwise noted.

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

CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP"), the Company's management must make decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and assumptions on which to base estimates and judgments that affect the reported amounts of assets, liabilities, sales revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to allowances for doubtful accounts, impairment of long-lived assets, environmental costs, U.S. pension and other post-employment benefits, litigation and contingent liabilities, and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company's management believes the critical accounting estimates described in Part II, Item 7 of the Company's 2009 Annual Report on Form 10-K are the most important to the fair presentation of the Company's financial condition and results. These estimates require management's most significant judgments in the preparation of the Company's consolidated financial statements.

PRESENTATION OF NON-GAAP FINANCIAL MEASURES

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

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

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

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

In first quarter 2010, the Company adopted amended accounting guidance for transfers of financial assets which impacts the financial statement presentation for activity under the Company's \$200 million accounts receivable securitization program. For periods beginning after December 31, 2009, transfers of receivables interests that were previously treated as sold and removed from the balance sheet will be included in trade receivables, net and reflected as secured borrowings on the balance sheet. The Company's Statement of Financial Position at September 30, 2010 reflects an increase in trade receivables, \$200 million of which was transferred at December 31, 2009 under the securitization program and reduced cash flows from operating activities by that amount for first quarter 2010.

For evaluation and analysis of ongoing business results and of the impact on the Company and segments of strategic decisions and actions to reduce costs and to improve the profitability of the Company, Eastman's management believes that Company and segment earnings should be considered both with and without asset impairments and restructuring charges. Management believes that investors can better evaluate and analyze historical and future

business trends if they also consider the reported Company and segment results, respectively, without the asset impairments and restructuring charges, net. In addition, management believes that cash provided by (used in) operating activities should be considered both with and without the impact of adoption of amended accounting guidance for transfers of financial assets. Management utilizes these measures to evaluate business performance and its cash position and in determining certain performance-based compensation. These measures, excluding the identified items, are not recognized in accordance with GAAP and should not be viewed as alternatives to the GAAP measures of performance.

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

OVERVIEW

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

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

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

The Company is progressing on its growth initiatives in 2010.

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

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

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

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

RESULTS OF OPERATIONS

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

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

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

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

Gross profit in third quarter and first nine months 2010 increased compared to third quarter and first nine months 2009 in all segments. The increase in both comparable periods was due to higher sales volume and higher selling prices, as well as higher capacity utilization which led to lower unit costs in first nine months 2010. Gross profit in third quarter 2010 was positively impacted by \$22 million from the partial settlement of the Longview, Texas insurance claim

which was primarily reflected in the PCI and CASPI segments. In first nine months 2010, the Company received \$32 million in insurance proceeds from partial settlement related to the outage. First nine months 2010 gross profit also included \$12 million from acetyl license revenue. First nine months 2009 gross profit included approximately \$20 million in costs related to the reconfiguration of the Longview, Texas facility. The reconfiguration costs impacted the PCI and CASPI segments.

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

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

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

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

Asset Impairments and Restructuring Charges, Net

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

For more information regarding asset impairments and restructuring charges, net see the segment discussions and [Note 3, "Asset Impairments and Restructuring Charges, Net"](#), to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Operating Earnings

(Dollars in millions)	Third Quarter			First Nine Months		
	2010	2009	Change	2010	2009	Change
Operating earnings	\$ 280	\$ 191	47 %	\$ 719	\$ 347	>100 %
Asset impairments and restructuring charges, net	--	--		3	23	
Operating earnings excluding asset impairments and restructuring charges, net	\$ 280	\$ 191	47 %	\$ 722	\$ 370	95 %

Net Interest Expense

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

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

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

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

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

Other Charges (Income), Net

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

Provision for Income Taxes

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

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

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

Net Earnings and Diluted Earnings per Share

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

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

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

SUMMARY BY OPERATING SEGMENT

The Company's products and operations are managed and reported in five reportable operating segments, consisting of the CASPI segment, the Fibers segment, the PCI segment, the Performance Polymers segment, and the Specialty Plastics segment. For additional information concerning the Company's operating businesses and products, see Note 22, "Segment Information", to the consolidated financial statements in Part II, Item 8 of the Company's 2009 Annual Report on Form 10-K.

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

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

CASPI Segment

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

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

including the hydrogenated hydrocarbon resins manufacturing capacity expansion in Middelburg, the Netherlands which was completed in fourth quarter 2009.

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

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

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

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

Fibers Segment

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

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

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

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

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

utilization for acetate yarn product lines.

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

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

PCI Segment

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