EASTMAN CHEMICAL CO
Form 10-K
February 28, 2013

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

(Mark One)	
[X]	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2012
	OR
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from ______________ to ______________

Commission file number 1-12626

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

Delaware	62-1539359
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
200 South Wilcox Drive Kingsport, Tennessee	37662
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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	Yes	No
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	[X]	
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.		[X]
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.	[X]	
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).	[X]	

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]

(Do not check if a smaller reporting company)

	Yes	No
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).		[X]

The aggregate market value (based upon the $50.37 closing price on the New York Stock Exchange on June 29, 2012) of the 153,242,131 shares of common equity held by non-affiliates as of December 31, 2012 was approximately $7,718,806,138 using beneficial ownership rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934 to exclude common stock that may be deemed beneficially owned as of December 31, 2012 by Eastman Chemical Company's ("Eastman" or the "Company") directors and executive officers and charitable foundation, some of whom might not be held to be affiliates upon judicial determination. A total of 153,955,346 shares of common stock of the registrant were outstanding at December 31, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to the 2013 Annual Meeting of Stockholders (the "2013 Proxy Statement"), to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10 to 14 of this Annual Report on Form 10-K (the "Annual Report") as indicated herein.

FORWARD-LOOKING STATEMENTS

Certain statements made in this Annual Report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended. Forward-looking statements are all statements, other than statements of historical fact, that may be made by the Company from time to time. In some cases, you can identify forward-looking statements by terminology such as "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would," and similar expressions or expressions of the negative of these terms.
Forward-looking statements 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; pending and future legal proceedings; exposure to, and effects of hedging of, raw material and energy costs, foreign currencies and interest rates; global and regional economic, political, and business conditions; competition; growth opportunities; supply and demand, volume, price, cost, margin and sales; earnings, cash flow, dividends and other expected financial results and conditions; expectations, strategies, and plans for individual assets and products, businesses, and segments as well as for the whole of Eastman; cash requirements and uses of available cash; financing plans and activities; pension expenses and funding; credit ratings; anticipated and other future restructuring, acquisition, divestiture, and consolidation activities; cost reduction and control efforts and targets; the timing and costs of, and benefits from, the integration of, and expected business and financial performance 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.

Forward-looking statements are based upon certain underlying assumptions as of the date such statements were made. Such assumptions are based upon internal estimates and other analyses of current market conditions and trends, management expectations, plans, and strategies, economic conditions, and other factors. Forward-looking statements 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. The most significant known factors, risks, and uncertainties that could cause actual results to differ materially from those in the forward-looking statements are identified and discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations-Forward-Looking Statements and Risk Factors" in Part II, Item 7 of this Annual Report.

The Company cautions you not to place undue reliance on forward-looking statements, which speak only as of the date of this Annual Report. Except as may be required by law, the Company undertakes no obligation to update or alter these forward-looking statements, whether as a result of new information, future events, or otherwise.

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PART I

ITEM 1. BUSINESS
CORPORATE OVERVIEW

Eastman Chemical Company ("Eastman" or the "Company") is a global specialty chemicals company that produces a broad range of advanced materials, chemicals, and fibers that are found in products people use every day. Eastman began business in 1920 for the purpose of producing chemicals for Eastman Kodak Company's photographic business and became a public company, incorporated in Delaware, on December 31, 1993. Eastman has over 40 manufacturing sites in 16 countries and equity interests in joint ventures that supply chemicals, plastics, and fibers products to customers throughout the world. The Company's headquarters and largest manufacturing site are located in Kingsport, Tennessee.

Eastman has a strong portfolio of specialty businesses that hold leading positions and provide products that enhance performance in a variety of end markets such as transportation, building and construction, and consumables. Eastman management believes that the Company's end-market diversity is a source of strength, as these markets are benefiting from longer-term global trends such as energy efficiency, a rising middle class in emerging economies, and increased health and wellness. End uses for the Company's products include both original equipment manufacturing ("OEM") and replacement or after market products. These trends, combined with the diversity of the Company's end markets, allow for more consistent demand for the Company's products over time. Eastman is focused on achieving consistent earnings growth through a market-driven approach that takes advantage of the Company's existing technology platforms, global market and manufacturing presence, and leading positions in end markets.

On July 2, 2012, the Company completed its acquisition of Solutia Inc. ("Solutia"), a global leader in performance materials and specialty chemicals. In order to provide the most meaningful comparison of results, some of the corporate and segment information in this Annual Report on Form 10-K (this "Annual Report") includes both actual results for 2012 and results on a "pro forma combined" basis, giving effect to the acquisition of Solutia as if it had been completed at the beginning of the earliest period presented. For additional information on the assumptions and related matters considered in connection with the presentation of information on a pro forma combined basis, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP and Pro Forma Combined Financial Measures" in Part II, Item 7 of this Annual Report.

In 2012, the Company had sales revenue of $8.1 billion, operating earnings of $800 million, and earnings from continuing operations of $443 million. Earnings per diluted share from continuing operations were $2.92. Asset impairments and restructuring charges and Solutia acquisition-related costs included in operating earnings were charges and costs of $120 million and $44 million, respectively. On a pro forma combined basis, the Company had sales revenue of $9.1 billion and operating earnings of $940 million.

Beginning in third quarter 2012, the Company changed its reportable segments due to changes resulting from the acquisition of Solutia. Eastman has made organizational and reporting changes resulting in five reporting segments: Additives & Functional Products, Adhesives & Plasticizers, Advanced Materials, Fibers, and Specialty Fluids & Intermediates. The new reporting structure has been retrospectively applied to financial results of all periods presented. This organizational structure is based on the management of the strategies, operating models, and sales channels that the various businesses employ. The reporting segment changes are as follows:

- Additives & Functional Products consists of the rubber additives product lines from Solutia's former Technical Specialties segment and the specialty polymers and solvents product lines of Eastman's former Coatings, Adhesives, Specialty Polymers and Inks ("CASPI") segment.
- Adhesives & Plasticizers consists of the adhesives product lines formerly in the Company's CASPI segment and the plasticizer product lines of Eastman's former Performance Chemicals and Intermediates ("PCI") segment.
- Advanced Materials consists of Eastman's former Specialty Plastics segment and Solutia's former Performance Films and Advanced Interlayers segments.

- Fibers continues to consist of the acetate tow, acetate yarn, and acetyl chemical product lines.
- Specialty Fluids & Intermediates consists of the specialty fluids product lines from Solutia's former Technical Specialties segment and Eastman's oxo and acetyl intermediates product lines of its former PCI segment.

The Company manages certain costs and initiatives at the corporate level, including certain research and development ("R&D") costs not allocated to the operating segments. For additional information concerning the Company's operating segments, see Note 23, "Segment Information", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

Due to the sale of substantially all of the Performance Polymers segment on January 31, 2011, Performance Polymers segment operating results are presented as discontinued operations for all periods presented and are not included in results from continuing operations. See Note 3, "Discontinued Operations", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

Business Strategy

Eastman's objective is to be an outperforming specialty chemical company through consistent earnings growth. The Company's business segments currently sell differentiated products into diverse markets and geographic regions, and management believes that this end-market diversity is a source of strength. Eastman works with customers to meet their needs in existing and new markets through development of innovative products and technologies. Management believes that the Company can increase the revenues from its businesses while improving profitability through a balance of new applications for existing products, development of new products, sales growth in adjacent markets and emerging economies, and leveraging asset investments to improve cost positions. These revenue and earnings increases are expected to result from both organic (internal growth) and inorganic (external growth through joint venture and acquisition) initiatives.

In 2012, the Company progressed on both organic and inorganic growth initiatives, including:

- continuing the integration of Solutia, which was acquired on July 2, 2012 and which:
  broadens Eastman's global presence;
  establishes a combined platform with extensive organic growth opportunities through complementary technologies and business capabilities, and an overlap of key end markets; and
  expands Eastman's portfolio of sustainable products;
- in the Additives & Functional Products segment, making significant progress in the refinement and enhancement of its technology for the manufacture of Crystex® insoluble sulfur in order to improve its cost position and introduce a higher performance product into the growing tires industry, with plans during third quarter 2013 to evaluate the timing of incorporating this technology in a modest capacity expansion at the Kuantan, Malaysia manufacturing facility to capitalize on expected high industrial growth rates in the Asia Pacific region;
- in the Adhesives & Plasticizers segment, pursuing growth in the consumables, building and construction, health and wellness, and durable goods markets by:
  expanding capacity to serve the growing global demand for non-phthalate plasticizers, including retrofitting the acquired Sterling Chemicals, Inc. ("Sterling") plasticizer manufacturing unit in two phases, with the first phase operational in second quarter 2012 and with the timing of the second phase to be determined based on demand; and
  entering into a joint venture in third quarter 2012 with Sinopec Yangzi Petrochemical Company Limited to build a world scale hydrogenated hydrocarbon resin plant in Nanjing, China, expected to be operational by the end of 2014, which will be equally owned by the two companies; it will produce 50,000 metric tons of the Adhesives & Plasticizers segment's Regalite™ hydrocarbon resins upon completion, increasing Eastman's total capacity for hydrogenated resins by 50 percent, making Eastman the largest global supplier of hydrogenated hydrocarbon resins, and supporting demand growth for its products in hygiene and packaging applications;
- in the Advanced Materials segment:
  adding 30,000 metric tons of resin capacity at its facility in Kingsport, Tennessee for Tritan™ copolyester polymer, which was operational in first quarter 2012 and supports growth in the durable goods market;
  completing a capacity expansion for cyclohexane dimethanol ("CHDM"), a monomer used in the manufacture of copolyesters in first quarter 2012;
  completing a capacity expansion for cellulose triacetate to serve growth in displays, which was operational in second quarter 2012;
  adding a second line at the manufacturing facility in Suzhou, China for polyvinyl butyral ("PVB") sheet, which was operational in third quarter 2012 and will support growth in emerging economies of the Asia Pacific region;

increasing capacity for acoustic PVB sheet at the manufacturing facility in Ghent, Belgium, which was operational in fourth quarter 2012 and will support premium growth for acoustics in the transportation market; and progressing on enhancements and innovations to improve the Company's cost position in PVB resin technology supporting expected growth in the transportation and building and construction markets, with construction of a manufacturing facility incorporating these improvements and modestly increasing the segment's PVB resin capacity expected to begin in Kuantan, Malaysia during the second half of 2013 and to be operational during 2015;

- in the Fibers segment, nearing completion of construction of a new 30,000 metric ton acetate tow manufacturing facility in Hefei, China, a joint venture with China National Tobacco Corporation, which is expected to be operational in mid-2013;
- in the Specialty Fluids & Intermediates segment:
  entering into an agreement in second quarter 2012 with Enterprise Products Partners L.P. to purchase propylene from a planned propane dehydrogenation plant, further improving the Company's competitive cost position compared to purchasing olefins in the North American market;
  increasing capacity of 2-ethyl hexanol ("2-EH") by 37,000 metric tons in second quarter 2012 to support expected growth in the plasticizers, coatings, and fuel additive markets;
  completing a debottlenecking project in its largest olefins cracking unit in Longview, Texas, in the first half of 2013, which will primarily produce more ethylene and is expected to improve Eastman's olefin cost position; and
  expanding Therminol® heat transfer fluid capacity through a plant expansion in Newport, Wales, which is expected to be operational in 2014 and will support demand growth in the industrial chemicals and processing market; and
- the announcement of the new Eastman™ microfiber technology, with applications in a variety of end markets, and subsequent completion of a small commercial-scale facility in third quarter 2012.

The Company benefits from advantaged feedstocks and proprietary technologies, and is focusing on sustainability as a competitive strength for growth. Eastman has developed new products and technologies that enable customers' development and sales of sustainable products, and has reduced its greenhouse gas emissions and energy consumption on a unit basis over the last five years.

Management expects continued earnings growth, despite persistent economic uncertainty, as a result of the strength of the Company's businesses (including the Solutia product lines acquired in 2012) and balance sheet. The Company continues to evaluate inorganic growth opportunities, through joint ventures and acquisitions, intended to enhance the Company's product portfolios and extension into emerging markets.

The following chart shows significant Eastman products and markets by segment.

SEGMENT	KEY PRODUCTS AND MARKETS
Additives & Functional Products	Polymers, solvents, insoluble sulfur, antidegradants, performance resins, and other formulated products used in transportation, building and construction, durable goods, and consumables
Adhesives & Plasticizers	Resins and plasticizers used in consumables, building and construction, durable goods, health and wellness, and industrial chemicals and processing
Advanced Materials	Specialized copolyesters, cellulosic plastics, aftermarket window films, and PVB sheet and resins used in transportation, consumables, building and construction, durable goods, health and wellness, and electronics
Fibers	Acetate fibers used in consumables
Specialty Fluids & Intermediates	Specialty fluids and intermediate chemicals used in industrial chemicals and processing; building and construction; health and wellness; energy, fuels, and water; consumables; and agriculture

Seasonality and Cyclicality

The Company's earnings are typically greater in the second and third quarters, and cash flows from operations are highest in the fourth quarter due to seasonality. Results in the Adhesives & Plasticizers and the Advanced Materials segments are typically weaker in the fourth quarter due to seasonal downturns in key markets.

The olefins and olefin derivatives product lines of the Specialty Fluids & Intermediates segment and the solvent product lines of the Additives & Functional Products segment are impacted by the cyclicality of key end products and markets, while other segments are more sensitive to global economic conditions. Supply and demand dynamics determine profitability at different stages of business cycles and global economic conditions affect the length of each cycle.

Despite sensitivity to global economic conditions, many of the products of each segment are expected to continue to provide a stable foundation for earnings.

Financial Strategy

In addition to managing its businesses and growth initiatives, the Company remains committed to maintaining a strong financial position with financial flexibility and consistently solid cash flows. Eastman management believes maintaining a financial profile that supports an investment grade rating is important to its long term strategic and financial flexibility. The Company employs what management believes is a disciplined process for capital allocation and deployment of cash. The Company pursues a variety of organic growth opportunities and also considers inorganic growth opportunities, including joint ventures and acquisitions. The Company also returns cash to stockholders through dividends and, from time to time, by share repurchases. The Company manages its debt based upon its capital structure objectives, funding requirements, and public and private debt market conditions. Management expects that the strength of the Company's businesses and balance sheet will provide continued strong cash flow, a portion of which will be used to significantly repay its five year Solutia acquisition term loan by the end of 2013.

BUSINESS SEGMENTS

The Company's products and operations are currently managed and reported in five operating segments: Additives & Functional Products, Adhesives & Plasticizers, Advanced Materials, Fibers, and Specialty Fluids & Intermediates.

ADDITIVES & FUNCTIONAL PRODUCTS SEGMENT

•Overview

In the Additives & Functional Products segment, the Company manufactures chemicals for products in the coatings and tires industries in transportation, building and construction, durable goods, and consumables markets. In 2012, the Additives & Functional Products segment had sales revenue of $1.3 billion, 16 percent of Eastman's total sales. On a pro forma combined basis, in 2012 the Additives &a