

EASTMAN CHEMICAL CO

Form DEF 14A

March 27, 2009

**Table of Contents**

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

Eastman Chemical Company

---

(Name of Registrant as Specified In Its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

o Fee paid previously with preliminary materials.

o

## Edgar Filing: EASTMAN CHEMICAL CO - Form DEF 14A

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

---

**TABLE OF CONTENTS**

**LETTER TO STOCKHOLDERS**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**PROXY STATEMENT**

**INFORMATION ABOUT THE MEETING AND VOTING**

Proxy Statement and Annual Meeting

Voting By Proxy

How to Revoke Your Proxy

Record Date; Stockholders Entitled to Vote; Voting Rights

Quorum

Vote Required for Approval of Matters to be Considered

Proxy Solicitation Costs

Matters Raised at the Annual Meeting Not Included in this Proxy Statement

Stockholder Proposals for the 2010 Annual Meeting

Nominations by Stockholders for Election to the Board of Directors

Annual Report to Stockholders, Annual Report on Form 10-K, and Corporate Governance Materials

Communications to the Board of Directors

**PROPOSALS TO BE VOTED ON AT THE ANNUAL MEETING**

**ITEM 1--ELECTION OF DIRECTORS**

**NOMINEES FOR DIRECTOR**

**MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE**

Information About the Board of Directors and Corporate Governance

Director Independence

Transactions with Directors, Executive Officers, and Related Persons

Board Committees

Audit Committee.

Audit Committee Report

Nominating and Corporate Governance Committee.

Director Nominations.

Compensation and Management Development Committee.

Compensation Committee Report

Finance Committee.

Health, Safety, Environmental and Security Committee.

Director Compensation

**ITEM 2 -- RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

Audit Fees

Audit-Related Fees

Tax Fees

All Other Fees

**ITEM 3 -- PROPOSAL REQUESTING THAT MANAGEMENT REVISE EMPLOYMENT  
NONDISCRIMINATION POLICY TO PROHIBIT DISCRIMINATION BASED ON SEXUAL  
ORIENTATION AND GENDER IDENTITY**

Response of the Company

**ITEM 4 -- PROPOSAL REQUESTING THAT THE BOARD TAKE STEPS NECESSARY TO GIVE  
HOLDERS OF 10% OF OUTSTANDING COMMON STOCK THE RIGHT TO CALL SPECIAL  
MEETINGS**

Response of the Company

**STOCK OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS**

Common Stock

Common Stock and Common Stock Units

**PRINCIPAL STOCKHOLDERS**

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Tables

Termination and Change-in-Control Arrangements

FORMS OF PROXY

---

**Table of Contents**

March 19, 2009

**Dear Fellow Stockholder:**

Our 2009 Annual Meeting of Stockholders will be held at the Toy F. Reid Employee Center, located at 400 South Wilcox Drive, in Kingsport, Tennessee, on May 7, 2009, at 11:30 a.m. Doors to the meeting will open at 10:30 a.m. The business to be considered and voted upon at the meeting is explained in the accompanying proxy materials (consisting of the Notice of Annual Meeting, the Proxy Statement, and the proxy card). A copy of Eastman's 2008 Annual Report to Stockholders is also included with these materials.

Your vote is important for this year's annual meeting, regardless of the number of shares you own. Signing and returning a proxy card or submitting your proxy via the Internet or telephone in advance of the meeting will not prevent you from voting in person, but will assure that your vote is counted if you are unable to attend the meeting. **Whether you choose to vote by proxy card, telephone, or computer, I urge you to vote as soon as possible.** If you are a record holder of Eastman stock, an admission ticket for the meeting is included with your proxy card. If you received our proxy materials from a broker or bank and do not have an admission ticket but wish to attend the meeting, please call (423) 229-4647.

Thank you for your support of our Company.

Sincerely,

J. Brian Ferguson  
*Chairman and Chief Executive Officer*

---

**Table of Contents**

**EASTMAN CHEMICAL COMPANY**  
**200 South Wilcox Drive**  
**Kingsport, Tennessee 37662**  
**(423) 229-2000**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON MAY 7, 2009**

To Our Stockholders:

The 2009 Annual Meeting of Stockholders of Eastman Chemical Company ( Eastman or the Company ) will be held at the Toy F. Reid Employee Center, located at 400 South Wilcox Drive, Kingsport, Tennessee, on May 7, 2009, at 11:30 a.m., local time. The purposes of the meeting are:

**Elect Directors.** To elect four directors to serve in the class for which the term in office expires at the 2012 Annual Meeting of Stockholders and until their successors are duly elected and qualified;

**Ratify Appointment of Independent Auditors.** To ratify the appointment of PricewaterhouseCoopers LLP as independent auditors for the Company for 2009;

**Vote on Stockholder Proposals.** To vote on two proposals submitted by stockholders if properly presented at the meeting; and

**Transact Any Other Business.** To transact such other business as may properly come before the meeting.

Only stockholders of record at the close of business on March 10, 2009 are entitled to vote at the meeting.

**It is important that your shares be represented and voted at the meeting.** Please vote by proxy in one of these ways:

*Use the toll-free telephone number shown on your proxy card or voting instruction form (if you received the proxy materials by mail from a broker or bank);*

*By Internet at the web address shown on your proxy card or voting instruction form; or*

*Mark, sign, date, and promptly return your proxy card or voting instruction form in the postage-paid envelope provided.*

Signing and returning the proxy card or submitting your proxy via Internet or by telephone does not affect your right to vote in person if you attend the meeting.

By order of the Board of Directors

Theresa K. Lee

*Chief Legal Officer and Corporate Secretary*

March 19, 2009

---



Table of Contents

**PROXY STATEMENT  
FOR  
ANNUAL MEETING OF STOCKHOLDERS OF  
EASTMAN CHEMICAL COMPANY  
TO BE HELD ON MAY 7, 2009**

**INFORMATION ABOUT THE MEETING AND VOTING**

**Proxy Statement and Annual Meeting**

This proxy statement is dated March 19, 2009 and is first being mailed and delivered electronically to Eastman stockholders, and made available on the Internet at the Company's website ([www.eastman.com](http://www.eastman.com)), on or about March 27, 2009. Our Board of Directors (the Board) is furnishing you this proxy statement in connection with its solicitation of proxies to be voted at the Annual Meeting of Stockholders of the Company to be held on May 7, 2009, and at any adjournments or postponements of the meeting. A proxy statement is a document that Securities and Exchange Commission (SEC) regulations require us to give you when we ask you to vote your stock by proxy. At the meeting, stockholders will be asked to consider and vote on the items of business listed in the accompanying Notice of Annual Meeting and described in more detail in this proxy statement.

**Voting By Proxy**

A proxy is a legal designation of another person to vote the stock you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document is also called a proxy, a proxy card, or a form of proxy.

By completing and returning your proxy (either by returning the paper proxy card or by submitting your proxy electronically via the Internet, or by telephone), you appoint Curtis E. Espeland, the Company's Chief Financial Officer, and Theresa K. Lee, the Company's Chief Legal Officer and Corporate Secretary, to represent you at the meeting and direct them to vote your shares at the meeting according to your instructions. Shares of common stock represented by proxy will be voted by the proxy holders at the meeting in accordance with your instructions as indicated in the proxy. **If you properly execute and return your proxy (in paper form, electronically via the Internet, or by telephone) but do not indicate any voting instructions, your shares will be voted in accordance with the recommendations of the Board as to the matters identified in this proxy statement and in the best judgment of the proxy holders as to any other matters.**

If your shares are registered in your name, you are a stockholder of record. **Stockholders of record may vote by proxy in one of three ways:**

by telephone: call (888) 693-8683 and follow the instructions on your proxy card;

via the Internet: visit the [www.cesvote.com](http://www.cesvote.com) website and follow the instructions on your proxy card; or

by mail: mark, sign, date, and mail your proxy card in the enclosed postage-paid envelope.

The Internet and telephone voting procedures are designed to authenticate stockholder identities, to allow stockholders to give voting instructions, and to confirm that stockholders' instructions have been recorded properly.

**If your shares are held in street name through a broker, bank or other holder of record, you will receive instructions from the registered holder that you must follow in order for your shares to be voted for you by that record holder.** Telephone and Internet voting is also offered to stockholders who own their shares through certain brokers and banks.

### **How to Revoke Your Proxy**

You may revoke your proxy at any time before its exercise at the meeting by:

giving written notice of revocation to the Corporate Secretary of the Company;

executing and delivering a later-dated, signed proxy card or submitting a later-dated proxy via the Internet or by telephone before the meeting; or

voting in person at the meeting.

All written notices of revocation or other communications with respect to revocation of proxies should be sent to Eastman Chemical Company, P.O. Box 431, Kingsport, Tennessee 37662-5280, Attention: Corporate Secretary, so that they are received before the meeting.

---

## **Table of Contents**

### **Record Date; Stockholders Entitled to Vote; Voting Rights**

The record date for the 2009 Annual Meeting of Stockholders is March 10, 2009. Owners of record of common stock at the close of business on the record date are entitled to receive notice of the meeting and to vote at the meeting. The record date is established by the Board as required by Delaware law. If your shares are held in street name through a broker, bank or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote in person at the meeting.

On the record date, there were 72,644,214 shares of common stock issued and outstanding. Holders of common stock are entitled to one vote on each matter voted upon at the meeting for each share of common stock they hold of record on the record date.

### **Quorum**

The presence, in person or by proxy, of the holders of a majority of the shares of common stock entitled to vote at the meeting is necessary to constitute a quorum to conduct business. Abstentions and broker non-votes will be counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a registered holder (such as a broker or bank) holding shares in street name for a beneficial owner does not vote on a particular proposal because the registered holder does not have discretionary voting power for that particular item and has not received voting instructions from the beneficial owner. Please note that banks and brokers which have not received voting instructions from their clients cannot vote on their clients behalf on adoption of the stockholder proposals, but may vote their clients shares on the election of directors and the ratification of the appointment of independent auditors.

### **Vote Required for Approval of Matters to be Considered**

Each director who receives a majority of votes cast (number of shares voted for a director must exceed the number of shares voted against that director) will be elected as a director. With respect to the election of directors, stockholders may by proxy (1) vote for all four of the nominees, (2) vote against all four of the nominees, (3) vote against any individual nominee or nominees but vote for the other nominee(s), or (4) abstain from voting on one or more nominees. Shares not present, in person or by proxy, at the meeting and abstentions will have no effect on the outcome of the election of directors. Similarly, any broker non-votes are not considered to be votes cast and therefore would have no effect on the outcome of the election of directors.

The affirmative vote of a majority of the votes cast is required for each of the ratification of the appointment of independent auditors and adoption of the recommendations of the stockholder proposals. With respect to each of these items, stockholders may (1) vote for, (2) vote against, or (3) abstain from voting. Abstentions and broker non-votes are not considered to be votes cast and therefore will have no effect on the outcome of these proposals.

### **Proxy Solicitation Costs**

We will bear the cost of soliciting proxies and the cost of the meeting. In addition to the solicitation of stockholders by mail and electronic means, proxies may be solicited by telephone, facsimile, personal contact, and similar means by our directors, officers, or employees, none of whom will be specially compensated for these activities. We have also contacted brokerage houses, banks, nominees, custodians, and fiduciaries which can be identified as record holders of common stock. Such holders, after inquiry by us, have provided certain information concerning beneficial owners not objecting to the disclosure of such information and the quantities of proxy materials and annual reports needed to supply such materials to beneficial owners, and we will reimburse such record holders for the expense of providing such beneficial ownership information and of mailing proxy materials and annual reports to beneficial owners. We

have retained Georgeson Inc. to assist with the solicitation of proxies and vote projections for a fee of \$18,500 plus reimbursement of out-of-pocket expenses.

## **Table of Contents**

### **Matters Raised at the Annual Meeting Not Included in this Proxy Statement**

We do not expect any business to be acted upon at the meeting other than as described in this proxy statement. If, however, other matters are properly brought before the meeting, the persons appointed as proxies will have the discretion to vote or act on those matters for you according to their best judgment.

### **Stockholder Proposals for the 2010 Annual Meeting**

In accordance with rules of the SEC, if you wish to submit a proposal for presentation at Eastman's 2010 Annual Meeting of Stockholders, it must be received by the Company at its principal executive offices on or before November 27, 2009 in order to be included in the Company's proxy materials relating to its 2010 Annual Meeting of Stockholders. Any such proposal should be sent to Eastman Chemical Company, P.O. Box 431, Kingsport, Tennessee 37662-5280, Attention: Corporate Secretary.

In addition, our Bylaws require that a proposal to be submitted by a stockholder for a vote of the Company's stockholders at an annual meeting of stockholders, whether or not also submitted for inclusion in the Company's proxy materials, must be preceded by adequate and timely notice to the Corporate Secretary of the Company. To be adequate, the notice must set forth certain information specified in our Bylaws about the stockholder and the proposal. The Bylaws are available through the Investors' Corporate Governance section of the Company's website, and also will be provided to any stockholder upon written request. To be timely, the notice must be delivered to the Corporate Secretary of the Company not less than 45 days prior to the day of the month on which the notice of the immediately preceding year's annual meeting of stockholders was first sent to the stockholders of the Company. If, as expected, notice of the 2009 Annual Meeting of Stockholders is first sent to stockholders on March 27, 2009, then such advance notice would be timely if delivered on or before February 10, 2010.

### **Nominations by Stockholders for Election to the Board of Directors**

Our Bylaws provide that nominations by stockholders of persons for election to the Board may be made by giving adequate and timely notice to the Corporate Secretary of the Company. To be adequate, the nomination notice must set forth certain information specified in our Bylaws about each stockholder submitting a nomination and each person being nominated. The Bylaws are available through the Investors' Corporate Governance section of the Company's website, and also will be provided to any stockholder upon written request. To be timely, the nomination notice must be delivered to the Corporate Secretary of the Company not less than 45 days prior to the day of the month on which the notice of the immediately preceding year's annual meeting of stockholders was first sent to the stockholders of the Company. If, as described above, the notice of the 2009 Annual Meeting of Stockholders is first sent to stockholders on March 27, 2009, then such notice would be timely if delivered on or before February 10, 2010. The Nominating and Corporate Governance Committee of the Board will consider persons properly and timely nominated by stockholders and recommend to the full Board whether such nominee should be included with the Board's nominees for election by stockholders.

### **Annual Report to Stockholders, Annual Report on Form 10-K, and Corporate Governance Materials**

Our Annual Report to Stockholders for 2008, including consolidated financial statements for the year ended December 31, 2008, is being mailed and delivered electronically to stockholders, and made available on the Internet at the Company's website, concurrently with this proxy statement but does not form any part of any proxy solicitation material. This year's Annual Report to Stockholders includes the Company's Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the SEC. This information is also available via the Internet at the Company's website ([www.eastman.com](http://www.eastman.com)), and the version of such report (with exhibits) filed with the SEC is available at the SEC's

website ([www.sec.gov](http://www.sec.gov)).

We also make available free of charge, through the Investors Corporate Governance section of the Eastman website, the Corporate Governance Guidelines, the charters of each of the committees of the Board, and codes of business conduct and ethics for our directors, officers, and employees. Such materials are also available in print upon written request of any stockholder to Eastman Chemical Company, P.O. Box 431, Kingsport, Tennessee 37662-5280, Attention: Investor Relations.

**Table of Contents**

**Communications to the Board of Directors**

Stockholders, and other interested parties, may communicate with non-management directors in writing by directing such communications to the Chair of the Nominating and Corporate Governance Committee, Eastman Chemical Company, P.O. Box 1976, Kingsport, Tennessee 37662-5075 or by telephone toll free by calling 800-782-2515. Any communications concerning substantive Board or Company matters are promptly forwarded by the office of the Corporate Secretary to the Chair of the Nominating and Corporate Governance Committee, and the office of the Corporate Secretary keeps and regularly provides to the Chair of the Nominating and Corporate Governance Committee a summary of any communications received.

**Table of Contents**

**PROPOSALS TO BE VOTED ON AT THE ANNUAL MEETING**

**ITEM 1 ELECTION OF DIRECTORS**

The Company's Certificate of Incorporation divides the Board into three classes, with the terms of office of the respective classes ending in successive years. Under the Company's Bylaws, a director reaching age 70 during any term of office continues to be qualified to serve only until the next annual meeting of stockholders following his or her 70th birthday (or, if approved by unanimous action of the Board, until the next annual meeting following his or her 71st birthday). Unless additional terms of office are approved by the Board in certain circumstances, the maximum number of consecutive full three-year terms of office that may be served by any director (other than a director who is the Chief Executive Officer) is three.

Four directors are in the class for which the term in office expires at the 2009 Annual Meeting, and each of them has been nominated for reelection for a new three-year term. The terms of the other eight directors continue after the meeting.

The stockholders are being asked to vote on the election of four directors to the class for which the term of office shall expire at the Annual Meeting of Stockholders in 2012 and their successors are duly elected and qualified. If any nominee is unable or unwilling to serve (which we do not anticipate), the persons designated as proxies will vote your shares for the remaining nominees and for another nominee proposed by the Board or, as an alternative, the Board could reduce the number of directors to be elected at the meeting.

*Director Changes Since the 2008 Annual Meeting.* In December 2008, the Board elected James P. Rogers as a director. The Board has unanimously extended the term of office of director Peter M. Wood, who reached age 70, until the expiration of his term at the 2010 Annual Meeting of Stockholders.

*Majority Vote Standard for Election of Directors.* The Company's Bylaws provide that directors be elected by a majority of votes cast by stockholders. If a nominee who is serving as a director is not reelected by a majority of votes cast at an annual meeting, under Delaware law the director would continue to serve on the Board as a holdover director. However, under the director election provision of our Bylaws, any incumbent director who does not receive a majority of votes cast in favor of reelection and whose successor has not been elected by stockholders would offer to resign from the Board. The Nominating and Corporate Governance Committee would then make a recommendation to the Board whether to accept or reject the resignation, or whether other action should be taken. The Board would act on the recommendation and publicly disclose its decision and the rationale behind it within 90 days from the date the election results are certified. The director who tenders his or her resignation would not participate in the Board's decision. If a nominee who was not already serving as a director was not elected at an annual meeting, under Delaware law that nominee would not become a director and would not serve on the Board as a holdover director. In 2009, all nominees for director are currently serving on the Board.

**The nominees have been recommended to the Board of Directors by the Nominating and Corporate Governance Committee of the Board. The Board of Directors recommends that you vote FOR election of the four nominees identified below.**

Set forth below is information about each director nominated for reelection or whose term in office will continue after the meeting.



Table of Contents

**NOMINEES FOR DIRECTOR**  
**Term Expiring Annual Meeting 2012**

STEPHEN R. DEMERITT (director since February 2003)

Mr. Demeritt served as Vice Chairman of General Mills, Inc. from 1999 until his retirement in 2005. General Mills is a leading producer of packaged consumer foods. He joined General Mills in 1969 and served in a variety of marketing positions, including President, International Foods from 1991 to 1993 and Chief Executive Officer of Cereal Partners Worldwide, General Mills global cereal joint venture with Nestle, from 1993 to 1999. Mr. Demeritt is 65.

ROBERT M. HERNANDEZ (director since August 2002)

Mr. Hernandez was Vice Chairman of the Board and Chief Financial Officer of USX Corporation from 1994 until his retirement in 2001. He joined U.S. Steel Corporation, the predecessor of USX, in 1968, and held positions of increasing responsibility in the financial and operating organizations, including Vice President and Treasurer from 1984 to 1987, Senior Vice President and Controller from 1987 to 1989, President, U.S. Diversified Group from 1989 to 1990, Senior Vice President, Finance from 1990 to 1991, and Executive Vice President and Chief Financial Officer from 1991 to 1994. Mr. Hernandez is non-executive Chairman of the Board of RTI International Metals, Inc., Lead Director of American Casualty Excess (ACE) Ltd., Chairman of the Board of Trustees of BlackRock Open End Long Term Bond & Equity Funds, and a member of the Board of Directors of Tyco Electronics Ltd. Mr. Hernandez is 64.

LEWIS M. KLING (director since October 2006)

Mr. Kling has served as President, Chief Executive Officer, and a director of Flowserve Corporation, a provider of industrial flow management products and services, since 2005, and was Chief Operating Officer of Flowserve from 2004 to 2005. Before joining Flowserve, he was Group Vice President and Corporate Vice President of SPX Corporation from 1999 to 2004, and served as President of Dielectric Communications, a division of General Signal Corporation, purchased by SPX Corporation, from 1997 to 1999. Mr. Kling is 64.

DAVID W. RAISBECK (director since December 2000)

Mr. Raisbeck was Vice Chairman of Cargill, Incorporated, an agricultural trading and processing company, from 1999 until his retirement in 2008. He joined Cargill in 1971 and

has held a variety of merchandising and management positions focused primarily in the commodity and financial trading businesses. Mr. Raisbeck was appointed President of Cargill's Financial Markets Division in 1988 and President of Cargill's Trading Sector in 1993, was elected a director of Cargill in 1994, and Executive Vice President in 1995. He is also a member of the Boards of Directors of Cargill Incorporated and Cardinal Health, Inc. Mr. Raisbeck is 59.

Table of Contents

**MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE**  
**Term Expiring Annual Meeting 2010**

GARY E. ANDERSON (director since August 2007)

Mr. Anderson is retired Chairman of the Board of the Dow Corning Corporation. He joined Dow Corning, a diversified company specializing in the development, manufacture, and marketing of silicones and related silicone-based products, in 1967 and served in various executive capacities for over 25 years, including Chairman, President, and Chief Executive Officer, retiring as Chairman in 2005. Mr. Anderson is also a member of the Board of Directors of Chemical Financial Corporation. Mr. Anderson is 63.

RENÉE J. HORNBAKER (director since September 2003)

Ms. Hornbaker has served as Chief Financial Officer of Shared Technologies, Inc., a provider of converged voice and data networking solutions, since October 2006, and was Consultant to the Chief Executive Officer of CompuCom Systems, Inc., an information technology services provider, from 2005 to 2006. She was Vice President and Chief Financial Officer of Flowserve Corporation from 1997 until 2004. In 1977, Ms. Hornbaker joined the accounting firm Deloitte, Haskins & Sells, where she became a senior manager of its audit practice in the firm's Chicago office. Following that, she served in senior financial positions with several major companies from 1986 until 1996, when she joined BW/IP, Inc., a predecessor of Flowserve, as Vice President, Business Development. Ms. Hornbaker is 56.

THOMAS H. McLAIN (director since February 2004)

Mr. McLain served as Chairman, Chief Executive Officer, and President of Nabi Biopharmaceuticals from 2004 until his resignation in February 2007, and was Chief Executive Officer, President and a director of Nabi from 2002 until 2004. Nabi is a biotechnology company that applies its knowledge of the human immune system to develop and market products that address serious medical conditions. Previously, Mr. McLain served as President, Chief Operating Officer and a director in 2002 and 2003, and in 2001 and 2002, he served as Executive Vice President and Chief Operating Officer. From 1998 to 2001, Mr. McLain served as Senior Vice President, Corporate Services and Chief Financial Officer. From 1988 to 1998, Mr. McLain was employed by Bausch & Lomb, Inc., a global eye care company, where he held various senior financial management positions of increasing responsibility. Before joining Bausch & Lomb, Mr. McLain practiced with the accounting firm of Ernst & Young LLP. Mr. McLain is 51.

PETER M. WOOD (director since May 2000)

Mr. Wood served as a Managing Director of J.P. Morgan & Company, an investment

banking firm, from 1986 until his retirement in 1996, and was Vice President, Mergers & Acquisitions, of Kidder, Peabody & Company, Inc., an investment banking firm, from 1981 to 1986. From 1966 to 1981 Mr. Wood was a member (and a partner since 1971) of the international management consulting firm of McKinsey & Company. Mr. Wood was non-executive Chairman of the Board of Stone & Webster, Incorporated from 2000 to 2004. He is also a member of the Boards of Directors of Middlesex Mutual Assurance Company, Holyoke Mutual Insurance Company, and MSI Preferred Insurance Company. Mr. Wood is 70.

**Table of Contents**

**Term Expiring Annual Meeting 2011**

MICHAEL P. CONNORS (director since March 2005)

Mr. Connors has been Chairman of the Board and Chief Executive Officer of Information Services Group, Inc., an information-based services company, since July 2006. Mr. Connors served as a member of the Executive Board of VNU N.V., a major worldwide media and marketing information company, from the merger of ACNielsen into VNU in 2001 until 2005, and served as Chairman and Chief Executive Officer of VNU Media Measurement & Information Group and Chairman of VNU World Directories until 2005. He previously was Vice Chairman of the Board of ACNielsen from its spin-off from the Dun & Bradstreet Corporation in 1996 until 2001, was Senior Vice President of American Express Travel Related Services from 1989 until 1995, and before that was a Corporate Vice President of Sprint Corporation. Mr. Connors is also a member of the Board of Directors of R.H. Donnelley Corporation. Mr. Connors is 53.

J. BRIAN FERGUSON (director since January 2002)

Mr. Ferguson has been Chairman of the Board and Chief Executive Officer of the Company since 2002, and will become Executive Chairman of the Board effective May 7, 2009 when James P. Rogers succeeds him as Chief Executive Officer immediately following the 2009 Annual Meeting of Stockholders. He joined Eastman in 1977. Mr. Ferguson was named Vice President, Industry and Federal Affairs in 1994, became Managing Director, Greater China in 1997, was named President, Eastman Chemical Asia Pacific in 1998, became President, Polymers Group in 1999, and became President, Chemicals Group in 2001. He is also a member of the Board of Directors of FPL Group, Inc., parent company of Florida Power & Light Company. Mr. Ferguson serves as a member of the American Chemistry Council Board of Directors, on the Executive Committee of the Business Roundtable, on the President's Export Council, and as a Trustee of the United States Council for International Business. Mr. Ferguson is 54.

HOWARD L. LANCE (director since December 2005)

Mr. Lance has served as President, Chief Executive Officer, and a director of Harris Corporation since January 2003, and was appointed Chairman of the Board in June 2003. Harris is an international communications and information technology company serving government and commercial markets. Mr. Lance was President of NCR Corporation, an information technology services provider, and Chief Operating Officer of its Retail and Financial Group from July 2001 until October 2002. Prior to joining NCR, he spent 17 years with Emerson Electric Company, an electronic products and systems company, where he held increasingly senior management positions. Earlier, Mr. Lance held sales and marketing positions with the Scott-Fetzer Company and Caterpillar, Inc. Mr. Lance is also a member of the Board of Directors of Harris Stratex Networks, Inc. Mr. Lance is 53.



**Table of Contents**

JAMES P. ROGERS (director since December 2008)

Mr. Rogers has been President of Eastman Chemical Company and Chemicals & Fibers Business Group Head since 2006, and will become President and Chief Executive Officer of the Company effective following the Annual Meeting of Stockholders on May 7, 2009. He joined the Company in 1999 as Senior Vice President and Chief Financial Officer and in 2002 also became Chief Operations Officer of Eastman Division, and was named Executive Vice President of the Company and President of Eastman Division in November 2003. Mr. Rogers served previously as Executive Vice President and Chief Financial Officer of GAF Materials Corporation. He also served as Executive Vice President, Finance, of International Specialty Products, Inc., which was spun off from GAF in 1997. Mr. Rogers is 57.

## **Table of Contents**

### **Information About the Board of Directors and Corporate Governance**

The Board is elected by the stockholders to oversee management and to assure that the long-term interests of the stockholders are being served. The primary role of the Board is to maximize stockholder value over the long-term. Eastman's business is conducted by its employees, managers, and officers, under the direction of the Chief Executive Officer and the oversight of the Board. The Nominating and Corporate Governance Committee of the Board periodically reviews and assesses the Company's Corporate Governance Guidelines and governance practices.

The Board held seven meetings during 2008. Each director attended at least 75% of the aggregate of the total number of meetings of the Board (held during the period for which he or she was a director) and the total number of meetings held by all committees of the Board on which he or she served (during the period that he or she served).

The non-management directors meet in an executive session (*i.e.*, without management) at each regularly scheduled Board meeting and at such other times as the Board or one or more committees of the Board may determine. The presiding director of each such executive session is the chair of the committee with authority and expertise pertinent to the subject matters to be discussed or, if the subjects to be addressed do not directly pertain to one of the committees, a presiding director is appointed by the Chairman of the Board on a rotating basis.

The Board meets before each annual meeting of stockholders, and the directors in attendance at such Board meeting attend the annual meeting of stockholders. All directors then in office attended the 2008 Annual Meeting of Stockholders.

### **Director Independence**

The Board and its Nominating and Corporate Governance Committee have reviewed the standards of independence for directors established by applicable laws and regulations, including the listing standards of the New York Stock Exchange, and by the Company's Corporate Governance Guidelines and have reviewed and evaluated the relationships of directors with the Company and its management. Based upon this review and evaluation, the Board has determined that none of the current non-employee members of the Board has a relationship with the Company or its management that would interfere with such director's exercise of independent judgment, and that each non-employee member of the Board is an independent director.

In making this determination, the Nominating and Corporate Governance Committee and the Board reviewed and evaluated all direct and indirect transactions and relationships between the Company and non-employee directors and their affiliates and immediate family members. Under the New York Stock Exchange listing standards and the Corporate Governance Guidelines, an independent director is one who has no direct or indirect material relationship with the Company or its management and who:

has not been employed by the Company or any of its subsidiaries or affiliates, and who has no immediate family member who has been an executive officer of the Company, within the previous three years;

has not received, and whose immediate family member has not received, in any 12-month period within the previous three years, more than \$120,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service, provided such compensation is not contingent in any way on continued service;

as to the Company's internal or external auditor, is not, and whose immediate family member is not, a partner; is not employed by; has not been, and whose immediate family member has not been, within the last three



years, and is not currently, a partner or employee and personally worked on the Company's audit;

is not and has not in the past three years been employed, and whose immediate family member is not and has not in the past three years been employed, as an executive officer of another company where any of the Company's present executives at the same time serve or served on that company's compensation committee;

is not an employee of, and whose immediate family member is not an executive officer of, another company that has made payments to, or received payments from, the Company for property or services in an amount

**Table of Contents**

that exceeds, in any of the last three years, the greater of \$1 million or 2% of such other company's consolidated gross revenues;

has no personal services contract with the Company, any subsidiary or affiliate of the Company or any executive officer;

does not have any other business relationship with the Company or any of its subsidiaries or affiliates (other than service as a director) that the Company would be required to disclose in proxy statements or in annual reports on Form 10-K filed with the SEC;

is not an executive officer of another company that is indebted to the Company or to which the Company is indebted and the total amount of either company's indebtedness to the other is more than 1% of the total consolidated assets of the company that he or she serves as an executive officer;

is not an officer, director, or trustee of a charitable organization to which discretionary charitable contributions to the organization by the Company or an affiliate are more than 1% of that organization's total annual charitable receipts or \$100,000, whichever is less; and

is not a director, executive officer, partner, or greater than 10% equity holder of an entity that provides advisory, consulting, or professional services to the Company, any of its affiliates, or any executive officer.

**Transactions with Directors, Executive Officers, and Related Persons**

As described above, at least annually the Board reviews and evaluates all current and recent past transactions involving the Company in which non-management directors and their affiliates (including immediate family members and other firms, corporations, or entities with which the director has a relationship) have or had a direct or indirect interest. The Board also reviews any such transactions and relationships in which executive officers of the Company or members of their immediate families have or had an interest. In the most recent such review, the Board considered purchases and sales of products and services in the ordinary course of business to and from companies of which non-employee directors or members of their family are executive officers. Each such transaction was below the thresholds of the categorical standards listed above and determined by the Board not to be a material transaction or relationship.

The Board also reviewed the employment by the Company as an engineer of the son of former executive officer Gregory O. Nelson, and determined that Dr. Nelson did not have a material interest in such employment relationship or transactions that created a conflict of interest. The terms of such employment, including compensation and benefits, were in all respects according to standard Company policies and practices for professional employees. Dr. Nelson's son worked in an organization that was not in Dr. Nelson's line of management and Dr. Nelson had no direct or indirect reporting relationship with his son.

Written Company policies require approval by the Board (in the case of the Chief Executive Officer) or senior management (in the case of all other employees) of each transaction in which an employee has a direct or indirect financial or other personal interest, and restrict direct or indirect reporting relationships between immediate family member employees.

## Table of Contents

### **Board Committees**

The Board has an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation and Management Development Committee, a Finance Committee, and a Health, Safety, Environmental and Security Committee. All committee members are non-employee, independent directors. The written charter of each committee of the Board is available in the Investors Corporate Governance section of the Company's Internet website ([www.eastman.com](http://www.eastman.com)).

**Audit Committee.** The members of the Audit Committee are Ms. Hornbaker (Chair) and Messrs. Anderson, Hernandez, Lance, and McLain. The Audit Committee held nine meetings during 2008. The purpose of the Audit Committee is to assist the Board in fulfilling the Board's oversight responsibilities relating to:

- the integrity of the financial statements of the Company and the Company's system of internal controls;
- the Company's management of and compliance with legal and regulatory requirements;
- the independence and performance of the Company's internal auditors;
- the qualifications, independence, and performance of the Company's independent auditors; and
- the retention and termination of the Company's independent auditors, including the approval of fees and other terms of their engagement, and the approval of non-audit relationships with the independent auditors.

The Board of Directors has determined that each current member of the Audit Committee is independent and that each of Ms. Hornbaker and Messrs. Anderson, Hernandez, and McLain is an audit committee financial expert under applicable provisions of the New York Stock Exchange's listing standards and the Securities Exchange Act of 1934. In making such determination, the Board took into consideration, among other things, the express provision in Item 407(d) of SEC Regulation S-K that the determination that a person has the attributes of an audit committee financial expert shall not impose any greater responsibility or liability on that person than the responsibility and liability imposed on such person as a member of the Audit Committee and the Board of Directors, nor shall it affect the duties and obligations of other Audit Committee members or the Board.

### **Audit Committee Report**

The Audit Committee has reviewed and discussed with the Company's management and PricewaterhouseCoopers LLP, the Company's independent auditors, the audited financial statements of the Company contained in the Company's Annual Report to Stockholders for the year ended December 31, 2008. The Audit Committee has also discussed with the Company's independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Committee has received and reviewed the written disclosures and the letter from PricewaterhouseCoopers LLP required by Public Company Accounting Oversight Board Rule 3526 (*Communications With Audit Committees Concerning Independence*), and has discussed with PricewaterhouseCoopers LLP their independence. The Audit Committee has also considered whether the provision of non-audit services to the Company by PricewaterhouseCoopers LLP is compatible with maintaining their independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the SEC.

Audit Committee  
Renée J. Hornbaker (Chair)  
Gary E. Anderson  
Robert M. Hernandez  
Howard L. Lance  
Thomas H. McLain

**Table of Contents**

**Nominating and Corporate Governance Committee.** The members of the Nominating and Corporate Governance Committee are Messrs. Demeritt (Chair), Connors, Kling, Raisbeck, and Wood. The Nominating and Corporate Governance Committee held four meetings during 2008. The purpose of the Nominating and Corporate Governance Committee is to:

- identify individuals qualified to become Board members;
- recommend to the Board candidates to fill Board vacancies and newly-created director positions;
- recommend to the Board whether incumbent directors should be nominated for re-election to the Board upon the expiration of their terms;
- develop and recommend corporate governance principles;
- review and make recommendations to the Board regarding director compensation; and
- recommend committee structures, membership, and chairs.

*Director Nominations.* The Nominating and Corporate Governance Committee is responsible for reviewing and selecting potential directors who possess the skills, knowledge, and understanding necessary for the Board to successfully perform its role in corporate governance. The Nominating and Corporate Governance Committee considers not only an individual director's or possible nominee's qualities, performance, and professional responsibilities, but also the then-current composition of the Board and the challenges and needs of the Board as a whole at that time. In general, the desired attributes of individual directors, including those of any nominees of stockholders, are as follows:

- integrity and demonstrated high ethical standards;
- experience with business administration processes and principles;
- the ability to express opinions, raise difficult questions, and make informed, independent judgments;
- knowledge, experience, and skills in at least one specialty area, for example:
  - accounting or finance,
  - corporate management,
  - marketing,
  - manufacturing,
  - technology,
  - information systems,
  - the chemical industry,

international business, or

legal or governmental expertise;

the ability to devote sufficient time to prepare for and attend Board meetings (it is assumed that service on up to three other boards of directors will not impair a director's service on the Company's Board; the Nominating and Corporate Governance Committee reviews instances in which a director serves on more than three other for-profit companies' boards of directors);

willingness and ability to work with other members of the Board in an open and constructive manner;

the ability to communicate clearly and persuasively; and

diversity in gender, ethnic background, geographic origin, or personal and professional experience.

The Nominating and Corporate Governance Committee will consider persons nominated by stockholders and recommend to the full Board whether such nominee should be included with the Board's nominees for election by

**Table of Contents**

stockholders. The Board and the Nominating and Corporate Governance Committee have from time to time engaged the services of director search firms to assist in the identification of qualified potential director nominees.

**Compensation and Management Development Committee.** The members of the Compensation and Management Development Committee (the Compensation Committee) are Messrs. Connors (Chair), Demeritt, Kling, Raisbeck, and Wood. The Compensation Committee held seven meetings during 2008. The purpose of the Compensation Committee is to establish and administer the Company's policies, programs, and procedures for evaluating, developing, and compensating the Company's senior management. Among other things, the Compensation Committee discharges the Board's responsibilities relating to compensation of the Company's executive officers, reviews and approves the adoption of cash and equity-based incentive management compensation plans, and oversees the administration of the Company's benefits plans.

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis which appears later in this proxy statement. Based on the review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the SEC and in this proxy statement.

Compensation and Management Development Committee  
Michael P. Connors (Chair)  
Stephen R. Demeritt  
Lewis M. Kling  
David W. Raisbeck  
Peter M. Wood

**Finance Committee.** All of the directors except Messrs. Ferguson and Rogers are members, and Mr. Raisbeck is the Chair, of the Finance Committee. The Finance Committee held four meetings during 2008. The purpose of the Finance Committee is to review with management and, where appropriate, make recommendations to the Board regarding the Company's financial position and financing activities, including consideration of the Company's financing plans, corporate transactions (including acquisitions and divestitures), capital expenditures, financial status of the Eastman Retirement Assistance Plan (the Company's defined benefit pension plan), payment of dividends, and use of financial instruments, commodity purchasing, and other hedging arrangements and strategies to manage exposure to market risks.

**Health, Safety, Environmental and Security Committee.** All of the directors except Messrs. Ferguson and Rogers are members, and Mr. Hernandez is the Chair, of the Health, Safety, Environmental and Security Committee. The Health, Safety, Environmental and Security Committee held two meetings during 2008. The purpose of the Health, Safety, Environmental and Security Committee is to review with management and, where appropriate, make recommendations to the Board regarding the Company's policies and practices concerning health, safety, environmental and security matters.

**Table of Contents****Director Compensation**

The following table sets forth certain information concerning compensation of the Company's non-employee directors for 2008. Directors who are also employees of the Company receive no Board or committee fees.

**Director Compensation for Year Ended December 31, 2008**

Name	Fees Earned or Paid in Cash (\$)(1)	Stock Awards (\$)(2)	Option Awards (\$)(3)	Change in Pension Value and Non-Equity Nonqualified Incentive Deferred Plan Compensation Earnings Compensation			Total(\$)
				(\$)(4)	(\$)(5)	(\$)(5)	
Gary E. Anderson	\$ 96,000	\$ 4,468	\$ 8,724	\$ 0	\$ 0	\$ 45,000	\$ 154,192
Michael P. Connors	99,000	5,580	24,447	0	0	45,000	174,027
Stephen R. Demeritt	99,000	5,023	24,447	0	0	45,000	173,470
Donald W. Griffin(6)	45,000	6,707	15,723	0	0	22,500	89,930
Robert M. Hernandez	105,000	5,023	24,447	0	0	45,000	179,470
Renée J. Hornbaker	123,000	5,023	24,447	0	0	45,000	197,470
Lewis M. Kling	90,000	6,144	20,647	0	0	45,000	161,791
Howard L. Lance	99,000	7,804	24,447	0	0	45,000	176,251
Thomas H. McLain	97,500	5,023	24,447	0	0	45,000	171,970
David W. Raisbeck	99,000	5,023	24,447	0	0	45,000	173,470
Peter M. Wood	96,000	5,023	24,447	0	0	45,000	170,470

- 1) Consists of Board retainer fees and, where applicable, committee chair or Audit Committee member retainer fees and compensation on an event basis for significant time spent outside Board or committee meetings for director training, interviewing director candidates, meeting with Company management, meeting with external auditors, or other meetings or activities as directed by the Board or one of its committees. Cash fees for 2008 were paid according to the following schedule:

Director Retainer	\$ 90,000
Event Fee (Per Event)	1,500
Chair Retainer - Audit Committee	12,000
Chair Retainer - Compensation and Management Development Committee	9,000
Chair Retainer - Nominating and Corporate Governance Committee	9,000
Chair Retainer - Finance Committee	9,000
Chair Retainer - Health, Safety, Environmental and Security Committee	9,000
Audit Committee Member Retainer	6,000



Event fees were paid in 2008 to Ms. Hornbaker (\$15,000), Mr. Lance (\$3,000), Mr. McLain (\$1,500), and Mr. Wood (\$6,000).

As a result of the Nominating and Corporate Governance Committee's annual review of director compensation, effective January 1, 2009, the annual retainers for serving as Chair of the Audit and of the Compensation and Management Development Committees were increased by the Board to \$18,000 and \$12,000, respectively. The annual retainer for serving as a member of the Audit Committee was increased to \$9,000.

In March 2009, the Board decreased the annual director retainer by five percent effective July 1, 2009, consistent with the Company's reduction of the base pay of employees. See Executive Compensation Compensation Discussion and Analysis Elements of our Executive Compensation Base Pay.

- 2) Includes annual awards of restricted shares of common stock ( restricted shares ) having a fair market value equal to \$5,000 on the date of each annual meeting of stockholders and a one-time award of restricted shares having a fair market value equal to \$10,000 on the first date of term of service as a director, each made under the 2007 Director Long-Term Compensation Subplan of the Omnibus Long-Term Compensation Plan (the DLTP ) and predecessor plans to the DLTP. The amounts reported in this column are the portion of the

**Table of Contents**

grant date fair value of outstanding restricted shares awarded in 2008 and in prior years that was recognized as cost in the Company's financial statements for 2008 measured in accordance with FAS 123R. See note 1 to the Summary Compensation Table later in this proxy statement and note 16 to the Company's consolidated financial statements in the Annual Report to Stockholders for 2008 mailed and delivered electronically with this proxy statement for discussion of the assumptions made in the valuation of stock awards under FAS 123R.

The full grant date fair value of the restricted shares awarded in 2008 to each non-employee director, computed in accordance with FAS 123R, was \$5,058. The aggregate number of outstanding restricted shares held by individual directors at December 31, 2008 was: Mr. Anderson (216), Mr. Connors (233), Mr. Demeritt (233), Mr. Hernandez (233), Ms. Hornbaker (233), Mr. Kling (327), Mr. Lance (233), Mr. McLain (233), Mr. Raisbeck (233), and Mr. Wood (233).

The restricted shares are not transferable (except by will or the laws of descent and distribution) and are subject to forfeiture until the earliest of: (i) the third anniversary of grant (provided the grantee is still a director), (ii) death, disability, or resignation due to term limit or retirement age during the three years after grant, or (iii) departure from the Board at the end of the term of service to which elected. If none of the three alternative vesting events occurs by the third anniversary of the grant date, then the restricted shares are forfeited. During the restricted period, the director has all of the rights of a stockholder (other than the right to transfer the shares) with respect to the restricted shares, including voting and dividend rights. The DLTP contains provisions regarding the treatment of restricted shares in the event of a change in control (as defined in the DLTP, generally involving circumstances in which the Company is acquired by another entity or its controlling ownership is changed). In such event, all outstanding restricted shares would immediately vest and become transferable, and would be valued and cashed out on the basis of the change in control price as soon as practicable, but in no event more than 90 days after the change in control. The Nominating and Corporate Governance Committee has the discretion, notwithstanding any particular event constituting a change in control, to determine that such event is of the type that does not warrant the described result with respect to restricted shares under the DLTP, in which case such result would not occur.

As a result of the Nominating and Corporate Governance Committee's annual review of director compensation, the Board has replaced the DLTP with the 2008 DLTP. Under the 2008 DLTP, awards of restricted shares on the date of each future annual meeting of stockholders will have a fair market value equal to \$50,000, and new directors will continue to receive a one-time award of restricted shares having a fair market value equal to \$10,000.

- 3) Under the DLTP, each non-employee director received a non-qualified stock option to purchase 2,000 shares of common stock immediately following each annual meeting of stockholders. The amounts reported in this column are the portion of the grant date fair value of outstanding options granted in 2008 and in prior years that was recognized as cost in the Company's financial statements for 2008, measured in accordance with FAS 123R. See note 1 to the Summary Compensation Table later in this proxy statement and note 16 to the Company's consolidated financial statements in the Annual Report to Stockholders for 2008 mailed and delivered electronically with this proxy statement for discussion of the assumptions made in the valuation of stock awards under FAS 123R.

The full grant date fair value of the stock options granted in 2008 to each non-employee director, computed in accordance with FAS 123R, was \$26,172. The aggregate number of outstanding stock options held by individual directors at December 31, 2008 was: Mr. Anderson (2,000), Mr. Connors (8,000), Mr. Demeritt (12,000), Mr. Hernandez (12,000), Ms. Hornbaker (10,000), Mr. Kling (4,000), Mr. Lance (6,000), Mr. McLain (10,000), Mr. Raisbeck (16,000), and Mr. Wood (11,000).

The stock options have an exercise price equal to the closing price of the underlying shares of common stock on the grant date. The options vest and become exercisable with respect to one-half of the shares on the first

anniversary of the date of the grant and with respect to the remaining shares on the second anniversary of the date of the grant. Each stock option has a term of ten years and is nonassignable (except by will or the laws of descent and distribution). If the director ceases to be a director for any reason other than death, disability, completion of his or her normal term of service, or retirement because of age or term limit, all outstanding unexercised options, whether or not vested, immediately expire. In the event of a change in control under the DLTP, all outstanding stock options would immediately vest and become exercisable, and would be valued and cashed out on the basis of the change in control price as soon as practicable, but in no event more than 90 days

**Table of Contents**

after the change in control. The Nominating and Corporate Governance Committee has the discretion, notwithstanding any particular event constituting a change in control, to determine that such event is of the type that does not warrant the described result with respect to options under the DLTP, in which case such result would not occur.

As a result of the Nominating and Corporate Governance Committee's annual review of director compensation, under the 2008 DLTP non-employee directors will no longer be granted stock options.

- 4) The Company maintains the Directors' Deferred Compensation Plan (the "DDCP"), an unfunded, non-qualified, deferred compensation plan under which non-employee directors of the Company may elect to defer compensation received as a director until such time as they cease to serve as a director. Non-employee directors may make an annual irrevocable election to defer compensation for services to be rendered the following year. Compensation that may be deferred includes all cash compensation for service as a director, including retainer and event fees. In addition, as described in note 5 below, in 2008 each non-employee director received an automatic deferral of \$45,000 into the director's stock account of the DDCP. Compensation deferred into the DDCP is credited at the election of the non-employee director to individual interest accounts and stock accounts. Amounts deferred to the interest account are credited with interest at the prime rate until transfer or distribution, and amounts deferred to the stock account increase or decrease in value depending on the market price of Eastman common stock. When cash dividends are declared on the common stock, each stock account receives a dividend equivalent which is used to hypothetically purchase additional shares. Upon termination as a director, the value of the director's DDCP account is paid, in cash, in a single lump sum or up to ten annual installments as elected in advance by the director. For 2008, there were no preferential or above-market earnings on amounts in individual stock accounts (defined as appreciation in value and dividend equivalents earned at a rate higher than appreciation in value and dividends on common stock) or in individual interest accounts (defined as interest on amounts deferred at a rate exceeding 120% of the federal long-term rate).

Eastman does not offer a pension plan for directors.

- 5) Annual retainer deferred into the stock account of the DDCP. Perquisites and personal benefits provided to Eastman non-employee directors (company-provided personal liability insurance and company-provided insurance for non-employee director travel) are not reported for 2008 since the total amount per individual was less than \$10,000.

As a result of the Nominating and Corporate Governance Committee's annual review of director compensation, beginning January 1, 2009, the Board has increased the amount of the annual retainer deferred into the DDCP to \$50,000.

- 6) Under the age and term limit provisions of the Company's Bylaws, Mr. Griffin retired from the Board of Directors following expiration of his term at the 2008 Annual Meeting of Stockholders.

**ITEM 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

The Audit Committee of the Board of Directors has retained PricewaterhouseCoopers LLP to serve as independent auditors for the year ended December 31, 2009.

PricewaterhouseCoopers LLP also served as the Company's independent auditors for the years ended December 31, 2008 and 2007, and has billed the Company the following amounts for fees and related expenses for professional services rendered during 2008 and 2007:

*Audit Fees:* \$5.6 million, in the aggregate, for the year ended December 31, 2008 and \$5.8 million, in the aggregate, for the year ended December 31, 2007 for professional services rendered for the audits of the consolidated financial statements of the Company (including the audit of internal controls over financial reporting), statutory and subsidiary audits, issuance of comfort letters, and assistance with review of documents filed with the SEC.

*Audit-Related Fees:* \$63,500, in the aggregate, for the year ended December 31, 2008 and \$126,000, in the aggregate, for the year ended December 31, 2007 for assurance and related services, including employee benefit plan audits, other audit procedures, and consultations concerning financial accounting and reporting

**Table of Contents**

standards. In addition, various employee benefit plans were billed for fees and related expenses of \$218,000 for 2008 and \$214,000 for 2007 for audits of their plan financial statements by PricewaterhouseCoopers LLP.

*Tax Fees:* \$1.5 million, in the aggregate, for the year ended December 31, 2008 and \$1.7 million, in the aggregate, for the year ended December 31, 2007 for services related to tax compliance, including expatriate tax services and preparation of tax returns and claims for refunds, tax planning and tax advice, assistance with respect to tax audits, and requests for rulings for technical advice from tax authorities.

*All Other Fees:* \$17,900, in the aggregate, for the year ended December 31, 2008 and \$17,600, in the aggregate, for the year ended December 31, 2007 for all services other than those covered above under Audit Fees, Audit-Related Fees, and Tax Fees. All Other Fees for 2008 and for 2007 were for services related to technology access and conference fees.

All audit and non-audit services provided to the Company by the independent auditors are pre-approved by the Audit Committee or in certain instances by the Chair of the Audit Committee pursuant to delegated authority. At the beginning of each year, the Audit Committee reviews and approves all known audit and non-audit services and fees to be provided by and paid to the independent auditors. During the year, specific audit and non-audit services or fees not previously approved by the Audit Committee are approved in advance by the Audit Committee or by the Chair of the Audit Committee pursuant to delegated authority. In addition, during the year the Chief Financial Officer and the Audit Committee monitor actual fees to the independent auditors for audit and non-audit services.

The stockholders are being asked to ratify the Audit Committee's appointment of PricewaterhouseCoopers LLP. If the stockholders fail to ratify this appointment, the Audit Committee may, but is not required to, reconsider whether to retain that firm. Even if the appointment is ratified, the Audit Committee in its discretion may direct the appointment of a different accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

A representative of PricewaterhouseCoopers LLP is expected to attend the meeting and will have the opportunity to make a statement on behalf of the firm if he desires to do so. The representative is also expected to be available to respond to appropriate questions from stockholders.

**The Board of Directors recommends that you vote FOR ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors.**

**ITEM 3 PROPOSAL REQUESTING THAT MANAGEMENT REVISE EMPLOYMENT  
NONDISCRIMINATION POLICY TO PROHIBIT DISCRIMINATION BASED ON  
SEXUAL ORIENTATION AND GENDER IDENTITY**

Stockholder New York City Pension Funds has given notice that it intends to submit the following proposal and supporting statement:

Whereas: Eastman Chemical Corporation, does not explicitly prohibit discrimination based on sexual orientation and gender identity in its written employment policy;

Over 88% of the Fortune 500 companies have adopted written nondiscrimination policies prohibiting harassment and discrimination on the basis of sexual orientation, as have more than 98% of Fortune 100 companies, according to the Human Rights Campaign; over 30% now prohibit discrimination based on gender identity;

We believe that corporations that prohibit discrimination on the basis of sexual orientation and gender identity have a competitive advantage in recruiting and retaining employees from the widest talent pool;

According to a June, 2008 survey by Harris Interactive and Witeck-Combs, 65% of gay and lesbian workers in the United States reported facing some form of job discrimination related to sexual orientation; an earlier survey found that almost one out of every 10 gay or lesbian adults also reported that they had been fired or dismissed unfairly from a previous job, or pressured to quit a job because of their sexual orientation;

**Table of Contents**

Twenty states, the District of Columbia and more than 160 cities and counties, have laws prohibiting employment discrimination based on sexual orientation; 12 states and the District of Columbia have laws prohibiting employment discrimination based on sexual orientation and gender identity;

Minneapolis, San Francisco, Seattle and Los Angeles have adopted legislation restricting business with companies that do not guarantee equal treatment for gay and lesbian employees;

Our company has operations in, and makes sales to institutions in states and cities that prohibit discrimination on the basis of sexual orientation;

National public opinion polls consistently find more than three quarters of the American people support equal rights in the workplace for gay men, lesbians and bisexuals; for example, in a Gallup poll conducted in May, 2007, 89% of respondents favored equal opportunity in employment for gays and lesbians.

Resolved: The Shareholders request that Eastman Chemical Corporation amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and gender identity and to substantially implement the policy.

Supporting Statement: Employment discrimination on the basis of sexual orientation and gender identity diminishes employee morale and productivity. Because state and local laws are inconsistent with respect to employment discrimination, our company would benefit from a consistent, corporate wide policy to enhance efforts to prevent discrimination, resolve complaints internally, and ensure a respectful and supportive atmosphere for all employees. Eastman Chemical Corporation will enhance its competitive edge by joining the growing ranks of companies guaranteeing equal opportunity for all employees.

**Response of the Company**

Eastman is an equal opportunity employer fully committed to complying with all applicable equal employment opportunity laws and to having a workplace that is free from any harassment or discrimination. The Board of Directors believes that the Company's current policies and practices with respect to nondiscrimination have allowed us to fulfill these commitments and fully achieve the objectives set out in this proposal without the need for additional specificity. The Board of Directors further believes that additional procedural changes to the Company's employment nondiscrimination policies would only divert resources and management time and attention from the overall goal of creating a truly nondiscriminatory workplace.

Our corporate equal employment opportunity policy provides that Eastman Chemical Company will not discriminate against, or tolerate harassment of, any employee or applicant for employment because of race, color, religion, sex, age, disability, national origin, or sexual orientation. The Company's nondiscrimination policy applies to all matters pertaining to employment, such as recruiting, hiring, training, on-the-job treatment, and promotion .

The Company selects and evaluates employees only on the basis of their job performance and business-related talents and capabilities and corporate business needs. We believe that the Company's current nondiscrimination policy reflects our commitment and ongoing efforts to provide all employees with a workplace that is free of discrimination and harassment, and that our existing policies achieve those objectives.

Contrary to implications in the proposal, the Company does not believe that it suffers any competitive disadvantage in recruiting or retaining employees or in customer relationships as a result of its employment practices or the language contained in its nondiscrimination policy. The Company has no indication that discrimination on the basis of sexual orientation or gender identity is practiced within the Company, nor has the Company received notice from its



employees, customers, or suppliers that the Company's employment policies or practices jeopardize its relationship with any of them. In contrast, we believe that our existing comprehensive nondiscrimination policy and reputation for protecting equal opportunity in all aspects of employment benefits the Company, its stockholders, and employees, as well as the Company's other stakeholders.

We recognize the value of a diverse workforce, and are dedicated to ensuring that the benefits of such diversity maximizes the full potential of our employees, customers, vendors, and communities. We believe that our current

**Table of Contents**

policy against discrimination, and our procedures to ensure that discrimination does not occur, position the Company to achieve these results.

**The Board of Directors recommends that you vote AGAINST adoption of this proposal.**

**ITEM 4 PROPOSAL REQUESTING THAT THE BOARD TAKE STEPS NECESSARY TO GIVE HOLDERS OF 10% OF OUTSTANDING COMMON STOCK THE RIGHT TO CALL SPECIAL MEETINGS**

Stockholder Ray T. Chevedden has given notice that he intends to submit the following proposal and supporting statement:

RESOLVED, Shareowners ask our board to take the steps necessary to amend our bylaws and each appropriate governing document to give holders of 10% of our outstanding common stock (or the lowest percentage allowed by law above 10%) the power to call special shareowner meetings. This includes that such bylaw and/or charter text will not have any exception or exclusion conditions (to the fullest extent permitted by state law) that apply only to shareowners but not to management and/or the board.

Statement of Ray T. Chevedden

Special meetings allow shareowners to vote on important matters, such as electing new directors, that can arise between annual meetings. If shareowners cannot call special meetings, management may become insulated and investor returns may suffer. Shareowners should have the ability to call a special meeting when a matter is sufficiently important to merit prompt consideration.

This proposal topic also won impressive support (based on 2008 yes and no votes) at the following companies:

Occidental Petroleum (OXY)	66%	Emil Rossi
FirstEnergy Corp. (FE)	67%	Chris Rossi
Marathon Oil (MRO)	69%	Nick Rossi

The merits of this Special Shareowner Meetings proposal should also be considered in the context of the need for further improvements in our company's corporate governance and in individual director performance. In 2008 the following governance and performance issues were identified:

The Corporate Library (TCL) [www.thecorporatelibrary.com](http://www.thecorporatelibrary.com), an independent investment research firm, rated our company High Concern in Takeover Defenses.

We had no shareholder right to:

Annual election of each director.

To call a special meeting.

To act by written consent.

A complete simple majority vote standard.

An independent Chairman.

A Lead Director.

Cumulative voting.

Our directors should take the lead in adopting the above items instead of leaving it to shareholders to take the initiative in proposing such needed improvements.

Our company's takeover defenses include the effective classified board combination, which includes 3-year terms for directors, one of the strongest possible defenses.

Although we voted 58% in support of annual election of each director in May 2008 after 6-months our board still had not decided on whether to act on our shareholder recommendation.

**Table of Contents**

Three directors owned only 258 to 957 shares each Commitment concern:

Lewis Kling

Michael Connors

David Raisbeck

Plus the above directors held 6-seats on our key nomination and executive pay committees.

Mr. Raisbeck (957 shares) was designated a Problem Director by The Corporate Library due to his involvement with Armstrong Holdings and bankruptcy.

Plus Mr. Raisbeck served on 2 of our Board Committees.

Our directors served on these boards rated D or F by TCL:

Robert Hernandez  
Michael Connors  
Brian Ferguson  
Howard Lance  
Lewis Kling

ACE Limited (ACE)  
Information Services Group (III) F-rated  
FPL Group (FPL)  
Harris Stratex Networks (HSTX)  
Flowserve (LS)

The above concerns shows there is need for improvement. Please encourage our board to respond positively to this proposal.

**Response of the Company**

The Company is a Delaware corporation and, consistent with Delaware General Corporation Law, the Company's Certificate of Incorporation provides that a special meeting of stockholders may be called by the Board of Directors pursuant to a resolution adopted by a majority of the members of the Board of Directors then in office. The Board of Directors believes this to be an appropriate corporate governance provision for a public company of the Company's size because it allows the Company's directors, consistent with their fiduciary obligations, to exercise their business judgment to determine when it is in the best interests of stockholders to convene a special meeting. The Board of Directors does not believe it is in the best interests of the Company to allow holders of only 10% of the Company's outstanding common stock to have an unlimited ability to call special meetings for any purpose at any time. Enabling a small minority of stockholders to call special meetings could significantly disrupt the conduct of the Company's business by diverting the attention of the members of the Board, senior management and others from the operations of the Company, empower a minority of stockholders at the expense of our stockholder majority, and impose substantial administrative burdens and financial costs on the Company.

The Board of Directors believes that enabling a small minority of stockholders to call special meetings in order to advance their own, potentially conflicting, interests could be extremely disruptive to the conduct of the Company's operations, and require significant attention from our Board and management, and could create major confusion for other stockholders. Special meetings of stockholders impose significant administrative and financial burdens on the Company and should be extraordinary events that only occur when either fiduciary obligations or strategic concerns require that the matters to be addressed cannot wait until the Company's next annual meeting.

Among other things, the process of convening a special meeting requires the involvement of outside advisors, the preparation of required disclosure documents, and printing, mailing and meeting costs, as well as the significant time commitments by members of the Board and senior management. These burdens are exacerbated by the potential for multiple, possibly conflicting, meetings throughout the year to address special interests not beneficial to the majority of our stockholders. Further, such a mechanism may encourage activity in our stock that is undertaken solely for purposes of meeting the required minority ownership threshold.

The Company's annual stockholder meeting currently provides stockholders with a full and fair opportunity to communicate with other stockholders and raise appropriate questions and concerns, including through the inclusion of stockholder proposals (such as this one) in our proxy statement, as well as to vote on important matters, including the election of directors. Additionally, the Board regularly reviews the Company's governance structure, policies,

**Table of Contents**

and practices, and makes changes that it determines are to the benefit of the Company and its stockholders. Recent such changes include the implementation of majority voting in the election of directors and repeal of the Company's stockholder rights plan and redemption of the poison pill. The Board of Directors believes that the Company's existing corporate governance mechanisms strike the appropriate balance between ensuring accountability to stockholders and enabling the Board and management to manage and run the Company in an effective and efficient manner.

Further, contrary to the proponent's suggestion that stockholders are prevented from considering important matters in a timely manner, the Delaware General Corporation Law requires that certain corporate actions, such as a takeover bid, merger, consolidation, or sale of substantially all of the Company's assets, be approved by its stockholders. Thus, if a major corporate action requiring stockholder approval that is supported by the Board of Directors were to occur at a time other than contemporaneous with an annual meeting of stockholders, the Board would exercise its right to call a special meeting of stockholders to vote upon the matter. Also, stockholder approval is required by law or regulation for a number of other matters, including the adoption of, or material amendment to, certain new equity compensation plans, amendments to the Company's Certificate of Incorporation, and the annual election of directors. Accordingly, the Board of Directors does not believe that approval of the proposal is necessary or advisable.

**The Board of Directors recommends that you vote AGAINST adoption of this proposal.**

### **STOCK OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS**

#### **Common Stock**

The table below sets forth certain information regarding the beneficial ownership of Eastman common stock as of December 31, 2008 by each director, by each executive officer and each former executive officer named in the Summary Compensation Table (under Executive Compensation Compensation Tables below), and by the directors, the named executive officers, and the other executive officers as a group.

<b>Name</b>	<b>Number of Shares of Common Stock Beneficially Owned(1)(2)</b>
J. Brian Ferguson	915,504(3)
Mark J. Costa	79,327(4)
Curtis E. Espeland	100,816(5)
Theresa K. Lee	98,614(6)
Richard A. Lorraine	127,280(7)
Gregory O. Nelson(8)	57,315(9)
James P. Rogers	252,730(10)
Gary E. Anderson	1,716(11)
Michael P. Connors	5,483(12)
Stephen R. Demeritt	10,891(13)
Robert M. Hernandez	22,822(14)
Renée J. Hornbaker	9,896(15)
Lewis M. Kling	1,327(16)
Howard L. Lance	6,412(17)
Thomas H. McLain	8,747(18)
David W. Raisbeck	14,026(19)

Peter M. Wood	10,996(20)
Directors, named executive officers, and other executive officers as a group (21 persons)	1,935,500(21)

(1) Information relating to beneficial ownership is based upon information furnished by each person using beneficial ownership concepts set forth in rules of the SEC. Under those rules, a person is deemed to be a

**Table of Contents**

beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of such security, or investment power, which includes the power to dispose of, or to direct the disposition of, such security. The person is also deemed to be a beneficial owner of any security of which that person has a right to acquire beneficial ownership (such as by exercise of options) within 60 days. Under such rules, more than one person may be deemed to be a beneficial owner of the same securities, and a person may be deemed to be a beneficial owner of securities as to which he or she may disclaim any beneficial interest. Except as indicated in other notes to this table, directors and executive officers possessed sole voting and investment power with respect to all shares of common stock referred to in the table.

- (2) The total number of shares of common stock beneficially owned by the directors, the named executive officers, and the other executive officers as a group represents approximately 2.62% of the shares of common stock outstanding as of December 31, 2008. The percentage beneficially owned by any individual director or executive officer other than Mr. Ferguson (who beneficially owned approximately 1.24% of the outstanding shares) did not exceed one percent of the outstanding shares of common stock. Shares not outstanding which are subject to options exercisable within 60 days by persons in the group or a named individual are deemed to be outstanding for the purpose of computing the percentage of outstanding shares of common stock owned by the group or such individual.
- (3) Includes 645,923 shares that may be acquired upon exercise of options, 581 shares allocated to Mr. Ferguson's Employee Stock Ownership Plan ( ESOP ) account, and 162,000 shares held by a grantor retained annuity trust of which Mr. Ferguson is trustee and as to which he has voting and investment power.
- (4) Includes 10,000 restricted shares that generally vest on June 1, 2009, but as to which Mr. Costa currently has voting power, 68,399 shares that may be acquired upon exercise of options, and 278 shares allocated to his ESOP account.
- (5) Includes 14,850 shares that may be acquired upon exercise of options and 792 shares allocated to Mr. Espeland's ESOP account. Also includes 82,674 shares owned by the Eastman Chemical Company Foundation, Inc., of which shares Mr. Espeland may also be deemed a beneficial owner by virtue of his shared voting and investment power as a director of the Foundation but in which he has no pecuniary interest.
- (6) Includes 73,237 shares that may be acquired upon exercise of options and 740 shares allocated to Ms. Lee's ESOP account.
- (7) Includes 87,499 shares that may be acquired upon exercise of options and 746 shares allocated to Mr. Lorraine's ESOP account.
- (8) As of August 1, 2008, the effective date of Dr. Nelson's retirement.
- (9) Includes 36,750 shares that may be acquired upon exercise of options.
- (10) Includes 176,265 shares that may be acquired upon exercise of options, 1,031 shares allocated to Mr. Rogers ESOP account, 40,000 shares held by a grantor retained annuity trust of which Mr. Rogers is trustee and as to which he has voting and investment power, and 35,523 shares pledged as security in a margin brokerage account.
- (11) Includes 147 restricted shares that generally vest in August 2010, but as to which Mr. Anderson currently has voting power, and 69 restricted shares that generally vest in May 2011, but as to which he currently has voting power.



- (12) Includes 5,000 shares that may be acquired upon exercise of options, 89 restricted shares that generally vest in May 2009, but as to which Mr. Connors currently has voting power, 75 restricted shares that generally vest in May 2010, but as to which he currently has voting power, and 69 restricted shares that generally vest in May 2011, but as to which he currently has voting power.
- (13) Includes 9,000 shares that may be acquired upon exercise of options, 89 restricted shares that generally vest in May 2009, but as to which Mr. Demeritt currently has voting power, 75 restricted shares that generally vest in May 2010, but as to which he currently has voting power, and 69 restricted shares that generally vest in May 2011, but as to which he currently has voting power.
- (14) Includes 9,000 shares that may be acquired upon exercise of options, 89 restricted shares that generally vest in May 2009, but as to which Mr. Hernandez currently has voting power, 75 restricted shares that generally vest

**Table of Contents**

- in May 2010, but as to which he currently has voting power, and 69 restricted shares that generally vest in May 2011, but as to which he currently has voting power.
- (15) Includes 7,000 shares that may be acquired upon exercise of options, 89 restricted shares that generally vest in May 2009, but as to which Ms. Hornbaker currently has voting power, 75 restricted shares that generally vest in May 2010, but as to which she currently has voting power, and 69 restricted shares that generally vest in May 2011, but as to which she currently has voting power.
- (16) Consists of 1,000 shares that may be acquired upon exercise of options, 183 restricted shares that generally vest in October 2009, but as to which Mr. Kling currently has voting power, 75 restricted shares that generally vest in May 2010, but as to which he currently has voting power, and 69 restricted shares that generally vest in May 2011, but as to which he currently has voting power.
- (17) Includes 3,000 shares that may be acquired upon exercise of options, 89 restricted shares that generally vest in May 2009, but as to which Mr. Lance currently has voting power, and 75 restricted shares that generally vest in May 2010, but as to which he currently has voting power, and 69 restricted shares that generally vest in May 2011, but as to which he currently has voting power.
- (18) Includes 7,000 shares that maybe acquired upon exercise of options, 89 restricted shares that generally vest in May 2009, but as to which Mr. McLain currently has voting power, 75 restricted shares that generally vest in May 2010, but as to which he currently has voting power, and 69 restricted shares that generally vest in May 2011, but as to which he currently has voting power. Also includes 52 shares held by Mr. McLain s spouse, as to which shares Mr. McLain disclaims beneficial ownership.
- (19) Includes 13,000 shares that may be acquired upon exercise of options, 89 restricted shares that generally vest in May 2009, but as to which Mr. Raisbeck currently has voting power, 75 restricted shares that generally vest in May 2010, but as to which he currently has voting power, and 69 restricted shares that generally vest in May 2011, but as to which he currently has voting power.
- (20) Includes 8,000 shares that may be acquired upon exercise of options, 89 restricted shares that generally vest in May 2009, but as to which Mr. Wood currently has voting power, 75 restricted shares that generally vest in May 2010, but as to which he currently has voting power, and 69 restricted shares that generally vest in May 2011, but as to which he currently has voting power. Also includes 1,000 shares held by Mr. Wood s spouse, as to which shares Mr. Wood disclaims beneficial ownership.
- (21) Includes a total of 1,270,954 shares that may be acquired upon exercise of options and 4,641 shares allocated to executive officers ESOP accounts. Also includes 82,674 shares owned by the Eastman Chemical Company Foundation, Inc., of which shares Mr. Espeland and one other executive officer not named above may each be deemed a beneficial owner by virtue of their shared voting and investment power as directors of the Foundation.

**Table of Contents****Common Stock and Common Stock Units**

As described elsewhere in this proxy statement, in addition to shares of Eastman common stock beneficially owned, certain executive officers and directors have units of common stock credited to their individual stock accounts in the Eastman Executive Deferred Compensation Plan (the EDCP ) and in the Directors' Deferred Compensation Plan (the DDCP ), respectively.

Eastman has stock ownership guidelines for its directors and executive officers. These guidelines require such persons to acquire and maintain a stake in the Company valued at \$200,000 for non-employee directors, five times annual base pay for the Chief Executive Officer, and two and one-half times annual base pay for the other executive officers named in the Summary Compensation Table. Common stock units are counted with certain shares of common stock beneficially owned (excluding certain shares that may be deemed beneficially owned under SEC rules, such as shares underlying options and shares over which the individual shares voting and investment power but in which the individual has no pecuniary interest) for purposes of the Company's stock ownership guidelines. Common stock units represent hypothetical investments in Eastman common stock. The value of one common stock unit is equal to the market value of one share of Eastman common stock. Although the DDCP and EDCP allow common stock units to be paid out only in the form of cash, and not in shares of common stock, common stock units create essentially the same stake in the market performance of the Company's common stock as do actual shares of common stock. The table below shows, for each director and each executive officer named in the Summary Compensation Table, and for the directors, the named executive officers, and the other executive officers as a group, the aggregate of the number of shares of common stock beneficially owned by such person and group, as set forth in the preceding table, and the number of common stock units credited to the stock accounts of such person and group as of December 31, 2008. The table below is included to provide a better indication of the stake of the named individuals, and of the group, with respect to Eastman common stock.

<b>Name</b>	<b>Number of Shares of Common Stock and Common Stock Units Beneficially Owned</b>
J. Brian Ferguson	915,504
Mark J. Costa	79,327
Curtis E. Espeland	104,432(1)
Theresa K. Lee	98,633
Richard A. Lorraine	127,280
Gregory O. Nelson(2)	57,315
James P. Rogers	320,266
Gary E. Anderson	2,779
Michael P. Connors	10,889
Stephen R. Demeritt	19,950
Robert M. Hernandez	24,946
Renée J. Hornbaker	16,465
Lewis M. Kling	4,442
Howard L. Lance	8,241
Thomas H. McLain	10,871
David W. Raisbeck	23,866

Peter M. Wood	13,120
Directors, named executive officers, and other executive officers as a group (21 persons)	2,057,380(1)

(1) Includes 82,674 shares owned by the Eastman Chemical Company Foundation, Inc., over which shares Mr. Espeland and one other executive officer not named share voting and investment power as directors of the Foundation but in which shares such executive officers have no pecuniary interest.

(2) As of August 1, 2008, the effective date of Dr. Nelson's retirement.

**Table of Contents****PRINCIPAL STOCKHOLDERS**

The following table sets forth information about persons we know to be the beneficial owners of more than five percent of Eastman common stock as of December 31, 2008.

<b>Name and Address of Beneficial Owner</b>	<b>Number of Shares of Common Stock Beneficially Owned</b>	<b>Percent of Class(1)</b>
AXA Financial, Inc. 1290 Avenue of the Americas New York, New York 10104	8,541,007(2)	11.76%
Barclays Global Investors, NA 45 Fremont Street San Francisco, California 94105	4,574,110(3)	6.30%
Hotchkis and Wiley Capital Management, LLC 725 South Figueroa Street Los Angeles, California 90017	4,231,500(4)	5.82%
Todasa S.A. Via Augusta, 200 6th Floor Barcelona, Spain 08201	4,452,434(5)	6.13%
The Vanguard Group, Inc. 100 Vanguard Boulevard Malvern, Pennsylvania 19355	4,095,048 (6)	5.64%

- (1) Based upon the number of shares of common stock outstanding and entitled to be voted at the meeting as of March 10, 2009, the record date for the Annual Meeting.
- (2) As of December 31, 2008, based on a Schedule 13G filed with the SEC by AXA Financial, Inc., as parent holding company of AllianceBernstein L.P., an investment adviser, and certain affiliated entities, including certain non-U.S. institutions. According to the Schedule 13G, AXA Financial, Inc. and such affiliated entities together have sole investment power with respect to all of such shares and sole voting power with respect to 6,684,093 of such shares.
- (3) As of December 31, 2008, based on a Schedule 13G filed with the SEC by Barclays Global Investors, NA, a bank, and certain affiliated bank, broker-dealer, and investment adviser entities, including certain non-U.S. institutions. According to the Schedule 13G, Barclays Global Investors and such affiliated entities together have sole investment power with respect to all of such shares and sole voting power with respect to 4,191,245 of such

shares.

- (4) As of December 31, 2008, based on a Schedule 13G filed with the SEC by Hotchkis and Wiley Capital Management, LLC, an investment adviser. According to the Schedule 13G, Hotchkis and Wiley has sole investment power with respect to all of such shares and sole voting power with respect to 3,027,400 of such shares
- (5) As of December 12, 2007, based on a Schedule 13G filed with the SEC by Todasa S.A. According to the Schedule 13G, Todasa has sole investment and voting power with respect to all of such shares.
- (6) As of December 31, 2008, based on a Schedule 13G filed with the SEC by The Vanguard Group, Inc., an investment adviser. According to the Schedule 13G, The Vanguard Group has sole investment power with respect to all of such shares and sole voting power with respect to 86,336 of such shares.

**Table of Contents**

**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

**Overview**

This Compensation Discussion and Analysis is intended to provide context for the executive compensation information detailed in the tables and narrative in the remaining sections of this proxy statement under Executive Compensation. What follows is a summary of compensation objectives for executive officers, the relationship of corporate performance to executive compensation, and the bases for the compensation of executive officers. The Compensation and Management Development Committee of the Board of Directors (the Compensation Committee) establishes and administers the policies, programs, and procedures for evaluating, developing, and compensating our senior management.

Our executive compensation program is designed to:

Motivate executives through pay for performance by:

encouraging and rewarding superior Company and individual performance on both a short- and long-term basis, and

promoting alignment with long-term stockholder interests; as well as

Attract and retain highly qualified executives by paying them:

at rates competitive with our peer companies and markets, and

consistent with individual skills and their contributions to Company success.

To achieve these objectives, the Compensation Committee has designed the executive compensation program so that total direct compensation (consisting of base compensation and both annual and long-term incentive compensation) is earned largely based on attaining pre-established strategic and tactical objectives, outperforming our competitors, stock appreciation, and individual achievement. Our long-term incentive programs are sized and structured so that a significant portion of total direct compensation is in the form of stock-based pay (performance shares, stock options, and restricted stock units) rather than cash, to create incentives for long-term performance and to promote alignment of executive pay with stockholder returns.

For 2008, the executive officers:

had their base pay increased to keep salaries at competitive levels compared to peer companies;

received annual variable cash pay awards ranging from 73% to 83% of target amounts as a result of the Company's below-target corporate earnings from operations and the individual executives' organizational and personal performance;

received payouts of common stock of 100% of target award levels under previously awarded long-term performance shares as a result of three-year total stockholder return ranking in the 3rd quintile of compared companies and average return on capital of .81% in excess of target;

received stock option grants and long-term performance share awards designed to link their future pay to long-term performance of the Company and return to other stockholders; and

had their base pay and annual variable cash pay targets revised and received certain special cash and restricted stock unit compensation, related to, and as a result of, executive management succession planning and changes.

The Compensation Committee believes that the compensation of the executive officers is appropriate based on Eastman's performance and the competitive market.



**Table of Contents**

**Management Compensation Philosophy and Program**

**Our Business.** Eastman is a global chemical company which manufactures and sells a broad portfolio of chemicals, plastics, and fiber products to customers throughout the world. The Company's products and operations are managed and reported in five operating segments: the Coatings, Adhesives, Specialty Polymers, and Inks ( CASPI ) segment, the Fibers segment, the Performance Chemicals and Intermediates ( PCI ) segment, the Performance Polymers segment, and the Specialty Plastics ( SP ) segment. In addition to these segments, the Company manages certain strategic initiatives at the corporate level, including industrial gasification and research and development initiatives. Eastman's objective is to leverage its heritage of expertise and innovation in acetyl, polyester, and olefins chemistries to meet long-term demand and create new opportunities for the Company's products in key markets. The Company has recently completed a number of restructuring actions and announced growth initiatives in each of its segments, and continues to make progress in industrial gasification, to reposition the Company in key product and geographic markets. Eastman will continue to invest in growth initiatives, subject to economic conditions and its financial and liquidity position.

**Our Compensation Philosophy.** The Company's business strategy for value creating growth is to leverage the capabilities of its employees to innovate and execute in two main areas—growth initiatives in existing core businesses and industrial gasification, while maintaining its current emphasis on positive free cash flow generation. Our compensation philosophy supports this strategy by stressing the importance of pay for corporate and individual performance in meeting strategic and business goals for value creation and financial strength and flexibility, and maintains flexibility to meet changing employee, business, and market conditions.

**Compensation Objectives.** With the management compensation program, our primary objectives are to:

Provide the appropriate amount of annual pay, including a mix of base and variable pay, that allows us to compete for talent in the job market.

Attract and retain highly-qualified executives by providing incentives for the attainment of the Company's strategic business objectives, while rewarding superior performance.

Provide appropriate short- and long-term incentives to reward the attainment of short- and long-term corporate and individual objectives.

Ensure performance targets are appropriately challenging and properly aligned with the business strategy and stockholder interests.

Maintain balance among the types of corporate and individual performance incented and the levels and types of risks managers are encouraged to evaluate and take, and ensure that compensation does not encourage managers to take unnecessary or excessive risks.

**Components of our Management Compensation Program and How Each Component Complements our Philosophy and Objectives.** Our management compensation program has three primary components:

**Base pay** Provides a market-based annual salary at a level consistent with the individual's position and contributions.

**Variable pay**

Makes a portion of each manager's annual cash compensation dependent upon the success of the Company, organizational performance, and attainment of individual objectives.

**Stock-based incentive pay**

Encourages an ownership mindset by aligning the interests of senior managers with other stockholders, focusing on the achievement of long-term financial objectives and outperforming other companies.

**Table of Contents**

The Compensation Committee, with the assistance of management and the Committee's outside consultant, designs, administers, and assesses the effectiveness of all compensation elements against the market and our overall compensation philosophy. The table below describes each element and its primary links to the objectives of our compensation philosophy.

Compensation Element	Compete In Market	Attract and Retain Executive Talent	Reward	Balance	Reward
			Organizational Performance and Attainment of Individual Objectives	Among Performance Incented and Risk Management	Long-Term Performance in Alignment With Stockholders Interests
Annual Base Cash Pay	X	X		X	
Annual Variable Cash Pay	X		X	X	
Stock-Based Long-Term Incentive Pay Stock Options	X	X		X	X
Stock-Based Long-Term Incentive Pay Performance Shares	X	X	X	X	X
Stock-Based Long-Term Incentive Pay Restricted Stock Units	X	X	X	X	X
Other Compensation and Benefits	X	X		X	

Each year, the Compensation Committee conducts a review of the relative mix of the compensation components to those of peer companies. The Company believes that a significant portion of our executives' compensation should be at risk, and that the at-risk amount should increase with the executive's level of responsibility. There is also a need to ensure a balance between the short- and long-term focus of the executives, and in the types of performance incentives and risks encouraged, as well as to align their interests with those of stockholders, by providing a meaningful portion of their compensation in the form of stock-based pay.

**Other Compensation and Benefits.** The Company's executive officers also participate in benefits plans generally available to all other employees. We have also entered into change in control agreements with certain of our executive officers and provide a modest program of executive perquisites and personal benefits as further described in this Compensation Discussion and Analysis and the tables that follow.

**Table of Contents**

**Mix of Total Compensation.** The following charts illustrate the percentage of total compensation for our CEO and the other named executive officers serving at December 31, 2008 on average, respectively, represented by each element of compensation for 2008.

\* Grant date fair value of options granted in 2008.

\*\* Market value of shares of common stock paid out under performance shares previously awarded for the 2006-2008 performance period and grant date fair value of restricted stock units awarded in 2008.

Each component of pay plays an important role in accomplishing our compensation objectives:

The Company's short-term variable cash incentive pay program is designed to align management's financial interests with the Company's short-term business objectives. Individual variable pay for management employees correlates to the Company's annual financial results compared to targeted results. The total amount available for variable pay is based upon annual financial results.

The short-term variable cash incentive pay program is designed to take into account the incentive value and level of influence on Company results by participants in the program.

All levels of management participate in the short-term variable cash incentive pay program in order to retain a focus on execution of the Company's short-term strategic and tactical goals.

## **Table of Contents**

Stock-based incentive compensation, including stock options, performance shares, and restricted stock units, is designed to create incentives to meet strategic long-term objectives which are aligned with the creation of value for the Company's stockholders. Stock-based incentive compensation is generally awarded to upper levels of management with the most influence over the strategic, long-term direction of the Company.

The balance of short-term and long-term components of compensation as devices to drive individual behaviors and risk management is carefully considered in the design and administration of the management compensation program.

### **Review of 2008 Executive Compensation**

The Compensation Committee reviewed overall compensation of the Chief Executive Officer and the other executive officers included in the Summary Compensation Table below (collectively referred to as the named executive officers) and determined each component of executive compensation for 2008 as described below.

The Compensation Committee also:

Reviewed the value of each type of compensation and benefit for each of the executive officers, including short-term cash and long-term stock-based compensation, perquisites and personal benefits, deferred accounts, and retirement plans and determined that the amounts, individually and in the aggregate, were appropriate and in line with internal and external market comparisons.

Considered the estimated value of outstanding unvested, unexercised, and unrealized stock-based awards in its review of the types and values of each executive officer's compensation.

Determined the amount and forms of compensation considering the following:

Individual performance,

Compensation relative to that for similar positions in other companies,

The mix of short- and long-term compensation, and total compensation, relative to other executive officers and other employees,

Whether the features of each form of compensation are appropriately balanced in terms of the types of corporate and individual performance being incented, the levels and types of risk they encourage managers to evaluate and take, and whether the compensation encourages managers to take unnecessary risks,

Background information and recommendations from the Company's management compensation organization and from the Compensation Committee's external compensation consultant, and

The recommendations of the Chief Executive Officer for the other named executive officers.

During 2008, the Board considered and approved succession planning decisions and executive management changes, including the appointment of a new Chief Executive Officer, creation of the position of Executive Chairman, appointment of a new Chief Financial Officer upon the retirement of the former Chief Financial Officer, and other executive appointments and changes in responsibilities related to these retirements, appointments, and changes and to the retirement of the Executive Vice President and Polymers Business Group Head. As part of the executive

succession planning decisions and management changes in 2008, the Compensation Committee:

Increased the base salaries and target annual variable cash pay of those executives with new or additional responsibilities, including Messrs. Espeland and Costa,

Approved a \$900,000 cash payment to Dr. Nelson in connection with his accelerated retirement, based upon the value of his estimated additional compensation had he retired at year-end,

Awarded restricted stock units to certain executives, including Messrs. Rogers and Costa,

## **Table of Contents**

Established the base salary (\$975,000, subsequently reduced as described under Elements of our Executive Compensation Base Pay ) and target annual variable cash pay of Mr. Rogers effective when he succeeds Mr. Ferguson as Chief Executive Officer on May 7, 2009, and

Established Mr. Ferguson s compensation as Executive Chairman of the Board (annual salary of \$750,000, subsequently reduced as described under Elements of our Executive Compensation Base Pay ) effective on May 7, 2009.

In connection with its review of external market data, the Compensation Committee has directly engaged Hewitt Associates ( Hewitt ) as its external compensation consultant. Under the terms of Hewitt s engagement by the Compensation Committee, Hewitt reports to and receives its direction from the Compensation Committee, and a representative of Hewitt attends each meeting of the Compensation Committee as its advisor. Hewitt provides the Compensation Committee with third-party survey information used in setting short- and long-term compensation levels, perspective on emerging trends in compensation issues, and expertise in incentive compensation structure, terms, and design. The Company s management also uses the services of several outside firms, including Hewitt, for compensation analysis, third-party surveys, and management pay research and analysis. Management s use of the Compensation Committee s consultant is limited to advice on emerging trends and competitive compensation practices.

## **Elements of our Executive Compensation**

### **Annual Cash Compensation Base Pay and Variable Pay**

**How Base Pay and Variable Pay Levels Are Determined.** For executive officers, targeted total cash compensation is designed to be competitive with comparable pay for similar jobs when target levels of corporate, organizational, and individual performance are achieved. The targeted levels of cash compensation are based upon information provided by the Compensation Committee s compensation consultant and publicly available information. For 2008, a significant portion of each executive officer s pay was made variable. Depending upon Company, organizational, and individual performance, executive officers could receive more or less than the target amount.

For 2008, the Compensation Committee compared total cash compensation levels for the Company s executive officers with those of the following companies selected based upon industry, number of employees, revenues, number and type of commercialized products, and market capitalization:

Air Products and Chemicals	W.R. Grace and Company
Albemarle Corporation	Nalco Company
Baker Hughes, Inc.	Olin Corporation
Ball Corporation	PPG Industries, Inc
Dow Chemical Company	Praxair, Inc.
E. I. du Pont de Nemours and Company	Rohm and Haas Company
Ecolab, Inc.	The Scotts Miracle-Gro Company
H. B. Fuller Company	Sherwin-Williams Company
Goodyear Tire and Rubber Company	

As requested by the Compensation Committee, Hewitt provided benchmarking analysis of the comparable companies total cash compensation information, and also advised the Compensation Committee of general market cash compensation practices and trends. In determining each executive officer s targeted total cash compensation, the

Compensation Committee also applied its judgment in considering the competitive market for executive talent, comparative pay levels of each other executive officer, relative cash compensation of other jobs in the Company, and differences between the Company's executive positions and those in the benchmarking information. For 2008, the Compensation Committee set the targeted cash pay for executives within a range of 10% above or below the median level of the total cash compensation for comparable positions of the peer companies.

**Base Pay.** In early 2008, after reviewing market competitive pay levels and the targeted total cash compensation of the executive officers, the Compensation Committee determined that base pay increases were



**Table of Contents**

appropriate for the executive officers because of their base pay relative to the mid-range of companies surveyed. In addition to external comparisons, the Compensation Committee considered the Chief Executive Officer's recommendations for adjustments to the annual base salaries of other executive officers, the impact of base pay increases on the mix of short- and long-term compensation and total compensation, and the cash compensation level of each executive officer relative to that of each other executive officer. As a result, annual base salaries for our executive officers were increased by 3% to 13% for 2008. The Committee also increased the base pay of executives with new or additional responsibilities as described under Review of 2008 Executive Compensation based on the same criteria and factors.

Other than base pay adjustments for changes in job responsibilities, for 2009, the Committee did not increase the base pay of executives, consistent with the Company's decision in December 2008 that the base salaries of employees for 2009 will not be increased from 2008 levels. In March 2009, the Committee decreased the base pay of executives by five percent, consistent with the Company's reduction of the base pay of employees beginning March 30, 2009.

**Variable Cash Pay – Unit Performance Plan.** For 2008, the variable portion of cash compensation paid to the executive officers was determined solely under the Unit Performance Plan (the UPP). The UPP is designed to determine a portion of the annual cash compensation of management level employees according to corporate performance and the attainment of certain individual objectives and expectations. The UPP is intended to provide an incentive for superior business and individual performance and to tie the interests of our executive officers to the performance of our businesses and the interests of our stockholders.

The Compensation Committee establishes a market-based target UPP incentive opportunity for each executive officer expressed as a percent of base salary. The individuals with the greatest overall responsibility for corporate performance have larger incentive opportunities in comparison to their base salaries in order to weight their overall pay mix more heavily towards performance-based compensation. For the named executive officers, the target annual incentives for 2008 were as follows:

Name	Title	Target UPP Payout as a % of Base Salary
J. Brian Ferguson	Chairman and Chief Executive Officer	100%
Curtis E. Espeland	Senior Vice President and Chief Financial Officer	50% (70% as CFO)
Richard A. Lorraine	Former Senior Vice President and Chief Financial Officer	70%
James P. Rogers	President and Chemicals & Fibers Business Group Head	80%
Mark J. Costa	Executive Vice President, Polymers Business Group Head and Chief Marketing Officer	65% (75% As Executive VP)
Theresa K. Lee	Senior Vice President, Chief Legal Officer and Corporate Secretary	65%
Gregory O. Nelson	Former Executive Vice President and Polymers Business Group Head	75%

The amount of the award pool from which UPP payouts are made to management-level employees is determined by annual performance of the Company versus goals established by the Compensation Committee. For 2008, the measure of corporate performance under the UPP was earnings from operations. Annual performance goals are established

such that the target level is reached if corresponding Company performance goals for the year are achieved. The target level for 2008 earnings from operations (\$643 million) corresponded to the Company's operating earnings target under the annual business plan for 2008 as approved by the Board in late 2007. In determining earnings from operations for the purpose of measuring performance, the UPP provides for adjustments by the Compensation Committee for certain charges, income items, or other events, typically the same as those

**Table of Contents**

excluded from operating earnings in the non-GAAP pro forma financial measures disclosed by the Company in its public sales and earnings disclosures.

At the end of 2007, the Compensation Committee evaluated the Company's financial and strategic performance targets under its annual business plan for 2008 and set the UPP payout multipliers at 0% of aggregate target payouts if earnings from operations were below the threshold; at 100% of aggregate target payouts if earnings from operations were equal to the target; and at 200% of aggregate target payouts if earnings from operations were above the maximum. Linear interpolation is used to determine the awards if actual performance falls between any two stated points. The 2008 UPP threshold, target, and maximum adjusted earnings from operations targets for UPP award pool funding were:

	<b>Threshold (50% Award Pool Funding)</b>	<b>Target (100% Award Pool Funding)</b>	<b>Maximum (200% Award Pool Funding)</b>
<b>Earnings From Operations</b>	\$ 457 million	\$ 643 million	\$ 829 million

Earnings from operations for 2008, as adjusted, were \$558 million, resulting in a UPP award pool for all management level employees of \$19.3 million, equivalent to 77% of aggregate target awards. The calculation of earnings from operations under the UPP for 2008 was adjusted to exclude the impact on financial results of asset impairments and restructuring charges, accelerated depreciation costs associated with asset shutdowns in the Performance Polymers and PCI segments, and other operating income from the sale of certain mineral rights at an operating manufacturing site. These adjustments increased the calculated earnings from operations under the UPP by \$39 million and resulted in a net increase of the UPP award pool for all participants of \$2.7 million. The Compensation Committee may, in its discretion, adjust the award pool to reflect overall corporate performance and business and financial conditions; in 2008, the total Company award pool was not so adjusted.

The Compensation Committee established individual financial, organizational, and strategic performance objectives and expectations for Mr. Ferguson, and determined his payout considering his allocated portion of the total UPP award pool and the Compensation Committee's assessment of his attainment of these objectives for 2008.

The other named executive officers participated in a UPP unit consisting of all executive officers directly reporting to the Chief Executive Officer. The amount of the Company award pool allocated to the executive officers was determined by aggregating their individual target variable pay amounts, multiplied by a performance factor corresponding to their overall performance compared to pre-established targets related to organizational results and personal performance objectives. An actual individual award could exceed an individual's target award, based on the CEO's assessment of individual and organizational performance.

For 2008, Mr. Ferguson's individual performance objectives and expectations as approved by the Board in early 2008 were as follows:

**Annual business plan and financial commitments**

Achieve earnings from operations (EFO) target

Achieve earnings per share (EPS) target

Achieve cash from operating activities target

Capital expenditures at target

Achieve target safety measures (employee safety goals)

**Key Strategic Initiatives**

Manage key strategic initiatives (including IntegRex™ capacity optimization and technology licensing and industrial gasification project)

Implement plans to achieve growth goals (including Eastman Tritan™ copolyesters and Eastman Fibers segment expansions in Europe and Asia)

Define and pursue technologies for gasification derivatives

**Table of Contents**

**Systems, Processes, Initiatives to Stimulate Growth Beyond Key Strategic Initiatives**

Complete growth portfolio assessments

Improve content and execution of key customer accounts

Execute brand initiatives

Implement regional growth strategies

**Capabilities, Effectiveness and Efficiency**

Meet ongoing staffing and capability needs

Strengthen government relations performance

Continue progress on corporate diversity goals

Implement financial organization initiatives

Achieve six-sigma cost savings goals

Meet capital efficiency targets

Develop and deploy corporate global climate change and sustainability policies

The individual performance objectives and expectations for the other named executive officers were driven by and accordingly derived from the CEO's performance objectives and expectations described above. Each individual named executive's corporate performance objectives were the same as those for the CEO, with organizational and individual goals and expectations targeted to each executive's area of responsibility.

Following determination by the Compensation Committee of the total amount of the Company award pool available to the executive officers as a group, the Chief Executive Officer assessed individual performance against established goals and expectations for each other named executive officer and determined the amounts of the individual payouts from the portion of the allocated award pool. The Chief Executive Officer's assessment was based upon evaluation of each executive officer's performance against individual goals and expectations related to corporate and organizational performance. Considering recommendations from the Chief Executive Officer, the Compensation Committee approved payouts to the other named executive officers.

The Compensation Committee reviewed Mr. Ferguson's performance against his financial, organizational, and strategic objectives as described above. Based upon its evaluation of corporate and individual performance, the Compensation Committee determined that Mr. Ferguson and the other named executives did not meet the earnings targets for corporate financial performance and the objectives for certain strategic initiatives because of the global financial crisis and recessionary business conditions, and that he and the other executives met or exceeded the pre-established objectives and expectations for the other areas of performance. Mr. Ferguson's UPP payout was 77% of his target award amount, and the payouts to the other named executives ranged from 73% to 83% of their respective target award amounts.

**Special Retirement Payment.** The Compensation Committee, as part of the Board's development and approval of executive succession planning and executive management changes, approved a cash payment of \$900,000 to Dr. Nelson in connection with his accelerated retirement. The amount of this payment was based upon the value of Dr. Nelson's estimated additional compensation had he retired on December 31, 2008 rather than August 1, 2008.

**Table of Contents**

**Stock-Based Incentive Pay**

**Equity-Based Compensation Program.** Equity-based compensation is designed to facilitate stock ownership which links senior managers' pay to long-term return to other stockholders. Important elements of the current executive equity-based compensation program are:

Stock Options	Stock option program, implemented under the Company's Omnibus Long-Term Compensation Plan (the Omnibus Plan), creates a direct link between compensation of key Company managers and long-term performance of the Company through appreciation of stock price.
Performance Shares	Awarded under the Omnibus Plan to provide an incentive for key managers to earn stock awards by meeting specified business or individual performance goals.
Other Stock-Based Incentive Pay	Under the Omnibus Plan, the Compensation Committee may also award additional stock-based compensation (with or without restrictions), performance units, restricted stock units, or additional options, including options with performance-based or other conditions to vesting.
Stock Ownership Expectations	Established for executive officers to encourage long-term stock ownership and the holding of shares awarded under the Omnibus Plan or acquired upon exercise of options. Over a five year period, executive officers are expected to invest two and one-half times their annual base pay (five times base pay for the Chief Executive Officer) in Company stock or stock equivalents. All named executive officers have met or are on schedule to meet their ownership expectations.

**How Stock-Based Incentive Pay Levels Were Determined.** The Compensation Committee established the value and mix of total stock-based incentive pay for 2008 by considering recommendations from its compensation consultant based on long-term compensation surveys of the following manufacturing, industrial, and chemical companies of comparable size in the same market as the Company for executive talent:

Albemarle Corporation	Praxair, Inc.
Dow Chemical Company	Rohm and Haas Company
Ecolab Inc.	The Scotts Miracle-Gro Company
E. I. duPont de Nemours and Company	Sensient Technologies Corporation
H. B. Fuller Company	Solutia Incorporated
Nalco Company	Valspar Corporation
Olin Corporation	W. R. Grace and Company
PPG Industries, Inc.	

As requested by the Compensation Committee, Hewitt provided benchmarking analysis of this long-term stock-based compensation information, and also advised the Compensation Committee of general market stock-based incentive compensation practices and trends.

Stock options and performance shares were awarded so that total stock-based incentive compensation for 2008 approximated the mid-range of total stock-based compensation of the compared companies. The current values of total stock-based incentive pay for 2008 ranged from 38% to 62% of total compensation for the named executive

officers.

The Compensation Committee also considered the estimated value of all outstanding unvested, unexercised, and unrealized stock-based awards in determining stock-based incentive pay levels, and made no changes to award levels based on the review of outstanding awards.

**Stock Options.** In 2008, the Company determined to deliver approximately 40% of each executive officer's stock-based equity value as stock options. In determining the size of option awards, the Compensation Committee used the services of its compensation consultant to derive values of options using a variation of the Black-Scholes



**Table of Contents**

option-pricing model. Computation of the value of option awards is comparable to values determined under FAS 123R and reported in the Grant of Plan-Based Awards table below.

**Long-Term Performance Shares.** In 2008, the Company awarded performance shares for the 2009 -2011 performance period to each executive officer, representing approximately 60% of each executive officer's stock-based equity value, to provide incentives for exceeding internal financial objectives and external return objectives versus a peer group of companies.

For the 2006-2008 performance period, performance was determined by comparing the Company's multi-year performance as measured against a return on capital target established at the beginning of the three year performance period, and the Company's total return to stockholders (change in stock price plus dividends declared during the performance period, assuming reinvestment of dividends) relative to a peer group of industrial companies comprising the Standard and Poor's Materials Sector from Standard and Poor's Super Composite 1500 Index. The return on capital target is established considering corporate strategic and business plans and expectations for the performance period. Performance relative to the total return to stockholders target is determined by the Company's quintile placement relative to the peer group of industrial companies at the end of the three year performance period. If earned, awards are paid after the end of the performance period in unrestricted shares of Eastman common stock.

The Compensation Committee reviewed and certified performance results and approved a payout of shares to the executive officers under performance shares previously awarded for the 2006-2008 performance period. The following tables show the targets and the payout matrix for the 2006-2008 performance shares corresponding to return on capital and total stockholder return targets:

Performance Year	Target Return on	Total Stockholder Return
	Capital	(TSR) Target Quintile
2006	11.5%	3rd Quintile
2007	11.5%	3rd Quintile
2008	11.5%	3rd Quintile

Eastman TSR Relative to Comparison Companies	Differential from Target Return on Capital									
	< 7%	5% to 7%	3 to 5%	1 to 3%	1 to +1%	+1 to +3%	+3 to +5%	+5 to +7%	+7 to +10%	>10%
0-19% (5th quintile)	0.0	0.0	0.0	0.0	0.6	0.8	1.0	1.3	1.6	1.9
20-39% (4th quintile)	0.0	0.0	0.0	0.4	0.8	1.0	1.3	1.6	1.9	2.2
40-59% (3rd quintile)	0.0	0.0	0.4	0.6	1.0	1.3	1.6	1.9	2.2	2.5
60-79% (2nd quintile)	0.0	0.4	0.6	1.0	1.3	1.6	1.9	2.2	2.5	2.8
80-99% (1st quintile)	0.0	0.6	0.8	1.3	1.6	1.9	2.2	2.5	2.8	3.0

Payouts under the 2006-2008 performance shares for the named executive officers ranged from 45,330 shares for the Chief Executive Officer to 3,200 shares, and represented 100% of the target award (of a possible 300% of the target award) based upon the Company's total stockholder return ranking in the third quintile of the compared companies and an average return on capital of .81% in excess of the return on capital target.

**Restricted Stock Unit Awards.** As discussed under *Review of 2008 Executive Compensation*, the Compensation Committee made special restricted stock unit awards to Messrs. Rogers and Costa and to one other executive officer in connection with the Board's succession planning decisions in December 2008. These awards were designed to serve as retention incentives for these executives and, in the case of Mr. Rogers, as an incentive to his performance in the area of management and leadership development.

**Stock-Based Compensation Award Practices.** The Compensation Committee has historically granted stock options with an exercise price equal to the market price of the underlying stock at the grant date, and on the date of its authorization of grants, has set a grant date that is on or after the date of approval of the grant by the Compensation Committee. The Compensation Committee's recent practice has been to grant stock options and other stock-based awards annually in the fall, and to set effective dates for stock option grants on the third business day after the next release of quarterly financial results. This is designed to ensure that the market price of the underlying common stock, and thus the exercise price of the options, reflects such results.

## **Table of Contents**

### **Executive Perquisites and Personal Benefits**

We provide limited executive perquisites and personal benefits designed to provide a level of personal and financial security for our executives. The Compensation Committee annually reviews the types and values of perquisites provided, the imputation to the executives of taxable income for the provided perquisites, and tax treatment of the perquisites to the Company and executives. Perquisites and personal benefits provided to executives are:

personal financial counseling, estate planning, and tax preparation,

personal umbrella liability insurance coverage,

home security system and associated reimbursement for the cost of taxes associated with imputed income, and

non-business travel on corporate aircraft by executives, their families, and invited guests when seats are available and the aircraft is otherwise being used for Company business.

In addition, in considering time demands on the Chief Executive Officer, the Compensation Committee has authorized the personal use of corporate aircraft by the Chief Executive Officer, and his family when traveling with him, whenever possible for business and personal travel.

Mr. Costa receives an annual personal travel allowance under his employment agreement. The Compensation Committee approved Mr. Costa's perquisites and personal benefits and the other compensation terms of his employment agreement when he was hired in 2006.

### **Executive Termination and Change in Control Agreements**

The Company believes that severance protections in the context of a change in control transaction can play a valuable role in attracting and retaining key executive officers. Accordingly, we provide such protections for certain of our executive officers. Detailed information regarding these change in control agreements and the benefits they provide is included in the "Termination and Change-in-Control Arrangements" section of this proxy statement.

The Compensation Committee evaluates the level of severance benefits payable to each such officer on a case-by-case basis, and we consider these severance protections an important part of our executives' compensation and consistent with practices of peer companies.

Eastman believes that the occurrence, or potential occurrence, of a change in control transaction will create uncertainty regarding the continued employment of our executive officers. This uncertainty results from the fact that many change in control transactions result in significant organizational changes, particularly at the senior executive level. In order to encourage our executive officers to remain employed with the Company during an important time when their prospects for continued employment following the transaction are often uncertain, we provide certain of our named executive officers with severance benefits if their employment is terminated by the Company without cause or by the executive for good reason in connection with a change in control.

In addition, Mr. Costa's employment agreement provides for a cash severance payment and vesting of certain outstanding stock-based compensation awards in the event of his termination without cause or his resignation for good reason, and for certain circumstances in addition to those covered by the executive change in control severance agreements. The Compensation Committee approved Mr. Costa's termination arrangements and the other terms of his employment agreement when he was hired in 2006. Detailed information regarding the termination provisions of Mr. Costa's employment agreement is included in the "Termination and Change-in-Control Arrangements" section of

this proxy statement.

**Tax Treatment of Executive Officer Compensation**

The Compensation Committee intends to preserve the Company's ability to deduct compensation paid to the Company's Chief Executive Officer and other executive officers to the extent possible while also maintaining the flexibility to compensate such officers in accordance with the Company's compensation policies.

**Table of Contents**

Section 162(m) of the Internal Revenue Code generally limits the deductibility to the Company of annual compensation (other than qualified performance-based compensation) in excess of \$1 million paid to certain of the Company's executive officers. Base salaries, variable compensation under the UPP, any bonus payments outside the UPP, and stock and stock-based compensation payable other than solely based on corporate performance conditions are generally subject to the \$1 million limit on deductible compensation. Compensation attributable to stock options granted under the Company's Omnibus Plan qualifies for deductibility under Section 162(m).

A portion of each named executive officer's compensation for 2008 was non-deductible to the Company under Section 162(m). The anticipated amount of the Company's taxes for non-deductible compensation in 2008 is approximately \$1 million. The Compensation Committee will continue to retain the discretion to pay non-deductible amounts. The Compensation Committee believes that such flexibility best serves the interests of the Company and its stockholders by allowing the Committee to recognize and motivate executive officers as circumstances warrant.

The Company has structured its deferred compensation arrangements with the intention of complying with the limitations and restrictions of Internal Revenue Code Section 409A. Section 409A applies to any plan or arrangement that provides for the deferral of compensation, and, unless certain requirements are met, amounts deferred under deferred compensation arrangements will be currently includible in income and subject to an excise tax.

**Reimbursement of Certain Compensation Following Restatements**

Pursuant to Section 304 of the Sarbanes-Oxley Act of 2002, a Company policy governs the process for reimbursement by the Chief Executive Officer and the Chief Financial Officer of any bonus or other incentive-based or equity-based compensation received during the 12-month period following public disclosure of an accounting restatement due to material noncompliance by the Company with any financial reporting requirements as the result of misconduct. In addition, our 2007 Omnibus Long-Term Compensation Plan requires reimbursement of certain amounts following public disclosure of an accounting restatement due to material noncompliance by the Company with any financial reporting requirement as a result of misconduct.

**Table of Contents****Compensation Tables**

The following Summary Compensation Table sets forth information concerning compensation of the individuals serving as Eastman's Chief Executive Officer and Chief Financial Officer during 2008, and the Company's four other most highly compensated executive officers for the year ended December 31, 2008.

**Summary Compensation Table**

Principal	Year	Salary (\$)	Bonus (\$)	Stock Awards \$(1)(2)	Option Awards \$(1)	Non-Equity Incentive Plan Compensation \$(3)	Change in Pension Value and	All Other Compensation \$(5)
							Nonqualified Deferred Compensation Earnings \$(4)	
usson(6)	2008	\$ 1,131,154	\$ 0	\$ 2,226,160	\$ 1,182,570	\$ 925,000	\$ 570,593	\$ 202,179
nd Chief	2007	1,136,538	0	3,405,793	3,194,764	1,500,000	542,849	222,217
fficer	2006	1,073,077	0	3,227,568	3,235,460	1,045,000	662,951	205,359
eland(7)	2008	331,731	0	167,678	120,511	200,000	41,873	33,989
President	2007							
nancial	2006							
	2008	490,981	0	474,645	626,357	180,000	110,658	54,224
or Vice	2007	462,058	0	682,225	303,016	415,000	114,678	66,846
l Chief	2006	441,923	0	831,012	199,726	292,000	106,440	73,884
fficer								
ngers(9)	2008	594,615	0	573,739	456,697	400,000	139,644	69,183
l	2007	575,962	0	738,201	470,540	600,000	181,909	94,918
ess	2006	548,846	0	701,649	569,173	545,000	153,699	98,190
a(10)	2008	455,962	0	779,246	432,889	235,000	25,411	129,094
ce	2007	438,269	0	753,528	361,297	380,000	14,201	1,113,702
lymers	2006	237,462	250,000(11)	329,700	161,914	200,000	5,394	77,920
oup Head								
arketing								
ee	2008	433,269	0	403,264	212,986	225,000	135,656	56,298
President,	2007	416,318	0	617,269	703,960	320,000	121,894	67,399
fficer	2006	388,885	0	580,333	316,340	220,000	148,707	62,612
ecretary	2008	311,326	0	194,264	62,822	140,000	579,904	953,183

utive	2007	440,961	0	534,182	396,936	420,000	177,112	52,999
l	2006	400,385	0	445,184	472,776	250,000	187,213	53,390
oup Head								

- (1) The amounts reported include the portions of the grant date fair value of outstanding restricted stock, performance shares, and restricted stock units (reported in the "Stock Awards" column) and options (reported in the "Option Awards" column) recognized as compensation cost in the Company's financial statements for 2008, 2007, and 2006, respectively, measured in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment (referred to as FAS 123R), or with respect to awards granted prior to 2006, in accordance with Financial Accounting Board Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (referred to as FAS 123). See note 16 to the Company's consolidated financial statements in the Annual Report to Stockholders for 2008 mailed and delivered electronically with this proxy statement for discussion of the assumptions made in the valuation of stock awards and option grants.
- (2) Stock-related awards, other than stock options, consisting of: (i) restricted stock with transfer restrictions subject to satisfaction of continued employment for a specified time, and (ii) contingent stock awards ( performance shares and restricted stock units ) with future payment subject to satisfaction of continued employment for specified time periods and to achievement of specified performance-based conditions. Performance share awards were made for performance periods beginning January 1, 2004 and ending December 31, 2006, beginning January 1, 2005 and ending December 31, 2007, beginning January 1, 2006 and ending December 31, 2008, beginning January 1, 2007 and ending December 31, 2009 and beginning

**Table of Contents**

January 1, 2008 and ending December 31, 2010, respectively. Restricted stock units were awarded on December 4, 2008 for performance and continued employment periods ending December 31, 2012. For more information about stock-related awards, see [Grants of Plan-Based Awards](#), [Outstanding Equity Awards at Year-End](#), and [Option Exercises and Stock Vested](#) tables.

- (3) Cash payments in the following year for performance in the year indicated under the Unit Performance Plan. As described in the [Compensation Discussion and Analysis](#) section preceding these tables under [Executive Compensation](#) and in the [Grants of Plan-Based Awards](#) table, the Unit Performance Plan is the Company's variable pay program under which a portion of the total annual compensation of managers is dependent upon corporate, organizational, and individual performance.
- (4) [Change in Pension Value](#) is the aggregate change in actuarial present value of the executive officer's accumulated benefit under all defined benefit and actuarial retirement plans (including supplemental plans) accrued during the year. These plans are the Company's tax-qualified defined benefit pension plan (the Eastman Retirement Assistance Plan, or ERAP) and unfunded, nonqualified retirement plans supplemental to the ERAP and providing benefits in excess of those allowed under the ERAP (the Eastman Unfunded Retirement Income Plan, or URIP, and the Eastman Excess Retirement Income Plan, or ERIP). The aggregate increase in actuarial value of the pension plans is computed as of the same pension plan measurement date used for financial statement reporting purposes with respect to the Company's financial statements for 2008, 2007 and 2006, respectively. The actuarial present value calculation for 2008 is based on IRS 2013 Prescribed 417(e)(3) Unisex table. The actuarial present value calculations for 2007 and 2006 are based on the 1994 Group Annuity Reserve Unisex post-retirement mortality tables, and assume individual compensation and service through December 31, 2008, December 31, 2007, and December 31, 2006, respectively, with benefit commencement at the normal retirement age of 65. Benefits are discounted using a 6.08% discount rate for the 2008 calculation, a 6.16% discount rate for the 2007 calculation, and a 5.86% discount rate for the 2006 calculation. See the [Pension Benefits](#) table for additional information about the named executive officers' pension benefits.

[Nonqualified Deferred Compensation Earnings](#) refers to above-market or preferential earnings on compensation that is deferred on a basis that is not tax-qualified, including such earnings on nonqualified defined contribution plans. The Company maintains the Executive Deferred Compensation Plan (the EDCP), an unfunded, nonqualified deferred compensation plan into which executive officers can defer compensation until retirement or termination from the Company. For 2008, 2007, and 2006, there were no preferential or above-market earnings on amounts in individual EDCP stock accounts (defined as appreciation in value and dividend equivalents earned at a rate higher than appreciation in value and dividends on common stock) or on individual EDCP interest accounts (defined as interest on amounts deferred at a rate exceeding 120% of the federal long term rate). See the [Nonqualified Deferred Compensation](#) table for additional information about the named executive officers' EDCP accounts.

- (5) The items of [All Other Compensation](#) reported for the named executive officers for 2008 are identified and quantified below:

	<b>Annual Company Contributions to Defined Contribution</b>	<b>Reimbursement for Payment of Taxes on Compensation and</b>	<b>Payment In Connection with</b>
<b>Perquisites and Other Personal</b>			



<b>Name</b>	<b>Benefits(\$)</b>	<b>Plans(\$)</b>	<b>Benefits(\$)</b>	<b>Retirement(\$)</b>
J. B. Ferguson	\$69,154	\$131,558	\$1,467	\$
C. E. Espeland	6,211	25,587	2,191	
R. A. Lorraine	8,555	45,299	370	
J. P. Rogers	6,420	59,731	3,032	
M. J. Costa	87,296	41,798	0	
T. K. Lee	14,869	37,664	3,765	
G. O. Nelson	17,749	34,864	570	900,000

**Perquisites and other personal benefits.** The amounts reported are the aggregate values, based upon the incremental cost to the Company, of the following perquisites and other personal benefits made available to

**Table of Contents**

executive officers during 2008: personal financial counseling, estate planning, and tax preparation; personal umbrella liability insurance coverage; home security system; personal travel allowance; non-business travel on corporate aircraft by executives, their families, and invited guests when seats are available and the aircraft is otherwise being used for Company business purposes, including an added destination of a flight when the plane is otherwise in reasonable proximity to the added destination; and personal use of corporate aircraft by the Chief Executive Officer and his family. The aggregate incremental cost to the Company for flying additional passengers on business flights is a *de minimis* amount, and no amount is included for these flights for purposes of determining All Other Compensation. The aggregate incremental cost to the Company for operating the corporate aircraft for non-business added destination portions of business flights and for personal flights for the Chief Executive Officer and his family is based upon calculation of direct operating costs including fuel, fuel additives, lubricants, maintenance, reserves for engine restoration and overhaul, landing and parking expenses, crew expenses, and miscellaneous supplies and catering. The aggregate incremental costs to the Company of umbrella liability insurance, home security system, financial counseling, and personal travel allowance, are based upon the actual amounts paid by the Company for such perquisites and personal benefits. The perquisites and other personal benefits reported as All Other Compensation are further quantified in the following table:

Name	Perquisites and Other Personal Benefits				
	Personal Use of Corporate Aircraft (\$)	Umbrella Liability Insurance (\$)	Home Security System (\$)	Financial Counseling (\$)	Personal Travel Allowance (\$)
J. B. Ferguson	\$ 52,544	\$ 1,128	\$ 947	\$ 14,535	\$
C. E. Espeland	0	563	5,648	0	
R. A. Lorraine	2,871	789	645	4,250	
J. P. Rogers	0	789	436	5,195	
M. J. Costa	2,997	789	0	8,510	75,000*
T. K. Lee	0	789	5,570	8,510	
G.O. Nelson	0	789	0	16,960	

\* Annual personal travel allowance, payable in quarterly installments, under Mr. Costa's employment agreement.

**Annual company contributions to defined contribution plans.** The amounts reported for 2008 are annual Company contributions to the accounts of Messrs. Ferguson, Espeland, Lorraine, Rogers, and Nelson, and Ms. Lee in the Eastman Investment Plan, a 401(k) retirement plan, and in the EDCP (except in the cases of Mr. Lorraine and Dr. Nelson), and to Mr. Costa in the Eastman Employee Stock Ownership Plan ( ESOP ) and EDCP. Contributions to the Eastman Investment Plan or ESOP equaled \$11,500 for each named executive, with the remaining Company contributions to their EDCP accounts (except for Mr. Lorraine and Dr. Nelson, to whom such amounts were paid in cash because of their retirement). See the Nonqualified Deferred Compensation table for additional information about Company contributions into the named executive officers' EDCP accounts. Annual Company contributions were based upon actual compensation paid during the calendar year.

**Amounts reimbursed during 2008 for the payment of taxes on certain compensation and benefits.** Consists of tax reimbursements for imputed income for home security systems (Mr. Ferguson,

\$543; Mr. Espeland, \$2,031; Mr. Lorraine, \$370; Mr. Rogers, \$250; and Ms. Lee, \$3,195) and for non-business flights on corporate aircraft (Mr. Ferguson, \$924; Mr. Espeland, \$160; Mr. Rogers, \$2,782; Ms. Lee, \$570; and Dr. Nelson, \$570).

**Payment in connection with retirement.** Cash payment to Dr. Nelson to compensate him for the value of estimated additional compensation he would have earned had he retired on December 31, 2008.

- (6) Mr. Ferguson will remain the Chief Executive Officer until the 2009 Annual Meeting of Stockholders, and thereafter will be employed by the Company as an executive officer in the role of Executive Chairman of the Board. See note 9.

**Table of Contents**

- (7) Mr. Espeland was appointed Senior Vice President and Chief Financial Officer on September 1, 2008, and previously was Vice President, Finance and Chief Accounting Officer.
- (8) Mr. Lorraine resigned from his position of Senior Vice President and Chief Financial Officer on September 1, 2008 and remained a non-executive employee of the Company until his retirement on December 31, 2008.
- (9) Mr. Rogers has been elected by the Board to be the Company's President and Chief Executive Officer, effective immediately following the 2009 Annual Meeting of Stockholders.
- (10) Mr. Costa joined the Company in June 2006 as Senior Vice President, Corporate Strategy and Marketing, and was appointed to his current position effective August 1, 2008.
- (11) Signing bonus paid to Mr. Costa under his employment agreement.
- (12) Dr. Nelson retired effective August 1, 2008.

The following table sets forth certain information regarding grants in 2008 to the individuals named in the Summary Compensation Table of non-equity incentive awards, equity incentive awards, and other stock and option awards.

**Grants of Plan-Based Awards**

Approval Date (1)	Grant Date (2)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(3)			Estimated Future Payouts Under Equity Incentive Plan Awards(4)			All Other Stock Awards: Number of Shares of Stock or Units (#)(5)	All Other Option Awards: Number of B Securities Underlying Options (#)(6)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
2007	1/1/2008	\$ 600,000	\$ 1,200,000	\$ 2,400,000					
2008	1/1/2008				16,000	40,000	120,000		
	10/28/2008								110,900
								-0-	
2007	1/1/2008	\$ 127,500	\$ 255,000	\$ 510,000					
2008	1/1/2008				1,280	3,200	9,600		
	10/28/2008								28,350
								-0-	
2007	1/1/2008	\$ 175,000	\$ 350,000	\$ 700,000					
	1/1/2008				3,904	9,760	29,280		
								-0-	
2007	1/1/2008	\$ 240,000	\$ 480,000	\$ 960,000					
2008	1/1/2008				4,724	11,810	35,430		
	10/28/2008								32,600

Edgar Filing: EASTMAN CHEMICAL CO - Form DEF 14A

	12/4/2008							50,000	
	1/1/2008	\$ 161,000	\$ 322,000	\$ 644,000					
2007	1/1/2008				2,876	7,190	21,570		
2008	10/28/2008								24,600
	12/4/2008							25,000	
	1/1/2008	\$ 140,250	\$ 280,500	\$ 561,000					
2007	1/1/2008				2,876	7,190	21,570		
2008	10/28/2008								19,800
								-0-	
	1/1/2008	\$ 129,375	\$ 258,750	\$ 517,500					
2007	1/1/2008				3,640	9,100	27,300		
								-0-	

- (1) The Compensation Committee approved a stock option grant to executive officers and other eligible managers at its regularly scheduled meeting in October 2008, and approved performance share awards for executive officers and other eligible officers for the 2008-2010 performance period at its regularly scheduled meeting in October 2007.
- (2) For stock options, the grant effective date was the third business day after public release of the Company's third quarter 2008 financial results. Performance share awards for 2008-2010 were effective as of the beginning of the performance period on January 1, 2008.
- (3) Estimated future payouts under the Unit Performance Plan, a variable cash pay program which makes a portion of participants' total annual compensation dependent upon corporate, organizational, and individual performance. The Threshold column reflects the payout level if performance is at minimum of 50% of target levels. The Target column reflects the payout level if performance is at 100% of target levels. The Maximum

**Table of Contents**

column reflects the payout level if performance is at 200% of target levels for specified above-goal performance. See the Summary Compensation Table for actual payout under the UPP for 2008 and Compensation Discussion and Analysis for a more complete description of the UPP and how the amounts of payouts are determined.

- (4) Estimated future shares awarded at threshold, target, and maximum levels for performance shares for the 2008-2010 performance period, assuming performance conditions are satisfied. See Compensation Discussion and Analysis for a more complete description of how performance share payouts are determined, Outstanding Equity Awards at Year-End table, and Termination and Change-in-Control Arrangements .
- (5) Restricted stock units, representing the right to receive the same number of unrestricted shares of common stock on December 31, 2012 (or, in the case of 25,000 of Mr. Rogers restricted stock units, prior to December 31, 2012 but in no event before December 31, 2011), subject to continued employment (other than termination by reason of death or disability) and, in the case of 25,000 of Mr. Rogers restricted stock units, satisfactory performance in the area of management and leadership development, including the development of internal candidates for senior leadership positions. An amount equal to cash dividends paid during the period that the restricted stock units are outstanding and unvested with respect to shares underlying restricted stock units which vest is payable in cash on the vesting date of the restricted stock units.
- (6) Non-incentive based stock options granted during the fiscal year. Options granted in 2008 have an exercise price equal to the closing price on the New York Stock Exchange of the underlying common stock as of the date of grant. The stock options vest and become exercisable in one-third increments on each of the first three anniversaries of the grant date, with acceleration of vesting in the event of a change in ownership or in certain circumstances following a change in control. Stock options generally expire ten years from the date of grant. Upon termination by reason of death, disability, or retirement, the stock options remain exercisable for the lesser of five years following the date of termination or the expiration date. If an optionee resigns, the stock options remain exercisable for the lesser of ninety days or the expiration date. Stock options not previously exercised are canceled and forfeited upon termination for cause. See Summary Compensation Table , Outstanding Equity Awards at Year-End , Option Exercises and Stock Vested tables, and Termination and Change-in-Control Arrangements .
- (7) Per-share exercise price of stock options granted in 2008. The exercise price is the closing price of Eastman common stock on the New York Stock Exchange on the grant date.
- (8) Full grant date fair value of each stock-based award, computed in accordance with FAS 123R.

**Table of Contents**

The following table sets forth information regarding outstanding option and stock awards held by individuals named in the Summary Compensation Table as of December 31, 2008.

**Outstanding Equity Awards at Year-End**

Name	Option Awards				Stock Awards			Equity Incentive Plan Awards:	
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2)	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(3)
B. Ferguson	22,500			\$ 49.22	04/05/11				
	41,406			47.55	04/04/12				
	4,700(4)			46.28	04/03/13				
	75,000			46.98	11/01/14				
	7,613(4)			53.57	04/03/13				
	170,000			53.51	10/31/15				
	12,122(4)			55.06	04/06/10				
	52,516(4)			60.92	04/03/13				
	110,000	55,000(5)		60.92	10/30/16				
	113,400(4)			66.50	04/04/12				
36,666	73,334(6)		66.15	10/29/17					
	110,900(7)		36.60	10/27/18					
							84,000	\$ 2,663,640	
E. Espeland	4,000			53.51	10/31/15				
	8,000	4,000(5)		60.92	10/30/16				
	2,850	5,700(6)		66.15	10/29/17				
		28,350(7)		36.60	10/27/18				
							6,400	202,944	
A. Lorraine	8,500			43.66	04/01/14				
	14,000			46.98	11/01/14				
	31,000			53.51	10/31/15				
	25,333	12,667(5)		60.92	10/30/16				
	8,666	17,334(6)		66.15	10/29/17				

						19,890	630,712
P. Rogers	8,000		43.66	04/01/14			
	16,000		46.98	11/01/14			
	14,755(4)		52.66	04/03/13			
	11,665(4)		59.23	04/06/10			
	33,000		53.51	10/31/15			
	26,666	13,334(5)	60.92	10/30/16			
	38,978(4)		60.02	04/04/12			
	16,701(4)		66.31	04/05/11			
	10,500	21,000(6)	66.15	10/29/17			
	.	32,600(7)	36.60	10/27/18			
					50,000(9)	\$ 1,585,500	
							22,480
							712,841
M. J. Costa	43,333	21,667(8)	56.52	05/31/16			
	18,666	9,334(5)	60.92	10/30/16			
	6,400	12,800(6)	66.15	10/29/17			
		24,600(7)	36.60	10/27/18			
					10,000(10)	317,100	
					25,000(9)	792,750	
							14,660
							464,869
M. K. Lee	2,300(4)		58.80	04/03/13			
	31,000		53.51	10/31/15			
	6,538(4)		57.06	04/04/12			
	18,666	9,334(5)	60.92	10/30/16			
	8,333(4)		66.50	04/04/12			
	6,400	12,800(6)	66.15	10/29/17			
		19,800(7)	36.60	10/27/18			
							14,660
							464,869
M. O. Nelson	7,334		53.51	08/01/13			
	21,333	10,667(5)	60.92	08/01/13			
	8,083	16,167(6)	66.15	08/01/13			
							6,271
							198,853



**Table of Contents**

- (1) Market value of restricted shares of common stock and of shares of common stock payable under restricted stock units, based on the per share closing price of the common stock on the New York Stock Exchange on December 31, 2008.
- (2) Number of shares of common stock to be paid under outstanding performance shares, assuming achievement of target performance goals for 2007-2009 and 2008-2010 performance periods. See Compensation Discussion and Analysis for a more complete description of how performance share payouts are determined. If earned, the awards will be paid after the end of the performance period in unrestricted shares of Eastman common stock (subject to proration if the executive's employment is terminated during the performance period because of retirement, death, or disability, and to cancellation in the event of resignation or termination for cause), or participants may irrevocably elect in advance to defer the award payout into the EDCP.
- (3) Market value of shares of common stock to be paid under outstanding performance shares, assuming achievement of target performance goals for 2007-2009 and 2008-2010 performance periods, based on the per share closing price of the common stock on the New York Stock Exchange on December 31, 2008.
- (4) Reload stock options received to purchase a number of shares equal to the number of previously owned shares of Eastman common stock surrendered in payment of the exercise price of previously granted stock options. Option exercise price is based upon the market price of underlying common stock on the date of exercise of the underlying option grant. Reload options are exercisable at grant and expire as of the date of the original underlying option grant. Stock options granted after 2003 do not include a reload feature, and no additional options will be granted upon exercise of those options. See also Summary Compensation Table.
- (5) Option becomes exercisable on October 31, 2009.
- (6) Option becomes exercisable as to one-half of the shares on October 30, 2009 and as to the remaining shares on October 30, 2010.
- (7) Option becomes exercisable as to one-third of the shares on each of October 28, 2009, October 28, 2010, and October 28, 2011.
- (8) Option becomes exercisable on June 1, 2009.
- (9) Restricted stock units, representing the right to receive the same number of unrestricted shares of common stock on December 31, 2012 (or in the case of 25,000 of Mr. Rogers' restricted stock units, prior to December 31, 2012 but in no event before December 31, 2011), subject to continued employment (other than termination by reason of death or disability) and, in the case of 25,000 of Mr. Rogers' restricted stock units, satisfactory performance in the area of management and leadership development, including the development of internal candidates for senior leadership positions. An amount equal to cash dividends paid during the period that the restricted stock units are outstanding and unvested with respect to shares underlying restricted stock units which vest is payable in cash on the vesting date of the restricted stock units.
- (10) Restricted shares of common stock which vest on June 1, 2009.

**Table of Contents**

The following table summarizes aggregate values realized upon exercise of options, vesting of restricted stock, and payout of stock under performance shares for the individuals named in the Summary Compensation Table for 2008.

**Option Exercises and Stock Vested**

Name	Option Awards(1)		Stock Awards(2)	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise(\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting(\$)
J. B. Ferguson	1,924	\$ 9,399	45,330	\$ 1,037,604
C. E. Espeland	6,334	100,579	3,200	73,248
R. A. Lorraine	-0-	0	8,270	189,300
J. P. Rogers	-0-	0	8,800	201,432
M. J. Costa	-0-	0	10,000	757,200
T. K. Lee	9,257	222,229	8,270	189,300
G.O. Nelson	30,721	690,860	5,055	115,709

(1) Represents number and aggregate value realized upon exercise of stock options during 2008.

(2) Represents: (i) for Mr. Costa, 10,000 shares of common stock for which transfer restrictions lapsed during 2008, and the aggregate value of such shares of common stock based upon the per share closing price of the common stock on the New York Stock Exchange on the vesting date; and (ii) number of shares received upon payout under 2006-2008 performance shares, and the aggregate value of such shares of common stock based upon the per share closing price of the common stock on the New York Stock Exchange on the payout date.

The following table summarizes the portion of post-employment benefits to the individuals named in the Summary Compensation Table from Company pension arrangements.

**Pension Benefits**

Name	Plan Name (1)(2)	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit (\$)(3)	Payments During Last Fiscal Year(\$)
J. B. Ferguson	ERAP	32	\$ 465,509	\$ 0
	ERIP/URIP	32	2,409,267	0
C. E. Espeland	ERAP	13	81,343	0
	ERIP/URIP	13	89,066	0
R. A. Lorraine	ERAP	5	80,461	0
	ERIP/URIP	5	307,914	0
J. P. Rogers	ERAP	9	115,805	0

Edgar Filing: EASTMAN CHEMICAL CO - Form DEF 14A

	ERIP/URIP	9	672,951	0
M. J. Costa(4)	ERAP	3	13,841	0
	ERIP/URIP	3	31,165	0
T. K. Lee	ERAP	21	338,719	0
	ERIP/URIP	21	543,039	0
G. O. Nelson	ERAP	26	250,762	464,823
	ERIP/URIP	26	716,220	29,194

(1) The Eastman Retirement Assistance Plan ( ERAP ) is a tax-qualified, non-contributory defined benefit pension plan for essentially all active U.S. employees, other than employees of certain subsidiaries and some

**Table of Contents**

employees covered by collective bargaining agreements. A participant's total ERAP benefit consists of his or her Pre-2000 Benefit and Pension Equity Benefit, as described below:

**Pre-2000 Benefit.** Prior to 2000, the ERAP used a traditional pension formula which gave each participant a life annuity commencing at age 65. A participant is eligible for an unreduced Pre-2000 Benefit when such participant's aggregate age plus years of eligible service totals 85 or at age 65. At retirement, the actuarial present value of the future annual Pre-2000 Benefit payments may at the election of the participant be paid in a lump sum. Benefits earned during 1998 and 1999, upon the election of the participant, may be payable over five years. The Pre-2000 Benefits payable upon retirement are based upon the participant's years of service with the Company and average participating compensation, which is the average of three years of those earnings described in the ERAP as participating compensation. Participating compensation, in the case of the executive officers identified in the Summary Compensation Table, consists of salary, bonus, and non-equity incentive plan compensation, including allowance in lieu of salary for authorized periods of absence, such as illness, vacation, and holidays. To the extent that any participant's annual Pre-2000 Benefit exceeds the amount payable under the ERAP, such excess will be paid from one or more unfunded, supplementary plans.

**Pension Equity Benefit.** Effective January 1, 2000, the Company redesigned the ERAP to use a pension equity formula. Under the pension equity formula, beginning January 1, 2000, a participant earns a certain pension equity percentage each year based upon age and total service with the Company. When a participant terminates employment, he or she is entitled to a pension amount, payable over five years. The amount may also be converted to various forms of annuities. To the extent that any participant's Pension Equity Benefit exceeds the amount payable under the ERAP, such excess will be paid from one or more unfunded, supplementary plans.

- (2) The Company maintains two unfunded, nonqualified plans, the Unfunded Retirement Income Plan ( URIP ) and the Excess Retirement Income Plan ( ERIP ). The ERIP and the URIP will restore to participants in the ERAP benefits that cannot be paid under the ERAP because of restrictions under the Internal Revenue Code of 1986, as amended, and benefits that are not accrued under the ERAP because of a voluntary deferral by the participant of compensation that would otherwise be counted under the ERAP. As to accruals after December 31, 2004, in order to comply with Section 409A of the Internal Revenue Code, it may be necessary to delay commencement of payment until six months after the participant's separation from service with the Company. The Company has established a Rabbi Trust to provide a degree of financial security for the participants' unfunded account balances under the ERIP and URIP. See Termination and Change-in-Control Arrangements Benefit Security Trust.
- (3) Actuarial present value of the accumulated benefit, computed as of the same pension plan measurement date used for financial statement reporting purposes with respect to the Company's audited financial statements for 2008. The actuarial present value calculation is based on IRS 2013 Prescribed 417(e)(3) Unisex post-retirement mortality tables, and assumes individual compensation and service through December 31, 2008, with benefit commencement at normal retirement age of 65. Benefits are discounted using a 6.08% discount rate.
- (4) Mr. Costa had not met the minimum vesting requirement for his retirement benefits as of December 31, 2008. Accrued benefits vest after five years of service, which would be in June 2011 for Mr. Costa. Accumulated benefits shown are calculated as if minimum vesting requirements had been met.

The following table is a summary of participation by individuals in the Summary Compensation Table in the Executive Deferred Compensation Plan (the EDCP ), an unfunded, nonqualified deferred compensation plan into which executive officers and other management-level employees can defer compensation until retirement or termination from the Company. Annual base and incentive cash compensation, stock and stock-based awards which are payable in cash and allowed to be deferred, and cash signing, retention, or special recognition bonuses, may be deferred into the EDCP. Compensation deferred into the EDCP is credited at the election of the employee to

individual interest accounts and stock accounts. Amounts deferred into interest accounts are credited with interest at the prime rate until transfer or distribution, and amounts deferred into stock accounts increase or decrease in value depending on the market price of Eastman common stock. When cash dividends are declared on the common stock, each stock account receives a dividend equivalent which is used to hypothetically purchase additional shares.

**Table of Contents**

Upon retirement or termination of employment, the value of a participant's EDCP account is paid, in cash, in a single lump sum or in up to ten annual installments as elected in advance by the participant.

The EDCP provides for early withdrawal by a participant of amounts in his or her EDCP account in certain limited circumstances. The EDCP also provides that a participant may withdraw amounts deferred prior to January 1, 2005 at any time, provided that the participant forfeit 10% of his or her balances in the EDCP and not be permitted to participate in the EDCP for a period of 36 months from the date of the early withdrawal payment. In addition, if, within any six month period, either 50% or more of the EDCP participants with amounts deferred prior to January 1, 2005 elect early withdrawal from the EDCP or 20% or more of the EDCP participants with amounts deferred prior to January 1, 2005 with aggregate account balances valued at 50% or more of the total value of all EDCP accounts elect such early withdrawal, then all amounts deferred by all participants prior to January 1, 2005 will be distributed in a single lump sum.

**Nonqualified Deferred Compensation**

<b>Name</b>	<b>Executive Contributions in Last Fiscal Year</b>	<b>Registrant Contributions for Last Fiscal Year</b>	<b>Aggregate Earnings(Loss) in Last Fiscal Year</b>	<b>Aggregate Withdrawals/ Distributions</b>	<b>Aggregate Balance at Last Fiscal Year-End</b>
	<b>(\$)</b>	<b>\$(1)</b>	<b>\$(2)</b>	<b>(\$)</b>	<b>\$(3)</b>
J. B. Ferguson	\$ 0	\$ 120,058	\$ 86,975	\$ 0	\$1,715,857
C. E. Espeland	26,000	14,086	(92,515)	0	277,676
R. A. Lorraine	0	0	5,869	0	118,920
J. P. Rogers	0	48,231	(1,642,830)	0	6,554,379
M. J. Costa	0	30,298	863	0	20,210
T. K. Lee	26,000	26,164	63,499	0	1,268,786
G.O. Nelson	32,000	0	20,685	0	419,867

- (1) Annual Company contributions were made to the accounts of Messrs. Ferguson, Espeland, and Rogers, and Ms. Lee in the Eastman Investment Plan, a 401(k) retirement plan, and in the EDCP, and to Mr. Costa in the Eastman ESOP and EDCP. Amounts shown are the amounts contributed into the EDCP and represent amounts that could not be contributed into the 401(k) retirement plan or ESOP accounts of the individuals due to Internal Revenue Code restrictions. The total amount of the contributions for each named executive officer except for Mr. Lorraine and Dr. Nelson in the Eastman Investment Plan, the ESOP, and the EDCP was five percent of his or her 2008 earnings. These contributions are included in the Summary Compensation Table in the All Other Compensation column.
- (2) Aggregate amounts credited to participant accounts or by which participant accounts were reduced during 2008. No earnings on deferred amounts are included in the Summary Compensation Table in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column because there were no preferential or above-market earnings on individual stock accounts or interest accounts. Quarterly dividend equivalents of \$0.44 per hypothetical share were credited to amounts in individual stock accounts, and the prime rate of interest credited to amounts in individual interest accounts varied from 7.75% to 8.25%, during 2008.
- (3)

Balance in individual EDCP accounts as of December 31, 2008. The portions of the balances from annual Company contributions before provision for certain taxes (\$519,101 for Mr. Ferguson, \$37,367 for Mr. Espeland, \$115,174 for Mr. Lorraine, \$251,799 for Mr. Rogers, \$21,487 for Mr. Costa, \$120,694 for Ms. Lee, and \$95,695 for Dr. Nelson) were reported as All Other Compensation in the Summary Compensation Table in this proxy statement and in the annual meeting proxy statements for previous years; the portions of the balances from deferred salary (\$80,700 for Mr. Espeland, \$748,237 for Mr. Rogers, \$364,500 for Ms. Lee, and \$75,150 for Dr. Nelson) were included in the amounts reported as Salary in the Summary Compensation Table in this proxy statement and in the annual meeting proxy statements for previous years; the portions of the balances from deferred annual incentive compensation and bonuses (\$15,542 for Mr. Ferguson, \$31,250 for Mr. Espeland, \$536,861 for Mr. Rogers, \$70,104 for Ms. Lee, and \$93,053 for Dr. Nelson) were included in the amounts reported as Non-Equity Incentive Plan Compensation in the Summary

**Table of Contents**

Compensation Table in this proxy statement and in the annual meeting proxy statements for 2008 and 2007 and in the amounts reported as Bonus in the Summary Compensation Table in the annual meeting proxy statements for previous years; the portions of the balances from deferred stock-based awards (\$502,663 for Mr. Ferguson, \$220,502 for Mr. Espeland, \$2,489,931 for Mr. Rogers, and \$146,019 for Ms. Lee) are not reported in the Summary Compensation Table in this proxy statement and in the annual meeting proxy statements for 2008 and 2007 and were reported as Long-Term Incentive Plan Payouts in the Summary Compensation Table in the annual meeting proxy statements for previous years. The portions of the balances from earnings on deferred amounts were not reported in the Summary Compensation Table in this proxy statement or in the annual meeting proxy statements for previous years because there were no preferential or above-market earnings on individual EDCP stock accounts or interest accounts. Amounts in the Registrant Contributions for Last Fiscal Year column were paid in February 2009, and are not included in the aggregate balance as of December 31, 2008.

**Termination and Change-in-Control Arrangements**

The Company's Change in Control Agreements with certain executive officers, including the five individuals named in the Summary Compensation Table who were serving as executive officers at December 31, 2008, and the Omnibus Long-Term Compensation Plans, provide for compensation and benefits in certain circumstances upon or following termination of the executive or a change in control of the Company. In addition, Mr. Costa's employment agreement also includes certain additional termination arrangements. Circumstances that trigger compensation or provision of benefits related to termination or change in control, how such compensation and benefits are determined, and conditions or obligations applicable to the receipt of payments and benefits, are described below.

**Change in Control Agreements.** For the reasons described in the Compensation Discussion and Analysis, the Company has entered into Change in Control Agreements with the five individuals named in the Summary Compensation Table who were serving as executive officers at December 31, 2008 and certain other executive officers of the Company. The Agreements provide for specified compensation and benefits following a change in control of the Company. A change in control is generally defined in the Agreements to include the following, subject to certain exceptions: (i) the acquisition by a person of 35% or more of the voting stock of the Company; (ii) the incumbent Board members (and subsequent directors approved by them) ceasing to constitute a majority of the Board; (iii) approval by the Company's stockholders of a reorganization or merger unless, after such proposed transaction, the former stockholders of the Company will own more than 50% of the resulting corporation's voting stock, no person will own 35% or more of the resulting corporation's voting stock, and the incumbent Board members will continue to constitute at least a majority of the Board of the resulting corporation; or (iv) approval by the Company's stockholders of a complete liquidation or dissolution of the Company.

Pursuant to the Agreements, in the event that a change in control of the Company occurs during the change in control period, the Company agrees to continue to employ the executive for a period of two years after the occurrence of such change in control (the Employment Period). The change in control period means the period commencing on November 30, 2005, and ending three years after such date; provided that on each anniversary of the Agreements, the change in control period is automatically extended so as to terminate three years after such anniversary, unless the Company provides timely notice to the executive that it will not extend the period.

During the Employment Period, the executive would be entitled to (i) an annual base salary at a rate at least equal to the base salary in effect on the date of the change in control; (ii) an annual bonus at least equal to the executive's target bonus opportunity for the last full fiscal year prior to the change in control; and (iii) continued participation in all incentive, savings, retirement, welfare benefit, and fringe benefit plans applicable to other peer executives of the Company on terms no less favorable than those in effect during the 120-day period preceding the change in control.



The Agreements also specify the payments and benefits to which an executive would be entitled upon a termination of employment during the Employment Period for specified reasons, including death, retirement, disability, termination by the Company with or without cause, and termination by the executive for or without good reason (as such terms are defined in the Agreement).

## **Table of Contents**

If an executive's employment were to be terminated by the Company for any reason other than for cause or disability, or by the executive for good reason, during the Employment Period, the Company would be required to:

- (i) pay to the executive a lump sum cash payment equal to his or her accrued obligations (unpaid base salary through the date of termination, a prorated target bonus for the year of termination, and any accrued vacation pay),
- (ii) pay to the executive a lump sum severance payment equal to three-times the sum of his or her then-current annual base salary plus the amount of his or her target annual bonus for the year in which the termination occurs,
- (iii) continue to provide all welfare benefits to the executive and his or her eligible dependents, subject to certain limitations, for 36 months following termination,
- (iv) accelerate the vesting of the executive's unvested benefits under the Company's retirement plans, and pay to the executive a lump sum cash payment equal to the value of such unvested benefits, plus an amount calculated to provide the executive with the additional benefits he or she would have been entitled to had he or she accumulated three additional years of service under the Company's retirement plans, and
- (v) pay or provide to the executive any other amounts or benefits to which he or she was entitled under any of the Company's plans, programs, policies, practices, contracts, or agreements then in effect.

Upon the termination of an executive's employment by reason of death, disability, or retirement, or upon a termination by the Company for cause or by the executive without good reason, the Agreement would terminate without further obligation of the Company other than the payment of base salary through the date of termination and any other amounts or benefits to which the executive was entitled under any of the Company's plans, programs, policies, practices, contracts, or agreements then in effect.

The Agreements provide that if a payment to or for the benefit of an executive would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, then the executive will be entitled to a full gross-up for any excise tax imposed, including any income and excise taxes on such gross-up amount (subject to a net after-tax benefit threshold of \$75,000).

The Agreements require that the executive not disclose any confidential information of the Company following termination of employment, and provide that the Company will reimburse the executive on a then-current basis for reasonable fees and expenses in seeking to enforce the Agreement (subject to repayment if his or her claims are determined to be frivolous or in bad faith).

**Omnibus Long-Term Compensation Plans.** The Company's 2007 Omnibus Long-Term Compensation Plan (like its predecessor 1994, 1997, and 2002 Omnibus Long-Term Compensation Plans, collectively referred to as the Omnibus Plans) provides for grants to employees of nonqualified and incentive stock options, stock appreciation rights, stock awards, performance shares, and other stock and stock-based awards (collectively, awards).

The Omnibus Plans contain provisions regarding the treatment of awards in the event of a change in ownership (as defined, generally involving circumstances in which the Company's common stock is no longer publicly traded) and of a change in control (as defined, generally involving circumstances in which the Company is acquired by another entity or its controlling ownership is changed). Upon a change in ownership or change in control, the rules described below will apply to awards granted under the Omnibus Plans.

However, the Compensation Committee has the discretion, notwithstanding any particular transaction constituting a change in ownership or a change in control, either to determine that such transaction is of the type that does not

warrant the described consequences with respect to awards (in which case such consequences would not occur) or to alter the way in which awards are treated from the consequences outlined in the Omnibus Plans.

If a change in ownership occurs (and the Compensation Committee has not exercised its discretion described above) during the term of one or more performance periods for outstanding performance shares, the performance period will immediately terminate and, unless the Committee has already determined actual performance for such period, it will be assumed that the performance objectives have been attained at a level of 100%. Participants will be

**Table of Contents**

considered to have earned a prorated share of the awards for such performance period. In addition, upon a change in ownership, all outstanding awards will be valued and cashed out on the basis of the change in ownership price.

In the event of a change in control (assuming the Compensation Committee has not exercised its discretion described above), if a participant's employment terminates within two years following the change in control, unless such termination is due to death, disability, cause, resignation (other than as a result of certain actions by the Company and any successor), or retirement, participants will be entitled to the following treatment. All conditions, restrictions, and limitations in effect with respect to any unexercised awards will immediately lapse and no other terms or conditions will be applied. Any unexercised, unvested, unearned, or unpaid awards will automatically become 100% vested. Performance shares will be treated in a manner similar to that described above in the case of a change in ownership. A participant will be entitled to a lump sum cash payment with respect to all of such participant's awards.

In order to comply with Section 409A of the Internal Revenue Code, it may be necessary for the Company to delay payments until six months following the officer's separation from service with the Company.

**Mark J. Costa Employment Agreement.** The Employment Agreement with Mr. Costa includes certain termination arrangements in addition to those of the standard Change in Control Agreements. If Mr. Costa's employment is terminated without cause or if he resigns for good reason, other than in circumstances covered by the Change in Control Agreements:

- (i) he would receive a lump-sum cash payment equal to the sum of:
  - (a) all accrued and unused vacation pay through the date of termination;
  - (b) an amount equal to one year of base annual salary; and
  - (c) an amount equal to 100% of his target annual incentive pay for the year in which his employment terminates;
- (ii) his unvested stock options would immediately vest and become exercisable and remain exercisable for the lesser of five years following the date of termination or the expiration date of the options;
- (iii) all restrictions on transfer of issued shares of common stock would lapse; and
- (iv) Eastman would issue to Mr. Costa shares of common stock underlying outstanding performance shares on a pro rata basis as if all performance objectives had been met at a level of 100%.

Cause is defined in the Employment Agreement as material breach by Mr. Costa of any provision of the Employment Agreement or of Eastman codes of conduct or ethics, conviction of a criminal act, or conduct that is grossly inappropriate or insubordinate and demonstrably likely to lead to material injury to Eastman. Good reason is defined in the Employment Agreement as assignment of duties materially inconsistent with Mr. Costa's executive position when he was hired, reduction in base salary or target annual or long-term incentive pay, or failure by Eastman to comply with the provisions of the Employment Agreement.

**Benefit Security Trust.** The Company has established a Benefit Security Trust (sometimes referred to as the Rabbi Trust) to provide a degree of financial security for its unfunded obligations under the Executive Deferred Compensation Plan, the supplemental ERAP plans, and the Change in Control Agreements with the Company's executives. The assets of the Rabbi Trust would be subject to the claims of the Company's creditors in the event of insolvency. Upon the occurrence of a change in control or a potential change in control (each as defined), or if the Company fails to meet its payment obligations under the covered plans and agreements, the Company would be

required to transfer to the trustee cash or other liquid funds in an amount equal to the value of the Company's obligations under the covered plans and agreements. The Company has conveyed to the trustee rights to certain assets as partial security for the Company's funding obligations under the Rabbi Trust.

A change in control for purposes of the Rabbi Trust is generally defined to include the following, subject to certain exceptions: (i) the acquisition by a person (other than the Company, certain affiliated entities, or certain institutional investors) of 19% or more of the voting stock of the Company; (ii) the incumbent Board members (and subsequent directors approved by them) ceasing to constitute a majority of the Board; (iii) approval by the

**Table of Contents**

Company's stockholders of a reorganization or merger unless, after such proposed transaction, the former stockholders of the Company will own more than 75% of the resulting corporation's voting stock; or (iv) approval by the Company's stockholders of a complete liquidation and dissolution of the Company or the sale or other disposition of substantially all of the assets of the Company, other than to a subsidiary or in a spin-off transaction. A potential change in control will generally be deemed to have occurred if (i) the Company enters into an agreement, the consummation of which would result in the occurrence of a change in control; (ii) any person (including the Company) publicly announces an intention to take action which, if consummated, would constitute a change in control; or (iii) any person (other than the Company, certain affiliated entities, or certain institutional investors) becomes the beneficial owner of 10% or more of the combined voting power of the Company's then-outstanding securities.

The Rabbi Trust is irrevocable until participants and their beneficiaries are no longer entitled to payments under the covered plans and agreements, but may be amended or revoked by agreement of the trustee, the Company, and a committee of individual beneficiaries of the Rabbi Trust.

**Potential Payments Under Termination and Change-in-Control Arrangements**

The following table shows, for each of the named executive officers who were serving as executive officers at December 31, 2008, the payments and benefits that would have been provided under the Change in Control Agreements if the executive had been terminated without cause or had resigned for good reason on December 31, 2008 following a change in control.

Form of Payment	Amount of Payment				
	J. B. Ferguson (\$)	C.E. Espeland (\$)	J. P. Rogers (\$)	M. J. Costa (\$)	T. K. Lee (\$)
Cash severance(1)	\$ 7,200,000	\$ 2,167,500	\$ 3,240,000	\$ 2,415,000	\$ 2,178,000
Value of unvested stock-based awards at target(2)	2,790,374	202,944	2,214,944	1,343,764	496,156
Additional pension credit(3)	844,271	50,417	256,167	97,270	201,440
Health and welfare continuation(4)	32,310	32,310	32,310	32,310	32,310
Excise tax payment(5)	0	933,109	0	1,037,661	0
<b>Total Payments</b>	<b>\$ 10,866,955</b>	<b>\$ 3,386,280</b>	<b>\$ 5,743,421</b>	<b>\$ 4,926,005</b>	<b>\$ 2,907,906</b>

- (1) Lump sum cash severance under Change in Control Agreement equal to three times the sum of annual base pay and the target Unit Performance Plan payout.
- (2) Value of unvested awards at target which vest and are paid out under the Omnibus Plans at termination following a change in control (or earlier upon a change in control that is a change in ownership as shown in the next table below, in which case the payment would not also be received upon a subsequent termination without cause or resignation for good reason). Awards are valued as of year-end 2008 based upon the closing price of Eastman common stock on the New York Stock Exchange on December 31, 2008.
- (3) Lump sum present value of additional pension credit under Change in Control Agreement.

- (4) Value of continuation of health and welfare benefits for three years following termination under Change in Control Agreement.
- (5) Estimated payment under Change in Control Agreement for excise tax imposed by Section 4999 of the Internal Revenue Code. The calculation of the gross-up amount in the above table is based upon an excise tax rate of 20%, a 35% federal income tax rate, and a 1.45% Medicare tax rate.

**Table of Contents**

The following table shows, for each of the named executive officers who were serving as an executive at December 31, 2008, the payment that would have been provided under the Omnibus Plans if there had been a change in ownership of the Company on December 31, 2008.

<b>Form of Payment</b>	<b>Amount of Payment</b>				
	<b>J. B. Ferguson (\$)</b>	<b>C. E. Espeland (\$)</b>	<b>J. P. Rogers (\$)</b>	<b>M. J. Costa (\$)</b>	<b>T. K. Lee (\$)</b>
Value of unvested stock-based awards at target(1)	\$ 2,790,374	\$ 202,944	\$ 2,214,944	\$ 1,343,764	\$ 496,156

(1) Value of unvested awards at target which vest and are paid out under the Omnibus Plans following a change in ownership of the Company. Awards are valued as of year-end 2008 based upon the closing price of Eastman common stock on the New York Stock Exchange on December 31, 2008.

The following table shows the payments that would have been provided to Mr. Costa under his Employment Agreement if he had been terminated without cause or had resigned for good reason other than in circumstances covered by the Change in Control Agreement on December 31, 2008.

<b>Form of Payment</b>	<b>Amount of payment to M. J. Costa (\$)</b>
Cash severance	\$ 840,384
Value of unvested stock-based awards at target	1,343,764
Total Payments	\$ 2,184,148

In addition to the payments described above, the executive officers would also receive the following payments for amounts already earned or vested as the result of participation in compensation or benefit plans on the same basis as other Company employees:

value of outstanding vested stock-based awards (see the Outstanding Equity Awards at Year-End table),

earned Unit Performance Plan payout (see Estimated Future Payouts Under Non-Equity Incentive Plan Awards column in the Grants of Plan-Based Awards table),

earned Company contribution to vested and unvested defined contribution plans (see All Other Compensation column in the Summary Compensation Table ),

account balance in the Eastman Investment Plan, a 401(k) retirement plan, and the ESOP,



account balance in the Executive Deferred Compensation Plan (see Aggregate Balance at Last Fiscal Year-End column in the Nonqualified Deferred Compensation table), and

lump sum present value of pension under the Company's qualified and non-qualified pension arrangements (see Present Value of Accumulated Benefit column in the Pension Benefits table).



q **FOR**

q **AGAINST**

q **ABSTAIN**

**(CONTINUED, AND TO BE SIGNED AND DATED, ON THE OTHER SIDE.)**

---

**Table of Contents**

[FORM OF PAPER PROXY-BACK]

[electronic and telephone voting i.d. number]

Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

**To Vote by Phone:** Call anytime toll free **1-888-693-8683**  
There is no charge for this call.  
Follow the simple instructions to record your vote.

**To Vote by Internet or Review the Proxy Statement** Access **www.cesvote.com**  
Follow the simple instructions presented to record your vote.

**IF YOU VOTE BY TELEPHONE OR INTERNET, DO NOT MAIL THE PROXY CARD.**

**THANK YOU FOR VOTING.**

**Proxy**

***EASTMAN CHEMICAL COMPANY***

**Proxy**

---

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 7, 2009.**

The undersigned hereby appoints Theresa K. Lee and Curtis E. Espeland as proxies with power to act without the other and with power of substitution, and hereby authorizes them to represent and vote, as designated on the other side of this proxy card, all the shares of stock of Eastman Chemical Company held of record as of March 10, 2009 by the undersigned with all the powers that the undersigned would possess if present at the Annual Meeting of Stockholders of the Company to be held May 7, 2009 or any adjournment or postponement thereof.

**SAID PROXIES WILL VOTE ON THE PROPOSALS SET FORTH IN THE NOTICE OF ANNUAL MEETING AND PROXY STATEMENT AS SPECIFIED ON THE REVERSE SIDE OF THIS CARD AND ARE AUTHORIZED TO VOTE IN THEIR DISCRETION ON ANY OTHER BUSINESS THAT MAY PROPERLY COME BEFORE THE MEETING. IF A VOTE IS NOT SPECIFIED, SAID PROXIES WILL VOTE FOR EACH OF THE NOMINEES IN ITEM 1, FOR ITEM 2, AND AGAINST ITEMS 3 AND 4.**

Signature(s)

Signature(s)

Date: \_\_\_\_\_, 2009

Please sign exactly as your name(s) appears on this proxy. If shares are held jointly, all joint owners should sign. If signing as executor, administrator, attorney, trustee, guardian, or in any other representative capacity, please also give your full title.

**MARK (ON THE OTHER SIDE), SIGN AND DATE YOUR PROXY CARD AND RETURN IT PROMPTLY  
IN THE ENCLOSED ENVELOPE.**

---

**Table of Contents**

[SCRIPT OF DIALOGUE FOR REGISTERED STOCKHOLDER PROXY VOTING BY TELEPHONE]

STOCKHOLDER HEARS THIS SCRIPT

- Speech 1 Hello, let's begin your telephone vote. Please enter the number located in the box by the arrow. Welcome to Eastman Chemical Company's telephone voting system. Voting your shares by telephone has the same effect as if you returned your proxy card by mail. You hereby direct the named proxies to vote your shares as instructed.
- Speech 2 To vote as the Board of Directors recommends on all items, please press 1.
- Speech 2A You have voted as the Board of Directors has recommended. If this is correct, please press 1; if this is not correct, please press 0.
- Speech 2B If you would like to vote another proxy, please press 1; if not press 0.
- Speech 2C If you would like to try again, please press 1; if not, please press 0. Please try your call again, or vote, sign, date, and mail your proxy card in the envelope provided. Goodbye.
- Speech 3 To vote on each item separately, please press 0
- Speech 4 Nominee 1, to vote FOR, please press 1; to vote AGAINST, please press 6; to ABSTAIN, please press 0  
Nominee 2, to vote FOR, please press 1; to vote AGAINST, please press 6, to ABSTAIN, please press 0  
Nominee 3, to vote FOR, please press 1; to vote AGAINST, please press 6; to ABSTAIN, please press 0  
Nominee 4, to vote FOR, please press 1; to vote AGAINST, please press 6; to ABSTAIN, please press 0  
Item 2, to vote FOR, please press 1; to vote AGAINST, please press 6; to ABSTAIN, please press 0  
Item 3, to vote FOR, please press 1; to vote AGAINST, please press 6; to ABSTAIN, please press 0  
Item 4, to vote FOR, please press 1; to vote AGAINST, please press 6; to ABSTAIN, please press 0
- Speech 5 Your vote has been cast as follows:  
Nominee 1: [For] [Against] [Abstain]  
Nominee 2: [For] [Against] [Abstain]  
Nominee 3: [For] [Against] [Abstain]  
Nominee 4: [For] [Against] [Abstain]  
Item 2: [For] [Against] [Abstain]  
Item 3: [For] [Against] [Abstain]  
Item 4: [For] [Against] [Abstain]  
If this is correct, please press 1; if this is not correct, please press 0.
- Speech 5A If you would like to vote another proxy, please press 1, if not press 0  
Thank you for voting. Goodbye.

Speech 5B If you would like try again, please press 1; if not, please press 0. Please try your call again, or vote, sign, date, and mail your proxy card in the envelope provided. Goodbye.

---

**Table of Contents**

[TEXT OF COMPUTER SCREEN FOR ELECTRONIC DELIVERY OF PROXY STATEMENT AND ANNUAL  
REPORT TO EMPLOYEE STOCKHOLDERS WHO HOLD SHARES THROUGH COMPANY PLANS]  
Eastman Chemical Company

---



**Table of Contents**

Page 1 of 3

[TEXT OF COMPUTER SCREENS FOR INTERNET PROXY VOTING BY REGISTERED STOCKHOLDERS]  
**When you submit your voting instructions through this site, it is the same as if you mark, sign and return your voting instruction form or proxy.**

**Please enter your 11-digit electronic voting number, then click the **Submit** button or press ENTER on your keyboard. On your voting instruction form or proxy card, this number is found by an arrow in a box.**

**Enter the 11-digit number here:**

If you submit voting instructions using the same control number more than once,  
only the last instructions you submit will be valid. All previous instructions are revoked.

**Check this box to submit to a secure site.**

**Submit**

---

**Table of Contents**

By submitting your voting instructions through this site, you are agreeing with the **appointment of proxy**. Please indicate how you wish to vote and click on **Submit Voting Instructions** at the bottom of this screen. If you submit your voting instructions without making any specifications, your vote will be recorded according to the recommendations of the Board of Directors.

Click here to view the Eastman Chemical Company Annual Report in a new window.

Click here to view the Eastman Chemical Company Proxy Statement in a new window.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES IN ITEM 1 AND FOR ITEM 2.**

1. Election of Directors:

Nominees for election of four directors to serve in the class for which the term in office expires at the Annual Meeting of Stockholders in 2012 and their successors are duly elected and qualified:

	<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>
(1) Stephen R. Demeritt	i	i	i
(2) Robert M. Hernandez	i	i	i
(3) Lewis M. Kling	i	i	i
(4) David W. Raisbeck	i	i	i

---

**Table of Contents**

	<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>
2. Ratification of Appointment of PricewaterhouseCoopers LLP as Independent Auditors.	i	i	i

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST ITEMS 3 AND 4.**

	<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>
3. Stockholder proposal requesting that management revise employment nondiscrimination policy to prohibit discrimination based on sexual orientation and gender identity.	i	i	i
4. Stockholder proposal requesting that the Board of Directors take steps necessary to give holders of 10% of outstanding common stock the right to call special meetings.	i	i	i

Please enter your email address to receive confirmation that your instructions were recorded.

**Note: We respect your privacy. Your email address will not be saved or used for any purpose other than sending your confirmation email.**

Please enter any change of address.

Please enter any comments.

After reviewing the above selections, click the button below to submit your voting instructions. You should see a screen confirming your instructions as they have been recorded.

**Submit Voting Instructions**

**Table of Contents**

[FORM OF LETTER TO EMPLOYEE STOCKHOLDERS WHO HOLD SHARES THROUGH COMPANY PLANS]

Eastman Chemical Company  
P.O. Box 431  
Kingsport, Tennessee 37662-5280

Theresa K. Lee  
Senior Vice President, Chief Legal Officer,  
and Corporate Secretary  
Phone: (423) 229-2097  
FAX: (423) 224-9399  
tklee@eastman.com

March 27, 2009

**Re: 2009 Annual Meeting Materials**

Dear Fellow Eastman Employee and Stockholder:

Our 2009 Annual Meeting of Stockholders will be held on May 7, and it is important that your shares be represented. Again this year, all employees who own Eastman shares through the ESOP or Eastman Investment Plan will access the Notice and Proxy Statement for the Annual Meeting and Eastman's Annual Report to Stockholders electronically on the Internet. Making these materials available to you electronically rather than by sending printed material in the mail significantly reduces the Company's printing and postage expenses and reflects our continuing efforts to increase efficiency and reduce costs through the expanded use of technology.

To access the 2008 Annual Report and the Notice and Proxy Statement for the 2009 Annual Meeting, please go to [www.ViewMaterial.com/EMN](http://www.ViewMaterial.com/EMN) and click on the icon for each document. (If you like, you may use your Eastman employee account to access the Internet website and review the materials.) **The business to be considered and voted upon at the Annual Meeting is explained in the Proxy Statement. Please review the Proxy Statement, and the Annual Report, before voting your shares.** If you wish to receive a paper copy of the Annual Report and Proxy Statement, select "MaterialRequest" and enter the 11-digit number in the box by the arrow on your proxy card.

**It is important that your shares be represented and voted at the Annual Meeting.** As explained on the enclosed proxy card, you can vote by proxy by Internet, by telephone, or by marking, signing, dating, and mailing your proxy card in the enclosed postage-paid envelope. **Whether you choose to vote by computer, telephone, or proxy card, please vote as soon as possible.** Your vote is important, regardless of the number of shares you own.

Thank you.

Yours very truly,

Theresa K. Lee  
Senior Vice President, Chief Legal Officer and Corporate Secretary