

EASTMAN CHEMICAL CO
Form 11-K
June 30, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 11-K

(Mark
One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE

REQUIRED]

For the fiscal year ended December 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE
REQUIRED]

For the transition period from _____ to

Commission file number 1-12626

A. Full Title of the plan and the address of the plan, if different from
that of the issuer named below:

EASTMAN INVESTMENT AND EMPLOYEE STOCK
OWNERSHIP PLAN

B. Name of issuer of the securities held pursuant to the plan and the
address of its principal executive office:

EASTMAN CHEMICAL COMPANY

200 S. Wilcox Drive
Kingsport, Tennessee 37660

Eastman Investment and Employee Stock Ownership Plan

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Note A: Other supplemental schedules required by Section 2520.10310 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (“ERISA”) have been omitted because they are not applicable.	

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of
Eastman Investment and Employee Stock Ownership Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Eastman Investment and Employee Stock Ownership Plan (the "Plan") at December 31, 2007 and December 31, 2006, and the changes in net assets available for benefits for the periods then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
June 30, 2008

Eastman Investment and Employee Stock Ownership Plan
 Statements of Net Assets Available for Benefits
 December 31, 2007 and December 31, 2006
 (in thousands)

	Participant Directed	December 31, 2007 Non- participant Directed	Total	Participant Directed	December 31, 2006 Non- participant Directed	Total
Assets						
Investments at fair value	\$ 1,485,704	\$ 95,025	\$1,580,729	\$ 1,379,266	\$ 102,961	\$1,482,227
Receivables:						
Sponsor	29,415	3,869	33,284	31,009	3,382	34,391
Other	1,435	1,352	2,787	1,394	802	2,196
Total assets	1,516,554	100,246	1,616,800	1,411,669	107,145	1,518,814
Liabilities						
Accrued expenses	12	17	29	13	16	29
Other liabilities	2,339	1,370	3,709	987	879	1,866
Total liabilities	2,351	1,387	3,738	1,000	895	1,895
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(3,102)	--	(3,102)	8,231	--	8,231

Net assets
available
for plan benefits \$ 1,511,101 \$ 98,859 \$1,609,960 \$ 1,418,900 \$ 106,250 \$1,525,150

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

Eastman Investment and Employee Stock Ownership Plan
 Statements of Changes in Net Assets Available for Benefits
 For the Periods Ended December 31, 2007 and December 31, 2006
 (in thousands)

	Participant Directed	December 31, 2007 Non- participant Directed	Total	Participant Directed	December 31, 2006 Non- participant Directed	Total
Additions to net assets:						
Investment income (loss)						
Interest	\$ 27,555	\$ -	\$ 27,555	\$ 28,848	\$ --	\$ 28,848
Dividends	67,710	2,840	70,550	58,845	3,324	62,169
Net appreciation (depreciation) in fair value of investments	34,503	4,074	38,577	27,345	14,469	41,814
Net investment gain (loss)	129,768	6,914	136,682	115,038	17,793	132,831
Participant contributions	80,729	-	80,729	69,396	-	69,396
Plan Sponsor contributions	29,415	3,869	33,284	31,009	3,382	34,391
Total additions	239,912	10,783	250,695	215,443	21,175	236,618
Deductions from net assets:						
Distributions to and withdrawals by participants						
Administrative expenses	159,653	6,052	165,705	187,168	5,213	192,381
	180	-	180	164	-	164
Total deductions	159,833	6,052	165,885	187,332	5,213	192,545
Interfund transfers, net						
	12,122	(12,122)	-	16,713	(16,713)	-
	92,201	(7,391)	84,810	44,824	(751)	44,073

Net increase (decrease) in net assets							
Net assets available for plan benefits at beginning of period	1,418,900	106,250	1,525,150	1,374,076	107,001	1,481,077	
Net assets available for plan benefits at end of period	\$ 1,511,101	\$ 98,859	\$ 1,609,960	\$ 1,418,900	\$ 106,250	\$ 1,525,150	

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

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

1. DESCRIPTION OF PLAN

The Eastman Investment and Employee Stock Ownership Plan (the "Plan") is a defined contribution plan of a controlled group of corporations consisting of Eastman Chemical Company and certain of its wholly-owned subsidiaries operating in the United States ("Eastman", the "Company" or the "Plan Sponsor"). The Plan is organized pursuant to Sections 401(a) and (k) and Section 4975(e) (7) of the Internal Revenue Code. All United States employees of Eastman, with the exception of certain limited service and special program employees, and employees covered by a collective bargaining agreement with the Company, unless the collective bargaining agreement or the Plan specifically provides for participation, are eligible to participate in the Plan on their first day of employment with Eastman. The Plan was adopted by Eastman, the Plan Sponsor, on January 1, 1994 and is subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plan is administered by the Investment Plan Committee ("IPCO"), which is the Plan Administrator and is comprised of Eastman employees. The Plan has trusts which are administered by the Fidelity Management Trust Company (the "Trustee"). The trusts include the Eastman Chemical Trust and the ESOP Trust. Since the inception of the Plan, money in the forfeiture account has been used both to offset future Company contributions and for various administrative expenses of the Plan. The balance of the forfeiture account at December 31, 2007 and December 31, 2006 was \$29,000 and \$27,000, respectively. There were no forfeitures used in 2007 or 2006.

For additional information regarding the Plan, see the complete Plan documents.

As of December 31, 2006 the Plan's fiscal year end date was changed from December 30 to December 31. For purposes of comparability, the Statement of Changes in Net Assets Available for Benefits for the period ended December 31, 2006 presents the period December 31, 2005 through December 31, 2006.

Contributions and vesting

Contributions to the Plan are made through two separate provisions: (a) deferral of qualifying compensation and (b) contributions by the Plan Sponsor of cash or its common stock to the ESOP Fund as determined by the Compensation and Management Development Committee of the Board of Directors of Eastman.

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

The Plan includes a salary reduction provision allowing eligible employees to defer up to 40% of qualifying compensation, as defined in the Plan, up to the statutory limit of \$15,500 for 2007 as permitted by the Internal Revenue Code. For the catch-up salary deferral, an eligible employee who has attained age 50 before the close of the calendar year was allowed to defer up to 35% of qualifying compensation, as defined in the Plan, for 2007 up to certain Internal Revenue Code limitations. Plan Sponsor contributions are also subject to certain other limitations. Participants' salary deferrals are contributed to the Plan by Eastman on behalf of the participants. The Plan's Trustee invests amounts contributed to the Plan, as designated by the participant, in common stock of Eastman, various growth and income mutual funds, and/or interest in a guaranteed investment contract fund (see Note 7). Generally, participants may transfer amounts among the funds on any business day. Additionally, participants may diversify amounts from their ESOP Fund account within the Plan (see Note 9). Each participant is at all times 100% vested in their account, with the exception of amounts transferred from other plans, which continue to be subject to the former plans' vesting requirements. The Plan requires for the Retirement Savings Contribution ("RSC") to be contributed either to the ESOP Fund for employees' first five RSC contributions or into other Plan funds, as directed by the participant, for participants with more than five RSC contributions. For participants with more than five RSC contributions, the RSC is allocated to participant-directed funds in accordance with each participant's investment elections at such time as the RSC is made.

Plan Sponsor contributions may be paid at any time during the plan year and subsequent to such plan year through the due date for filing the Company's federal income tax return, including any extensions. Contributions may be paid to the ESOP Fund in cash or shares of Eastman common stock and are deposited in the Company contribution account. Allocations to the participants' accounts from the Company contribution account will be made each plan year to participants who are eligible employees on the date designated by the Company. Participants are not permitted to make contributions to the ESOP Fund and are 100% vested in their account balance at all times.

Employees may elect to transfer, into any of the Plan's fund options, balances received from (1) lump sum payouts from the Eastman Retirement Assistance Plan, a qualified defined benefit plan also sponsored by Eastman Chemical Company, (2) a former employer's 401(a) and 401(k) plan, or (3) an employee's individual retirement account containing amounts received from a qualified defined contribution plan under Section 401(a) and 401(k) of the Internal Revenue Code. All rollover contributions into the Plan must meet the applicable Internal Revenue Service requirements.

On or after January 1, 2007, each eligible employee hired by the Company will, in addition to the RSC, be automatically enrolled as a participant in the Eastman Investment Plan ("EIP") portion of the Plan. The participants will be deemed to have elected to defer 7% of their qualifying compensation to the EIP portion of the Plan, unless they affirmatively decline or they elect to contribute a percentage other than 7%. Each participant will also be eligible to receive a matching contribution from the Company equal to 50% of the first 7% of their pay that they contribute to the Plan each pay period.

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

Loans

The Investment Plan Committee (“IPCO”) may grant a loan of at least \$1,000 to a participant provided that the aggregate of the participants’ loans outstanding does not exceed the lesser of (i) \$50,000 reduced by the excess, if any, of (a) the participant’s highest outstanding loan balance from the preceding 12 months over (b) the outstanding total loan balance of loans from the Plan on the date on which the loan was made, or (ii) 50% of the non-forfeitable portion of the participant’s account, excluding amounts in a participant’s ESOP Fund account. In accordance with the Plan provisions, the rate of interest on new participant loans approximates current market rates. The term of any loan is determined by IPCO and shall not exceed five years. Loans transferred to the Plan from the Hercules Incorporated Savings and Investment Plan, the ABCO Industries, Inc. 401(k) Profit Sharing Plan, and the Eastman Resins, Inc. Employees’ Growth Sharing Plan continue to carry terms applicable under those Plans. At December 31, 2007, \$30.0 million in loans were outstanding for terms of 6 to 121 months and interest rates ranging from 4% to 10.50%. At December 31, 2006, \$29.5 million in loans were outstanding for terms from 3 to 122 months and interest rates ranging from 4% to 10.50%.

Distributions

Distributions from the Plan require the approval of IPCO or its designee and are made under the following circumstances:

- Upon attaining age 59½, a participant may elect to receive a lump sum cash distribution of their total or partial account value while still actively employed.
- Upon separation of service from Eastman for any reason except death, the full value of a participant’s account is distributed in a lump sum payment for those participants who are not retirement-eligible and the participant account value is less than or equal to \$1,000. Separated participants with accounts in excess of \$1,000 or who are retirement-eligible may elect either (i) to defer distribution until a later date but, in no event, later than April 1 of the calendar year following the year a participant attains age 70½ or (ii) immediate lump-sum distribution of the participant’s account or, at the election of the participant, distributions in monthly or annual installments. Participants in the Eastman Stock Fund or ESOP Fund may elect a lump sum distribution in Eastman common stock.
- In the event of death, the value of a participant’s account is paid in a lump sum if the designated beneficiary is not the surviving spouse or if the account value is less than or equal to \$1,000. If the beneficiary is a surviving spouse and the participant account value exceeds \$5,000, payment will be made in either a lump-sum amount or, at the election of the surviving spouse, in monthly or annual installments.
- Distributions to participants shall commence in the year following the year a participant attains age 70½, unless the participant has terminated his or her service with the Company.

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

- Approval of hardship withdrawals will only be granted in order to meet obligations relating to the payment of substantial out-of-pocket medical expenses, the purchase of a primary residence, the payment of tuition or other post-secondary educational expenses, or payments to prevent eviction or foreclosure. They are also granted for payment of funeral expenses for a deceased parent, spouse or child of the participant, or payment of expenses for repair or damage to the participants' principal residence. Hardship withdrawals may not exceed the value of the participant's accounts in the Plan on the date of withdrawal.
- The Trustee is authorized to honor qualified domestic relation orders issued and served in accordance with Section 414(p) of the Internal Revenue Code.

Dividends attributable to the ESOP Fund

IPCO may direct that Eastman common stock dividends attributable to the non-participant directed ESOP Fund be (a) allocated to the accounts of participants, (b) paid in cash to the participants on a nondiscriminatory basis, or (c) paid by the Company directly to participants. Alternatively, dividends received from Eastman common stock maintained in the Loan Suspense Account may be applied to reduce the related loan balance.

Investment of ESOP Fund Assets

ESOP Fund assets are invested primarily in Eastman common stock. However, at IPCO's discretion, funds may also be invested in other securities or held in cash.

Investment assets can be acquired by the ESOP Fund in three ways:

- The Company may make a direct contribution of cash to the ESOP Fund, which would then be used to purchase Eastman common stock or other securities.
 - The Company may contribute shares of Eastman common stock directly to the ESOP Fund.
- The Company may direct the Trustee to obtain a loan to purchase securities (i.e., leveraged ESOP). Until the loan is repaid, securities acquired with the respective loan process are not available to be allocated to participants' accounts and are maintained in a "Loan Suspense Account". On the last day of each plan year, a proportionate share of securities relating to loan amounts which have been repaid will be transferred out of the Loan Suspense Account and allocated to the accounts of ESOP Fund participants. The ESOP Fund currently is not a leveraged ESOP.

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

Allocations to participants' ESOP Fund accounts

Separate participant accounts are established to reflect each participant's interest in the ESOP Fund and are maintained under the unit value method of accounting. The ESOP Fund account maintained for each participant consists of:

- Plan Sponsor contributions made or invested in shares of Eastman common stock.
- Shares of Eastman common stock purchased with assets transferred to the ESOP Fund pursuant to the spin-off from Eastman Kodak Company and/or acquired with the proceeds of a loan released from the Loan Suspense Account.
- An allocable share of short-term interest and money market funds held in the ESOP Fund for purposes of payment of expenses and similar purposes.
- After-tax contributions transferred to the ESOP Fund pursuant to the spin-off from Eastman Kodak Company (such after-tax contributions are no longer permitted under the ESOP provisions).

The number of units allocated to a participant's account in any year is based on the ratio of the participant's compensation to the total compensation of all eligible employees entitled to share in the allocation for that plan year. In any year in which a Company contribution is made, a participant's allocation will not be less than one share of stock.

Federal law limits the total annual contributions that may be made on a participant's behalf to all defined contribution and defined benefit plans offered by the Company. Participants will be notified if their total annual contribution is limited by this legal maximum.

Actions taken in connection with the completion of certain corporate transactions

In the fourth quarter of 2006, the Company sold its Batesville, Arkansas manufacturing facility and related assets in its Performance Chemicals and Intermediates segment and also its polyethylene-related assets at the Longview, Texas facility in the Performance Polymers and Coatings, Adhesives, Specialty Polymers and Inks segments. In February 2007, the Company made a discretionary contribution to the account of each participant whose employment was terminated in connection with these sales equal to 5% of the compensation paid to each participant for the period January 1, 2006 to the dates of the respective sales.

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

New accounting pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No.157 ("SFAS 157"), Fair Value Measurements. SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurement. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Plan does not believe the adoption of SFAS 157 will have a material impact on the financial statements.

2. SUMMARY OF ACCOUNTING POLICIES

The following accounting policies, which conform to accounting principles generally accepted in the United States of America, have been used consistently in the preparation of the Plan's financial statements.

Basis of accounting

The Plan's financial statements are prepared on the accrual basis of accounting.

As described in FASB Staff Position, FSP AAG INV-1 and SOP 94-4-1 , Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans ("the FSP"), investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. As required by the FSP, the Statement of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Investment policy and valuation

The plan's investments are stated at fair value. If available, quoted market prices are used to value investments. Investments in regulated investment companies are valued at the net asset value per share on the valuation date.

Accrued interest, if any, on the underlying investments is added to the fair value of the investments for presentation purposes. Participant loans are valued at amortized cost, which represents fair value.

For investments in the ESOP fund and the Eastman Stock Fund, the Trustee may keep any portion of participant and Plan Sponsor contributions temporarily in cash or liquid investments as it may deem advisable. All dividends, interest or gains derived from investment in each fund are reinvested in the respective fund by the Trustee.

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

The Managed Income Fund is reported at fair value as determined by the contract issuers. The Managed Income Fund is comprised of synthetic guaranteed investment contracts that include interests in commingled trusts or individual fixed income securities that are held in trust for the Plan. The Plan then enters into a benefit responsive wrapper contract with a third party such as a financial institution or an insurance company which guarantees the Plan a specific value and rate of return. The underlying securities are valued at quoted market prices. The wrap contracts are valued using the market value method. (See Note 7).

Purchases and sales of investments are recorded on a trade-date basis. Interest income is accrued when earned. Dividend income is recorded at the ex-dividend date.

The Plan presents in the statement of changes in net assets available for benefits the net appreciation (depreciation) in the fair value of its investments which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments.

Payments to participants

Benefits payments to participants are recorded when paid.

Reclassifications

Certain items in 2006 have been reclassified to conform to the 2007 presentation.

3. RISKS AND UNCERTAINTIES

Investment securities are exposed to various risks, such as interest rate risk, market risk, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participant account balances and the amounts reported in the financial statements.

4. CONTRIBUTIONS

Participant contributions represent qualifying compensation and other qualifying employee bonuses withheld from participating employees by Eastman and contributed to the Plan.

Contributions are invested in the Plan's funds as directed by the participants, with the exception of the ESOP Fund, subject to ERISA funding limitations. The Plan has accrued sponsor contributions for participant-directed funds of \$29.4 million and \$31.0 million and for the non-participant-directed ESOP Fund of \$3.9 million and \$3.4 million at December 31, 2007 and 2006, respectively.

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

5. LOANS TO PARTICIPANTS

The Plan Trustee makes loans to participants in accordance with Plan provisions. Loans made are accounted for as a transfer from the fund directed by the participant to the Loan Fund. The principal portion of loan repayments reduces the Loan Fund receivable. The principal and interest repaid are directed to funds to which the participant's current contributions are directed; the principal is accounted for as a transfer and the interest accounted for as income in the fund to which the participant's current contributions are directed. The Loan Fund's net assets and other changes in net assets are included in the participant-directed funds in the Statements of Net Assets and Changes in Net Assets Available for Benefits, respectively.

Unless otherwise specified by the participant, loan proceeds will be withdrawn from the investment funds on a pro-rata basis. Outstanding loans at December 31, 2007 and 2006 were approximately \$30.0 million and \$29.5 million, respectively. Interest income earned on loans to participants is credited directly to the participants' accounts and was approximately \$2.4 million and \$2.0 million for 2007 and 2006.

6. INVESTMENTS

At December 31, 2007 and 2006, the Plan's assets were invested in synthetic investment contracts (see Note 7), mutual funds, and in Eastman Chemical Company common stock. Subject to certain limitations, participants are provided the option of directing their contributions among these investment options. The Plan also holds an interest in the non-participant directed Eastman ESOP Fund, which invests in Eastman Chemical Company common stock and short-term interest funds. The Trustee manages investments in all funds.

(in thousands)	December 31, 2007	December 31, 2006
Cash	\$ 2,900	\$ 2,100
Common Stock	169,904	162,744
Mutual Funds	806,027	707,193
Synthetic GIC	588,885	601,745
Self Directed Brokerage Account	13,013	8,445
Investments, at fair value	\$ 1,580,729	\$ 1,482,227

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

The following investment options, which invest primarily in common stock of the Plan sponsor, were available to participants in 2007 and 2006:

Eastman Stock Fund

This participant-directed fund consists primarily of Eastman Class A common stock. Purchases and sales of Eastman stock are generally made on the open market on behalf of and as elected by Plan participants. During 2007, the Trustee purchased 1,528,100 shares of Eastman stock for the fund at an average price of \$64.12 per share, and sold 1,320,400 shares of Eastman stock for the fund at an average price of \$65.27 per share. During 2006, the Trustee purchased 1,087,600 shares of Eastman stock for the fund at an average price of \$51.71 per share and sold 1,552,000 shares at an average price of \$54.80 per share. Dividends paid from the Eastman Stock Fund totaled \$1.9 million and \$2.5 million in 2007 and 2006, respectively.

Eastman ESOP Fund

This non-participant directed fund consists primarily of Eastman Class A common stock. Purchases and sales of Eastman stock are generally made on the open market, on behalf of its participants and as directed by the Plan's guidelines. During 2007, the Trustee purchased 63,900 shares of Eastman stock for the fund at an average price of \$59.76 per share, and sold 236,200 shares of Eastman stock for the fund at an average price of \$64.12 per share. During 2006, the Trustee purchased 63,800 shares of Eastman stock for the fund at an average price of \$50.90 per share, and sold 311,700 shares at an average price of \$55.52 per share.

At December 31, 2007 and December 31, 2006, the following investments represented 5% or greater of ending net assets, (in thousands):

	December 31, 2007	
	Shares	Fair value
Eastman Chemical Company Common Stock,	6,560\$	95,025
Non Participant Directed		
Fidelity Magellan® Fund	935	87,727
Fidelity Contrafund	2,064	150,903
	December 31, 2006	
	Shares	Fair value
Eastman Chemical Company Common Stock,	7,316\$	102,961
Non Participant Directed		
Fidelity Magellan® Fund	908	81,298
Fidelity Contrafund	2,005	130,694

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

During 2007 and 2006, the Plan's investments (including investments bought, sold and held during the year) appreciated in value by \$38.6 million and \$41.8 million, respectively, as follows (in thousands):

	Net Appreciation (Depreciation) December 31, 2007	Net Appreciation (Depreciation) December 31, 2006
Eastman Chemical Company Common Stock, Non Participant Directed	\$ 4,074	\$ 14,469
Eastman Chemical Company Common Stock, Participant Directed	3,875	13,930
Mutual Funds	30,628	13,415
Total	\$ 38,577	\$ 41,814

7. INSURANCE CONTRACTS

The Plan invests in the Managed Income Fund (the "Fund"), which invests in synthetic guaranteed investment contracts ("GICs"). The term "synthetic" investment contract is used to describe a variety of investment contracts under which a Plan retains ownership of the invested assets, or owns units of an account or trust which holds the invested assets. A "synthetic" investment contract, also referred to as a "wrap" contract, is negotiated with an independent financial institution. Under the terms of these investment contracts, the contract issuer ensures the Plan's ability to pay eligible employee benefits at book value. The investment performance of a synthetic investment contract may be a function of the investment performance of the invested assets.

A wrap contract is an agreement by another party, such as a bank or insurer, to make payments to the Fund in certain circumstances. Wrap contracts are designed to allow a stable value fund, such as the Fund, to maintain a constant net asset value ("NAV") and to protect the Fund in extreme circumstances. In a typical wrap contract, the wrap issuer agrees to pay the Fund the difference between the contract value and the market value of the covered assets once the market value has been totally exhausted. Though relatively unlikely, this could happen if the Fund experiences significant redemptions (redemption of most of the Fund's shares) during a time when the market value of the Fund's covered assets are below their contract value, and market value is ultimately reduced to zero. If that occurs, the wrap issuer agrees to pay the Fund an amount sufficient to cover shareholder redemptions and certain other payments (such as fund expenses), provided all the terms of the wrap contract have been met. Purchasing wrap contracts is similar to buying insurance, in that the Fund pays a relatively small amount to protect against a relatively unlikely event (the redemption of most of the shares of the Fund). Fees the Fund pays for wrap contracts are a component of the Fund's expenses.

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

Wrap contracts accrue interest using a formula called the “crediting rate.” Wrap contracts use the crediting rate formula to convert market value changes in the covered assets into income distributions in order to minimize the difference between the market and contract value of the covered assets over time. Using the crediting rate formula, an estimated future market value is calculated by compounding the Fund’s current market value at the Fund’s current yield to maturity for a period equal to the Fund’s duration. The crediting rate is the discount rate that equates that estimated future market value with the Fund’s current contract value. Crediting rates are reset quarterly. The wrap contracts provide a guarantee that the crediting rate will not fall below 0%.

The crediting rate, and hence the Fund’s return, may be affected by many factors, including purchases and redemptions by shareholders. The precise impact on the Fund depends on whether the market value of the covered assets is higher or lower than the contract value of those assets. If the market value of the covered assets is higher than their contract value, the crediting rate will ordinarily be higher than the yield of the covered assets. Under these circumstances, cash from new investors will tend to lower the crediting rate and the Fund’s return, and redemptions by existing shareholders will tend to increase the crediting rate and the Fund’s return.

The Fund and the wrap contracts purchased by the Fund are designed to pay all participant-initiated transactions at contract value. Participant-initiated transactions are those transactions allowed by the underlying defined contribution plan (typically this would include withdrawals for benefits, loans, or transfers to non-competing funds within the Plan). However, the wrap contracts limit the ability of the Fund to transact at contract value upon the occurrence of certain events. These events include:

- The Plan’s failure to qualify under Section 401(a) or Section 401(k) of the Internal Revenue Code.
- The establishment of a defined contribution plan that competes with the Plan for employee contributions.
- Any substantive modification of the Plan or the administration of the Plan that is not consented to by the wrap issuer.
 - Complete or partial termination of the Plan.
- Any change in law, regulation or administrative ruling applicable to the Plan that could have a material adverse effect on the Fund’s cash flow.
 - Merger or consolidation of the Plan with another plan, the transfer of Plan assets to another plan, or the sale, spin-off or merger of a subsidiary or division of the Plan Sponsor.
- Any communication given to participants by the Plan Sponsor or any other Plan fiduciary that is designed to induce or influence participants not to invest in the Fund or to transfer assets out of the Fund.
 - Exclusion of a group of previously eligible employees from eligibility in the Plan.
- Any early retirement program, group termination, group layoff, facility closing, or similar program.
 - Any transfer of assets from the Fund directly to a competing option.

At this time, the occurrence of any of these events is not considered probable by IPCO.

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

Average yields:	December 31, 2007	December 31, 2006
Based on actual earnings	5.02%	4.96%
Based on interest rate credited to participants	4.65%	4.37%

The weighted average crediting interest rate for the Fund was 4.67% and 4.32% at December 31, 2007 and 2006, respectively.

The value of the Fund reflected in these financial statements is based upon the principal invested and the interest credited. The fair value of the Fund, by investment type, as of December 31, 2007 and 2006 was as follows:

(in thousands)	December 31, 2007	December 31, 2006
Security backed investments:		
Underlying assets at fair value	\$ 588,884	\$ 601,745
Wrap contracts	(3,102)	8,231
Total contract value	\$ 585,782	\$ 609,976

8. OTHER RECEIVABLES AND OTHER LIABILITIES

Other receivables in the amount of \$2.8 million and \$2.2 million at both December 31, 2007 and 2006, respectively, represent interest and dividends receivable, as well as receivables from the sale of stock. Other liabilities in the amount of \$3.7 million and \$1.9 million at both December 31, 2007 and 2006, respectively, represent liabilities from the purchase of stock.

9. DIVERSIFICATION FROM ESOP FUND

A participant may direct that all or any portion of his ESOP Fund account be transferred to other funds in the Plan without restrictions. During 2007 and 2006, \$9.9 million and \$13.9 million, respectively, were transferred from the ESOP Fund within the Plan in connection with this program.

10. PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of termination, participant accounts will be distributed to individual participants in accordance with the Plan document and ERISA provisions.

Eastman Investment and Employee Stock Ownership Plan
Notes to Financial Statements

11. FEDERAL INCOME TAX STATUS

The Plan obtained its latest determination letter in May 2003, in which the Internal Revenue Service stated that the Plan is in compliance with the applicable requirements of the Internal Revenue Code. The Plan Administrator believes the Plan qualifies and operates in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

12. PLAN EXPENSES

Reasonable expenses of administering the Plan, unless paid by the Company, shall be paid by the Plan. For both 2007 and 2006, trustee fees associated with the Eastman Stock Fund and the Eastman ESOP Fund were paid with assets of those individual funds. Brokerage fees, transfer taxes, investment fees and other expenses incident to the purchase and sale of securities and investments shall be included in the cost of such securities or investments or deducted from the sales proceeds, as the case may be. Loan administration fees are deducted quarterly from the accounts of participants with outstanding loan balances. Loan origination fees are deducted from the participants account at the inception of the loan. For 2007 and 2006, the Company paid all other expenses of the Plan related to plan oversight and administration, including audit fees.

13. RELATED PARTIES

Certain plan investments are shares of mutual funds managed by Fidelity Management Trust Company, ("FMTC"). FMTC is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions, which are exempt from prohibited transaction rules. The Plan also invests in the common stock of the Plan Sponsor as well as loans to Plan participants, both of which qualify as parties-in-interest to the Plan and are exempt from prohibited transaction rules.

14. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

(in thousands)	December 31, 2007
Investments at fair value	\$ 1,580,729
Adjustment from fair value to contract value for full benefit-responsive investment contracts	(3,102)
Total investments per Form 5500	\$ 1,577,627

Supplemental Schedule

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Eastman Investment and Employee Stock Ownership Plan
Schedule H, Line 4 (i) – Schedule of Assets (Held at End of Year)
December 31, 2007
(in thousands)

(a)	(b)	(c)	(d)	(e)
	Identity of issue, borrower, lessor, or similar party	Description of investment, including maturity date, rate of interest, collateral, par or maturity value	Historical cost	Current Value
*	Eastman Chemical Company	Common stock, Participant directed, 5,425 shares	**	75,794
*	Fidelity Management Trust Company	Interest Bearing Cash, Participant directed	**	1,985
*	Eastman Chemical Company	Common stock, Non Participant directed, 6,560 shares	81,215	94,110
*	Fidelity Management Trust Company	Interest Bearing Cash, Non Participant directed	915	915
*	Fidelity Fund	Registered Investment Company, 1,252 shares	**	49,899
*	Fidelity Puritan Fund	Registered Investment Company, 3,098 shares	**	58,959
*	Fidelity Magellan Fund	Registered Investment Company, 935 shares	**	87,727
*	Fidelity Contrafund	Registered Investment Company, 2,064 shares	**	150,903
*	Fidelity Spartan U.S. Equity Index Portfolio	Registered Investment Company, 764 shares	**	39,670
*	Fidelity International Discovery Fund	Registered Investment Company, 1,767 shares	**	76,122
*	Fidelity Blue Chip Growth Fund	Registered Investment Company, 344 shares	**	15,137
*	Fidelity Freedom Income Fund	Registered Investment Company, 185 shares	**	2,118
*	Fidelity Freedom 2000 Fund	Registered Investment Company, 182 shares	**	2,246
*	Fidelity Freedom 2010 Fund	Registered Investment Company, 1,212 shares	**	17,969
*	Fidelity Freedom 2020 Fund	Registered Investment Company, 1,420 shares	**	22,449
*	Fidelity Freedom 2030 Fund	Registered Investment Company, 877 shares	**	14,482
*	Fidelity Freedom 2040 Fund	Registered Investment Company, 683 shares	**	6,650
*	Fidelity Spartan Extended Market Index Portfolio	Registered Investment Company, 419 shares	**	16,073
*	Fidelity Spartan International Index Fund	Registered Investment Company, 429 shares	**	20,291