EASTMAN CHEMICAL CO
Form 11-K
June 28, 2007

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 _______________
	OR
[X]	TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED] For the transition period from December 30, 2006 to December 31, 2006

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 Eastman Investment and Employee Stock Ownership Plan (the "Plan") at December 31, 2006 and December 30, 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.

As discussed in Note 1, effective for plan years ended after December 15, 2006, FASB Staff Position Nos. AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to AICPA Investment Company Audit Guide and Defined Contribution Health and Welfare and Pension Plans*, was required to be implemented. Therefore the presentation of the financial statement amounts includes the presentation of fair value with an adjustment to contract value for such investments.

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 audits 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.

\s\ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
June 21, 2007

Eastman Investment and Employee Stock Ownership Plan

Statements of Net Assets Available for Benefits

December 31, 2006 and December 30, 2006

(in thousands)

	December 31, 2006			December 30, 2006		
	Participant Directed	**Non-participant Directed**	**Total**	**Participant Directed**	**Non-participant Directed**	**Total**
Assets						
Investments at fair value	$ 1,379,266	$ 102,961	$1,482,227	$ 1,379,245	$ 102,961	$1,482,206
Receivables:						
Sponsor	31,009	3,382	34,391	31,009	3,382	34,391
Other	1,394	802	2,196	1,394	802	2,196
Total assets	1,411,669	107,145	1,518,814	1,411,648	107,145	1,518,793
Liabilities						
Accrued expenses	13	16	29	13	16	29
Other liabilities	545	879	1,424	545	879	1,424
Total liabilities	558	895	1,453	558	895	1,453
Adjustment from fair value to contract value for	7,789	--	7,789	5,554	--	5,554

fully benefit-responsive investment contracts						
Net assets available for plan benefits	$ 1,418,900	$ 106,250	$1,525,150	$ 1,416,644	$ 106,250	$1,522,894

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, 2006 and December 30, 2006

(in thousands)

	December 31, 2006			December 30, 2006		
	Participant Directed	**Non-participant Directed**	**Total**	**Participant Directed**	**Non-participant Directed**	**Total**
Additions to net assets:						
Investment income (loss)						
Interest	$ 2,256	$ --	$ 2,256	$ 26,592	$ --	$ 26,592
Dividends	--	--	--	58,845	3,324	62,169
Net appreciation (depreciation) in fair value of investments	--	--	--	27,345	14,469	41,814
Net investment gain (loss)	2,256	--	2,256	112,782	17,792	130,575
Participant contributions	--	--	--	69,396	--	69,396
Plan Sponsor contributions	--	--	--	31,009	3,382	34,391
Interfund transfers	--	--	--	17,269	(17,269)	--
Total additions	2,256	--	2,256	230,456	3,906	234,362
Deductions from net assets:						
Distributions to and withdrawals by participants	--	--	--	187,168	5,213	192,381
Loan transfers, net	--	--	--	556	(556)	--
Administrative expenses	--	--	--	164	--	164

Total deductions	--	--	--	187,888	4,657	192,545
Net increase (decrease) in net assets	2,256	--	2,256	42,568	(751)	41,817
Net assets available for plan benefits at beginning of period	1,416,644	106,250	1,522,894	1,374,076	107,001	1,481,077
Net assets available for plan benefits at end of period	$ 1,418,900	$ 106,250	$ 1,525,150	$ 1,416,644	$ 106,250	$ 1,522,894

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

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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, 2006 and December 30, 2006 was immaterial.

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.

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.

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 $15,000 for 2006 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 2006 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 5). 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 8). 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.

Eastman Investment and Employee Stock Ownership Plan

Notes to Financial Statements

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.

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 carry terms applicable under those Plans. At December 31, 2006, $29.5 million in loans were outstanding for terms of 3 to 122 months and interest rates ranging from 4% to 10.50%. At December 30, 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.

Eastman Investment and Employee Stock Ownership Plan

Notes to Financial Statements

- 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 $5,000. 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.

- 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. 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.

- Effective March 28, 2005 the Plan was amended to lower the involuntary cash out limit from $5,000 to $1,000 for the majority of plan participants.

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.

Notes to Financial Statements

- 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.

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

On or about August 1, 2004, the Company completed the sale of certain businesses and product lines in its coatings, adhesives, specialty polymers and inks ("CASPI") segment, including ABCO Industries, Inc. ("ABCO") and Eastman Resins, Inc. ("Resins") to Apollo Management, L.P. ("Apollo"), a private investment firm. In connection with this sale, on August 1, 2004, the Company fully vested each participant employed by (i) ABCO in his ABCO Employer Contribution Account, and (ii) Resins in his Resins Profit Sharing Account. The ABCO Employer Contribution Account and the Resins Profit Sharing Accounts held assets transferred to the Plan in connection with prior plan mergers. In February 2005, the Company made a contribution to the account of each participant, whose employment was terminated in connection with the sale of certain portions of the CASPI segment to Apollo, equal to 5% of the compensation paid to each participant for the period January 1, 2004 through July 31, 2004.

During 2005, the Company closed the operations of Cendian Corporation. The subsidiary's 401(k) plan was merged into the Plan on October 25, 2005. The assets of Cendian plan are included in the contributions total to the sum of $5.1 million.

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 CASPI segment. 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.

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 3% of their qualifying compensation to the EIP portion of the Plan, unless they affirmatively decline or they elect to contribute a percentage other than 3%. 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.

New accounting pronouncements

As of December 30, 2006, the Plan adopted *Financial Accounting Standards Board ("FASB") Staff Position FSP AAG INV-1 and Statement of Position No. 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"). The FSP requires the Statement of Net Assets Available for Benefits present the fair value of the Plan's investments as well as the adjustment from fair value to contract value for the fully benefit-responsive investment contracts. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis for the fully benefit-responsive investment contracts.

In September 2006, the 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.

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

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.

The Trustee has determined the market values of each fund as of December 31, 2006 and December 30, 2006 . Such market values equal the aggregate of the closing prices of the securities held in each fund on December 31, 2006 and December 30, 2006 as reported by national exchanges, if available, or otherwise in good faith by the Trustee, plus cash, interest, dividends and such other sums received and accrued but not yet invested.

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 6).

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.

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.

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.

Payments to participants

Benefits payments to participants are recorded when paid.

Eastman Investment and Employee Stock Ownership Plan

Notes to Financial Statements

3. 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 $31.0 million and for the non-participant-directed ESOP Fund of $3.4 million for both December 31, 2006 and December 30, 2006.

4. 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 both December 31, 2006 and December 30, 2006 were approximately $29.5 million. Interest income earned on loans to participants is credited directly to the participants' accounts and was approximately $0.0 million for the period ended December 31, 2006 and $2.0 million for the year ended December 30, 2006.

5. INVESTMENTS

At December 31 and December 30, 2006, the Plan's assets were invested an investment contract fund (see Note 6), 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. The following investment options, which invest primarily in common stock of the Plan sponsor, were available to participants in 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. On December 31, 2006, the Trustee purchased 0 (zero) shares of Eastman stock, and sold 0 (zero) shares of Eastman stock. During the year ended December 30, 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 $0.0 million and $2.5 million for the period ended December 31, 2006 and the year ended December 30, 2006, respectively.

Eastman Investment and Employee Stock Ownership Plan

Notes to Financial Statements

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. On December 31, 2006, the Trustee purchased 0 (zero) shares of Eastman stock, and sold 0 (zero) shares of Eastman stock for the fund. During the year ended December 30, 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, 2006 and December 30, 2006, the following investments represented 5% or greater of ending net assets, (in thousands):

	December 31,2006	
	Shares	**Fair value**
Eastman Chemical Company Common Stock, Non Participant Directed	7,316	$ 102,961
Fidelity Magellan® Fund	908	81,298
Fidelity Contrafund	2,005	130,694

	December 30, 2006	
	Shares	**Fair value**
Eastman Chemical Company Common Stock, Non Participant Directed	7,316	$ 102,961
Fidelity Magellan® Fund	908	81,298
Fidelity Contrafund	2,005	130,694

On December 31, 2006 and during the year ended December 30, 2006, the Plan's investments (including investments bought, sold and held during the year) appreciated in value by $0 and $41.8 million, respectively, as follows (in thousands):

	Net Appreciation (Depreciation)	
	December 31, 2006	**December 30, 2006**
Eastman Chemical Company Common Stock, Non Participant Directed	$ --	$ 14,469
Eastman Chemical Company Common Stock, Participant Directed	--	13,930
Mutual Funds	--	13,415
Total	$ --	$ 41,814

Eastman Investment and Employee Stock Ownership Plan

Notes to Financial Statements

6. INSURANCE CONTRACTS

The Plan holds an interest in the Managed Income Fund (the "Fund"), which invests in guaranteed investment contracts ("GICs"), which are contracts between an insurance company and the Fund that provide for guaranteed returns on principal amounts invested over various periods of time. This participant-directed fund also invests in synthetic 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 is 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.

In selecting wrap issuers, Fidelity Management Trust Company (“FMTC”), as investment manager of all or a portion of the Fund, analyzes the proposed terms of the wrap contract and the credit quality of the wrap issuer. Other factors, including the availability of wrap contracts under certain market or competitive conditions, may affect the number of wrap issuers and the terms of the wrap contracts held by the Fund. The Fund may agree to additional limitations on its investments as a condition of the wrap contracts. These may include maximum duration limits, minimum credit standards, and diversification requirements. Generally, as long as the Fund is in compliance with the conditions of its wrap contracts, it may buy and sell covered assets without impacting the contract value of the covered assets. However, a wrap issuer may require that the Fund invest entirely in cash or cash equivalents under certain conditions.

FMTC normally purchases wrap contracts from issuers rated in the top three long-term categories (A- or the equivalent and above) by any one of the nationally recognized statistical rating organizations. Although FMTC typically enters into wrap contracts with multiple parties, it may have a single wrap issuer for all of the Fund’s covered assets. FMTC may terminate and replace wrap contracts under various circumstances, including when there is a default by the wrap issuer.

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Eastman Investment and Employee Stock Ownership Plan

Notes to Financial Statements

FMTC purchases wrap contracts for the Fund with the aim of maintaining the contract value of the Fund's bond investments. FMTC invests the Fund's assets consistent with the terms of the wrap contracts and the Fund's investment guidelines. As a target, FMTC expects a substantial percentage (up to 99%) of the Fund's assets to be covered by wrap contracts, although FMTC may change this target from time to time. Assets not covered by wrap contracts will generally be invested in money market instruments and cash equivalents to provide necessary liquidity for participant withdrawals and exchanges.

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.

If the market value of the covered assets is lower than their contract value, the crediting rate will ordinarily be lower than the yield of the covered assets. When market value is lower than contract value, the Fund will have, for example, less than $10.00 in cash and bonds for every $10.00 in NAV. Under these circumstances, cash from new investors will tend to increase the market value attributed to the covered assets and to increase the crediting rate and the Fund's return. Redemptions by existing shareholders will have the opposite effect, and will tend to reduce the market value attributed to remaining covered assets and to reduce the crediting rate and the Fund's return. Generally, the market value of covered assets will tend to be higher than contract value after interest rates have fallen due to higher bond prices. Conversely, the market value of covered assets will tend to be lower than their contract value after interest rates have risen due to lower bond prices.

If the Fund experiences significant redemptions when the market value is below the contract value, the Fund's yield may be reduced significantly, to a level that is not competitive with other investment options. This may result in additional redemptions, which would tend to lower the crediting rate further. If redemptions continued, the Fund's yield could be reduced to zero. If redemptions continued thereafter, the Fund might have insufficient assets to meet redemption requests, at which point the Fund would require payments from the wrap issuer to pay further shareholder redemptions.

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:

Eastman Investment and Employee Stock Ownership Plan

Notes to Financial Statements

- 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.

The Fund is unlikely to be able to maintain a stable NAV if, for any reason, it cannot obtain or maintain wrap contracts covering its entire short-term bond portfolio. This could result from the Fund's inability to promptly find a replacement wrap contract with comparable terms following termination of a wrap contract. FMTC will attempt to assess the credit quality of wrap issuers, but there is no guarantee as to the financial condition of a wrap issuer. Wrap contracts are nontransferable and have no trading market. There are a limited number of wrap issuers. The Fund may lose the benefit of wrap contracts on any portion of its assets that are in default in excess of a certain percentage of Fund assets (*e.g.*, 5%). In the event that wrap contracts fail to perform as intended, the Fund's NAV may decline if the market value of its covered assets is lower than their contract value.

A wrap issuer may terminate a wrap contract at any time. In the event that the market value of the Fund's covered assets is below their contract value at the time of such termination, FMTC may elect to keep the wrap contract in place until such time as the market value of the Fund's covered assets is equal to their contract value. A wrap issuer may also terminate a wrap contract if FMTC's investment management authority over the Fund is limited or terminated as well as if all of the terms of the wrap contract fail to be met. In the event that the market value of the Fund's covered assets is below their contract value at the time of such termination, the terminating wrap provider would not be required to make a payment to the Fund.

Average yields:	**December 31, 2006**	**December 30, 2006**
Based on actual earnings	4.96%	4.96%
Based on interest rate credited to participants	4.37%	4.37%

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Notes to Financial Statements

The weighted average crediting interest rate for the Fund was 4.32% at both December 31, 2006 and December 30, 2006.

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, 2006 and December 30, 2006 was as follows:

(in thousands)	December 31, 2006	December 30, 2006
Security backed investments:		
Underlying assets at fair value	$ 601,745	$ 601,724
Wrap contracts	7,789	5,554
Total contract value	$ 609,534	$ 607,278

7. OTHER RECEIVABLES

Other receivables in the amount of $2.2 million at both December 31, 2006 and December 30, 2006 represent interest and dividends receivable, as well as receivables from the sale of stock.

8. DIVERSIFICATION FROM ESOP FUND

Active or retired employees of the Company are eligible to diversify funds held in their ESOP Fund account. Effective July 2003, a participant may direct that all or any portion of his ESOP Fund account be transferred to other funds in the Plan without restrictions. On December 31, 2006 and during the year ended December 30, 2006, $0.0 million and $13.9 million, respectively, were transferred from the ESOP Fund within the Plan in connection with this program.

9. 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.

10. 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.

Eastman Investment and Employee Stock Ownership Plan

Notes to Financial Statements

11. PLAN EXPENSES

Reasonable expenses of administering the Plan, unless paid by the Company, shall be paid by the Plan. For the period ended December 31, 2006 and the year ended December 30, 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 the period ended December 31, 2006 and the year ended December 30, 2006, the Company paid all other expenses of the Plan related to plan oversight and administration, including auditing fees.

12. 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.

13. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

(in thousands)		**December 31, 2006**		**December 30, 2006**
Investments at fair value	$	1,482,227	$	1,482,206
Adjustment from fair value to contract value for full benefit-responsive investment contracts		7,789		5,554
Total investments per Form 5500	$	1,490,016	$	1,487,760

Supplemental Schedule

Eastman Investment and Employee Stock Ownership Plan

Schedule H, Line 4 (i) – Schedule of Assets (Held at End of Year)

December 31, 2006

(in thousands)

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment, including maturity date, rate of interest, collateral, par or maturity value	(d) Historical cost	(e) Current Value
*	Eastman Chemical Company	Common stock, Participant directed, 4,515 shares	**	61,077
*	Fidelity Management Trust Company	Interest Bearing Cash, Participant directed	**	806
*	Eastman Chemical Company	Common stock, Non Participant directed, 7,316 shares	90,099	101,667
*	Fidelity Management Trust Company	Interest Bearing Cash, Non Participant directed	1,294	1,294
*	Fidelity Fund	Registered Investment Company, 1,264 shares	**	45,297
*	Fidelity Puritan Fund	Registered Investment Company, 2,841 shares	**	56,727
*	Fidelity Magellan Fund	Registered Investment Company, 908 shares	**	81,298
*	Fidelity Contrafund	Registered Investment Company, 2,005 shares	**	130,694
*	Fidelity Spartan U.S. Equity Index Portfolio	Registered Investment Company, 783 shares	**	39,286
*	Fidelity International Discovery Fund	Registered Investment Company, 1,592 shares	**	60,385
*	Fidelity Blue Chip Growth Fund	Registered Investment Company, 320 shares	**	14,195
*	Fidelity Freedom Income Fund	Registered Investment Company, 171 shares	**	1,969
*	Fidelity Freedom 2000 Fund	Registered Investment Company, 114 shares	**	1,418
*	Fidelity Freedom 2010 Fund	Registered Investment Company, 824 shares	**	12,053
*	Fidelity Freedom 2020 Fund	Registered Investment Company, 1,006 shares	**	15,631
*	Fidelity Freedom 2030 Fund	Registered Investment Company, 611 shares	**	9,802
*	Fidelity Freedom 2040 Fund	Registered Investment Company, 482 shares	**	4,573
*	Fidelity Spartan Extended Market Index Portfolio	Registered Investment Company, 389 shares	**	14,970
*	Fidelity Spartan International Index Fund		**	17,891

		Registered Investment Company, 405 shares		
*	Participant Loans	Participant Loan Fund with terms ranging from 3-122 months and rates ranging from 4% to 10.5%	**	29,467
*	PIMCO Total Return Fund	Registered Investment Company, 2,456 shares	**	25,493
*	Franklin Small Mid Cap Growth Fund	Registered Investment Company, 648 shares	**	24,844
*	Neuberger and Berman Genesis Instl Cl	Registered Investment Company, 1,239 shares	**	56,663
*	Templeton Foreign Fund	Registered Investment Company, 905 shares	**	12,294
*	Fidelity Retirement Money Market	Registered Investment Company, 71 share	**	71
*	Clipper Fund	Registered Investment Company, 145 shares	**	13,333
*	TCW Galileo Select Equities Fund	Registered Investment Company, 114 shares	**	2,184
*	WFA Small Cap Val Z	Registered Investment Company, 1,177 shares	**	36,655

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December 31, 2006

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*	Fidelity short term cash fund	CASH	**	17,099
	Accredited Mortgage Loan Trust ACCR 03-2 A1	Mortgage backed security 4.23% 10/33	**	367
	Accredited Mortgage Loan Trust ACCR 03-3 A1	Mortgage backed security 4.46% 12/33	**	348
	ACE Securities Corp. ACE 03-NC1 M1	Mortgage backed security 1ML+78 7/33	**	171
	ACE Securities Corp. ACE 02-HE1 M1	Mortgage backed security 1ML+65 6/32	**	200
	ACE Securities Corp. ACE 03-HS1 M1	Mortgage backed security 1ML+75 6/33	**	75
	ACE Securities Corp. ACE 03-HS1 M2	Mortgage backed security 1ML+175 6/3	**	101
	ACE Securities Corp. ACE 03-HE1 M1	Mortgage backed security 1ML+65 11/32	**	189
	ACE Securities Corp. ACE 04-FM1 M1	Mortgage backed security 1ML+60 9/33	**	152
	AEGON	Synthetic GIC Global Wrap – 4.45%	**	1,948
	Aesop Funding II LLC ESOP 05-1A A1	Mortgage backed security 3.95% 4/08	**	985
	AIFUL Corporation	Corporate Bond 4.45% 2/16/10 144A	**	3,264
	AIFUL Corporation	Corporate Bond 5% 8/10/10 144A	**	381
	AIFUL Corporation	Corporate Bond 6% 12/12/11 144A	**	20
	Alabama Power Co	Corporate Bond 3.5% 11/15/07	**	559
	Altria Group Inc	Corporate Bond 7.2% 2/01/07	**	928
	America Movil SAB DE CV	Corporate Bond 4.125% 3/1/09	**	1,283
	American General Finance Corp	Corporate Bond 2.75% 6/15/08	**	507
	American General Finance Corp	Corporate Bond 4.625% 5/15/09	**	1,119
	American General Finance Corp	Corporate Bond 3.875% 10/1/09	**	433
	American General Finance Corp	Corporate Bond 4.875% 5/15/10	**	1,045
	American Honda Finance Corp	Corporate Bond 4.5% 5/26/09 144A	**	1,185
	American Honda Finance Corp	Corporate Bond 4.25% 3/11/08 144A	**	1,865
	AmeriCredit Automobile Receivables Trust AMCAR 04-CA A4	Mortgage backed security 3.61% 5/11	**	295

AmeriCredit Automobile Receivables Trust AMCAR 04-1 B	Mortgage backed security 3.7% 1/09	**	42
AmeriCredit Automobile Receivables Trust AMCAR 04-1 C	Mortgage backed security 4.22% 7/09	**	80
AmeriCredit Automobile Receivables Trust AMCAR 04-DF A4	Mortgage backed security 3.43 7/11	**	767
AmeriCredit Automobile Receivables Trust AMCAR 06-BG A4	Mortgage backed security 5.21% 9/13	**	715
AmeriCredit Automobile Receivables Trust AMCAR 06-1 B	Mortgage backed security 5.2% 3/11	**	70
AmeriCredit Automobile Receivables Trust AMCAR 06-BG A3	Mortgage backed security 5.21% 10/11	**	356
AmeriCredit Automobile Receivables Trust AMCAR 05-CF A4	Mortgage backed security 4.63% 6/12	**	1,397
AmeriCredit Automobile Receivables Trust AMCAR 06-1 A3	Mortgage backed security 5.11% 10/10	**	561
Ameriquest Mortgage Securities Inc AMSI 04-R2 M1	Mortgage backed security 1ML+43 4/34	**	125
Ameriquest Mortgage Securities Inc AMSI 04-R2 M2	Mortgage backed security 1ML+48 4/34	**	100
Ameritech Capital Funding	Corporate Bond 6.25% 5/18/09	**	851

Eastman Investment and Employee Stock Ownership Plan

Schedule H, Line 4 (i) – Schedule of Assets (Held at End of Year)

December 31, 2006

(in thousands)

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment, including maturity date, rate of interest, collateral, par or maturity value	(d) Historical cost	(e) Current Value
	Amortizing Residential Collateral ARC 02-BC1 M2	Mortgage backed security 1ML+110 1/3	**	43
	ANZ National London Inc	Corporate Bond 4.265% 5/16/08 144A	**	1,802
	ARG Funding Corp ARGF 05/1A A1	Mortgage Backed Security 4.02% 4/09	**	1,628
	ARG Funding Corp ARGF 05-2A A1	Mortgage Backed Security 4.54% 5/09	**	1,270
	Asset Backed Securities Corp Home Equity ABSHE 03-HE6 M1	Mortgage backed security 1ML+65 11/33	**	378
	Asset Backed Securities Corp Home Equity ABSHE 04-HE3 M1	Mortgage backed security 1ML+54 6/34	**	151
	Associates Corp of North America	Corporate Bond 6.875%11/15/08	**	124
	Associates Corp of North America	Corporate Bond 6.25% 11/01/08	**	805
	AT&T Corp	Corporate Bond 6% 3/15/09 DTC	**	196
	AT&T Inc/SBC Communications	Corporate Bond 6.25% 3/15/11	**	426
	AT&T Inc/SBC Communications	Corporate Bond 4.125% 9/15/09	**	2,331
	Avon Products Inc	Corporate Bond 5.125% 1/15/11	**	193
	AXA Financial Inc	Corporate Bond 7.75% 8/01/10	**	1,037
	Banc of America Commercial Mortgage Inc BACM 05-4 XP	Interest only strip CSTR 7/45	**	82
	Banc of America Commercial Mortgage Inc BACM 2006-5 XP	Interest only strip 0.832% 9/47	**	338
	Banc of America Commercial Mortgage Inc BACM 04-2 A2	Mortgage backed security 3.52% 11/38	**	1,079
	Banc of America Commercial Mortgage Inc BACM 04-5 XP	Interest only strip CSTR 11/41	**	183
	Banc of America Commercial Mortgage Inc BACM 05-3 A3B	Mortgage backed security CSTR 7/43	**	945
	Banc of America Commercial Mortgage Inc BACM 05-4 A1	Mortgage backed security 4.432 % 7/45	**	744
	Banc of America Commercial Mortgage Inc BACM 04-6 XP	Interest only strip CSTR 12/42	**	123
	Banc of America Commercial Mortgage Inc BACM 05-3 XP	Interest only strip CSTR 7/43	**	286
			**	1,310

Banc of America Commercial Mortgage Inc BACM 2003-2 A2	Mortgage backed security 4.342% 3/41		
Banc of America Commercial Mortgage Inc BACM 06-5 A1	Mortgage backed security 5.185% 7/11	**	332
Banc of America Commercial Mortgage Inc BACM 05-5 A1	Mortgage backed security 4.716% 8/10	**	994
Banc of America Commercial Mortgage Inc BACM 06-6 XP	Interest only strip CSTR 10/45	**	394
Banc of America Commercial Mortgage Inc BACM 05-6 A1	Mortgage backed security 5.001% 9/47	**	611
Banc of America Commercial Mortgage Inc BACM 04-4 A3	Mortgage backed security 4.128% 7/42	**	668

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December 31, 2006

(in thousands)

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	Banc of America Commercial Mortgage Inc BACM 05-1 A2	Mortgage backed security 4.64% 11/42	**	1,443
	Banc of America Large Loan BALL 05-ESHA X1	Interest only strip CSTR 7/20		