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OLN - Q1 2012 Olin Earnings Conference Call

EVENT DATE/TIME: APRIL 27, 2012 / 2:00PM GMT

OVERVIEW:

OLN reported 1Q12 sales of $507.2m and net income of $38.7m or $0.48 per diluted share. Expects 2Q12 diluted EPS to be $0.50-0.55.

CORPORATE PARTICIPANTS

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Christopher Butler *Sidoti & Company - Analyst*

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Gregg Goodnight *UBS - Analyst*

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PRESENTATION

Operator

Good morning, and welcome to Olin's first quarter 2012 earnings conference call. All participants will be in listen-only mode. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Mr. Joseph Rupp, Chairman, President and CEO.

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

Good morning, and thank you for joining us today. With me this morning are John Fischer, Senior Vice President and Chief Financial Officer; John McIntosh, our Senior Vice President of Operations; and Larry Kromidas, our Assistant Treasurer and Director of Investor Relations.

Last night, we announced that net income in the first quarter of 2012 was $38.7 million, or $0.48 per diluted share. First quarter 2012 net income included a $1.9 million pretax restructuring charge, primarily associated with our ongoing Winchester centerfire relocation project. Sales in the first quarter of 2012 were $507.2 million. Chlor Alkali first quarter 2012 segment earnings increased 65% compared to the first quarter of 2011, and represented a record level of first quarter Chlor Alkali segment earnings. The year-over-year improvement in Chlor Alkali earnings reflects improved pricing, the 100% ownership of SunBelt for the full quarter, and increased contributions from bleach and hydrochloric acid. First quarter 2012 Winchester segment earnings declined compared to the first quarter of 2011, as improved volumes were more than offset by higher commodity costs and transition costs associated with our ongoing centerfire ammunition relocation project.

In the first quarter of 2012, Olin generated adjusted EBITDA of $94.9 million, which represents the highest level of first quarter adjusted EBITDA ever. Our first quarter 2012 adjusted EBITDA increased 38% when compared to the first quarter of 2011. This is the first quarter that we've discussed EBITDA, and we believe it clarifies the impact of the capital investments that were made in 2011, and are continuing in 2012; including investments to exit mercury cell technology, the acquisition of PolyOne's 50% interest in the SunBelt joint venture, the Winchester centerfire ammunition relocation project to Oxford, Mississippi, and the bleach expansion projects. These investments have caused annual depreciation expense to increase by approximately $35 million, or 50%, since 2009. In 2012, Olin has the opportunity to generate the highest level of adjusted EBITDA in the 120-year history of the company.

Our second quarter 2012 net income is forecast to be in the $0.50 to $0.55 cent per diluted share range. Second quarter 2012 Chlor Alkali segment earnings are expected to improve compared to the first quarter of 2012, reflecting seasonally stronger chlorine and bleach demand, partially offset by lower prices. Second quarter 2012 earnings in the Winchester segment are expected to improve compared to the first quarter 2012, as improved pricing and lower centerfire relocation transition costs more than offset seasonally lower volumes.

I'm going to talk about the divisions. First, Chlor Alkali. The first quarter of 2012 operating rate was 80%, which is in line with the first quarter 2011 operating rate, but a significant improvement over the 70% rate that we experienced in the fourth quarter of 2011. During the first quarter 2012, there were plant outages at five of our seven Chlor Alkali manufacturing plants. In addition, there were two significant customer outages during the quarter, one of which was planned and one of which was unplanned. We expect the unplanned outage to continue into the second quarter, and to negatively impact our second quarter chlorine volumes.

Second quarter operating rate is expected to be in the mid-80% range. During the second quarter, the seasonal increase in bleach should contribute approximately 2% to our operating rate, and there are no major outages planned in our Olin system during the second quarter. The first quarter, ECU netback, including SunBelt, was approximately $585 per ton, which compares to the fourth quarter of 2011 ECU netback of approximately $590 per ton, and the first quarter of 2011, netback of approximately $525 per ton. The decline in the netback from the fourth quarter of 2011 to the first quarter of 2012 reflects the continuation of the pattern that we've experienced -- that we experienced beginning in the second half of 2011, in which increases in caustic soda prices were being offset by decreases in chlorine prices. During the first quarter, there was a $45 per ton caustic soda price increase announced, and a $40 per ton chlorine price increase announced. The $45 per ton caustic soda price increase, despite being followed by the majority of the producers, continues to encounter resistance and, at this point, its success is uncertain.

The announced chlorine price increase was not followed by all producers, and its ultimate success is also uncertain. And, as a result, we expect the second quarter 2012 ECU netback to be flat-to-slightly down, compared to the first quarter. Freight costs included in the first quarter of 2012 ECU netback increased 4%, compared to the first quarter of 2011, but declined 5% compared to the fourth quarter of 2011. And we're lower than the average cost for the full year of 2011. Based on our experience over the past several years, we do expect full-year 2012 freight cost per ECU to increase when compared to 2011. As we stated in our fourth quarter 2011 earnings conference call, we did take the step in 2011 of filing a rate case against two railroads. It was a step, we believe necessary in a process to control freight costs. The resolution of this case will take approximately 18 to 24 months. In the first quarter of 2012, our first low-salt, high-strength -- or HyPure bleach facility began operation in McIntosh, Alabama. The startup of the facility, which produces bleach that is approximately twice the strength of conventional bleach, increased our bleach capacity by approximately 15%.

We now have the capacity to convert approximately 12% of our total chlor alkali capacity to bleach. We also continue to be on track to begin shipments from the two additional HyPure plants that are under construction at Niagara Falls, New York and Henderson, Nevada. And these facilities will be up and running by the end of 2012. When the plants are completed, we will have the ability to convert in excess of 15% of our chlor alkali capacity to bleach. First quarter 2012 bleach shipments increased 8%, compared to the first quarter of 2011, and we have now experienced 17 consecutive year-over-year quarterly increases in the volume of bleach sold. During the first quarter, the premium received on bleach shipments above the value of chlorine and caustic, was at the high end of the $100 to $200 per ton range that we typically experience.

Shipments of hydrochloric acid increased 10% in the first quarter 2012, when compared to the first quarter of 2011. Over the past year, we have seen overall demand for hydrochloric acid increase, primarily due to increased demand to support the oil and gas exploration. This stronger demand has caused HCl prices to increase significantly. And the positive impact on our chlor alkali profits from higher sales volumes and higher selling prices was approximately $9 million in the first quarter of 2012, when compared to the first quarter of 2011. We currently have the ability to convert approximately 8% of our capacity to third-party sales of hydrochloric acid.

Electricity costs in the first quarter of 2012 declined, compared to the first quarter of 2011, and based on our current forecast of operating rates, we believe full-year 2012 electricity costs per ECU produced will decline compared to 2011. As I stated earlier, the first quarter 2012 segment earnings of $74.4 million represents the highest level ever of first quarter earnings for this business. The business also has the opportunity to generate the highest level second quarter earnings ever. Chlor Alkali has positive momentum heading into the balance of 2012, and should continue to benefit from the 2011 acquisition of the 50% of SunBelt that we did not own and from ongoing expansion of our bleach capacity.

I'll discuss Winchester. During the first quarter, the Winchester centerfire ammunition relocation project continued. And handgun operations in the new Oxford, Mississippi facility began to reach critical mass. Approximately two-thirds of all the handgun ammunition produced in the first quarter was produced in the Oxford facility. And recently, production rates at Oxford have exceeded those experienced in East Alton before the relocation. We have also recently begun the rifle ammunition relocation project, with the objective of initiating production by the end of the year.

Winchester's first quarter 2012 earnings were negatively impacted by approximately $3 million, as a result of the relocation. This impact includes the incremental costs associated with operating two locations, startup costs in Oxford, Mississippi, and some small production and shipment delays. These costs were more than offset -- more than offset -- the reduced labor costs that are being realized in Oxford. As Winchester moves through the balance of 2012, we expect an additional but smaller negative impact to the Winchester second quarter 2012 results, followed by a small benefit in the third quarter, and approximately $3 million benefit in the fourth quarter of 2012. We continue to expect to realize $30 million of annual savings when the project is complete, and that meaningful savings will begin to be realized in the second half of 2013.

Winchester has continued to experience stronger than expected post-surge commercial demand, especially for handgun and rifle ammunition. During the first quarter of 2012, Winchester's commercial backlog increased by over $100 million, which compares to a first quarter 2011 increase of approximately $40 million. The increase in commercial backlog was accompanied by a 13% increase in commercial sales, from the first quarter of 2011 to the first quarter of 2012. Commercial handgun, shotshell and rimfire ammunition sales all increased more than 7% in the first quarter of 2012, compared to the first quarter of 2011. The first quarter of 2012 increased commercial sales more than offset a 4% decline in military and law enforcement sales.

During the first quarter of 2012, the purchase price for copper increased approximately 12%, compared to the first quarter of 2011, while the purchase price for lead and zinc decreased approximately 2%. The combined negative year-over-year impact of these price changes is approximately $1.5 million, and it is currently our expectation that the total purchase cost price per pound for copper and zinc, should decline from the first quarter of 2012 to the second quarter of 2012. As we look forward to the second quarter and the balance of 2012, I feel positive about the outlook for both Winchester and Chlor Alkali. Winchester is experiencing strong demand that we believe will continue at least into the third quarter. And we will begin to realize cost savings for the centerfire ammunition relocation, as they move through the year. In Chlor Alkali, the bleach business continues to grow. Fundamentals in hydrochloric acid market are strong, and ECU prices are at favorable levels, with opportunities for additional increases. Based on the first quarter results, we have a -- Olin has the opportunity in 2012 to generate the highest level of annual adjusted EBITDA in the history of the company. Now I am going to turn the call over to our Chief Financial Officer, John Fischer, who will review several financial matters with you. John?

John Fischer - *Olin Corp - Sr. VP and CFO*

Thank you, Joe. First, I would like to discuss a few items on the income statement. Selling and administration expenses increased $4.2 million, or 11%, in the first quarter of 2012, compared to the first quarter of 2011. The year-over-year increase reflects increased salary and benefit costs, a higher level of legal and legally-related settlement costs, and the inclusion of SunBelt selling and administrative expenses has consolidated Olin expenses for the full quarter, partially offset by reduced acquisition costs related to SunBelt.

First quarter 2012 charges to income for environmental investigatory and remedial activities were $2.8 million dollars, which included $100,000 of recoveries from third parties for environmental costs incurred and expensed in prior periods. During the first quarter of 2011, there were $1.5 million of charges related to environmental investigatory and remedial activities, which included $500,000 of recoveries for environmental costs incurred and expensed in prior periods. After giving consideration to the recoveries in both periods, year-over-year expenses related to environmental remedial and investigatory activities increased by $900,000. These charges related primarily to expected future investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites. We continue to forecast that full-year 2012 expenses for environmental investigatory and remedial activities, prior to any recoveries, will be comparable to 2011. We are not currently expecting any additional environmental recoveries in 2012.

On a total company basis, defined benefit pension plan income was $4.9 million in the first quarter of 2012, compared to $5.6 million in the first quarter of 2011. We are not required to make any cash contributions toward domestic defined benefit pension plan in 2012, and believe the earliest we may be required to make any cash contributions to that plan is 2014. In 2012, we expect to make cash contributions to our Canadian defined benefit pension plan of less than $5 million. As a reminder, under Canadian pension rules, service costs are required to be funded annually. Defined contribution pension plan expense was $3.6 million in both the first quarter of 2012 and 2011. The vast majority of our employees now participate in the defined contribution pension plan. As a reminder, our domestic defined benefit pension plan is frozen to new entrants, all salaried, all non-union hourly, and most union employees.

During the first quarter, Olin recorded a $1.9 million restructuring charge. This charge was primarily related to employee and employee relocation expenses associated with our ongoing relocation of the Winchester centerfire ammunition manufacturing operations from East Alton, Illinois to Oxford, Mississippi and from exiting the use of mercury cell technology in the chlor alkali manufacturing process by the end of 2012. We expect to incur approximately $8 million of additional restructuring charges associated with the chlor alkali projects through the end of 2013, and approximately $15 million of additional restructuring charges associated with the Winchester relocation between now and the end of 2016. We expect total restructuring charges in 2012 related to these projects to be approximately $10 million. The effective tax rate for the first quarter was 36%. And for the full year we continue to believe the effective tax rate will be in the 36% to 37% range. We also estimate that our cash tax rate, which will benefit from the accelerated depreciation provided for in The Tax Relief Unemployment Insurance Reauthorization and Job Creation Act will be approximately 15% in 2012.

Now I'd like to turn to the balance sheet. Cash and cash equivalents at March 31, 2012, including the restricted cash associated with the Go Zone and the Recovery Zone financings that were completed in 2010, and are classified as long term asset on the balance sheet, totaled $254.7 million. As of March 31, 2012, there was $34.1 million of cash that remained restricted, and will be available to fund additional 2012 capital spending at our facilities in Alabama, Mississippi and Tennessee. We continue to expect all the restricted cash to be utilized in 2012. During the first quarter, receivable and inventory balances increased approximately $50 million from year-end 2011 levels. During the first two quarters of the year, Olin typically experiences a $50 to $100 million growth in working capital, which is liquidated by the end of the year.

This working capital growth, which totaled $71 million in the first quarter of 2012, reflects seasonal increases in activity compared to the weak fourth quarter in both Chlor Alkali and Winchester, plus inventory builds in Winchester, as that business moves toward the third quarter peak and its selling season. First quarter 2012 capital spending was $75.9 million, approximately 65% of which supported the Charleston mercury cell technology conversion project, and the three HyPure bleach projects. We believe that the largest part of our 2012 capital spending will occur in the first half of the year. Full-year 2012 capital spending is projected to be in the $215 to $245 million range, compared to $200.9 million in 2011. The higher level of spending, in both 2012 and 2011, includes spending for the Chlor Alkali mercury cell conversion in Charleston, the construction of HyPure bleach plants at t three of our Chlor Alkali facilities, and the ongoing Winchester centerfire relocation project.

Full-year 2012 depreciation is forecast to be in the $105 to $110 million range. Depreciation and amortization expense in the first quarter of 2012 was $25.5 million, which compares to $23.2 million in the first quarter of 2011. Depreciation and amortization expense associated with the Chlor Alkali business was $21.6 million, and $20.1 million in the first quarters of 2012 and 2011, respectively. We expect quarterly depreciation expense to increase sequentially as we move through 2012.

In the second quarter of 2012, we plan to redeem $7.7 million of industrial revenue bonds with maturities in 2017. We will pay an early redemption premium of approximately $200,000, which will be offset by the recognition of a $200,000 gain on interest rate swaps applicable to these bonds. Also in December of 2012, $12.2 million of payments will be made on the SunBelt notes. These notes require annual payments, and are required to be repaid by the end of 2017. During the first quarter, approximately 55,000 shares of Olin stock were repurchased at a cost of approximately $1.2 million. In 2011, a total of approximately 200,000 shares were repurchased at a total cost of $4.2 million.

In July 2011, Olin's Board of Directors approved a three-year, five million share repurchase program. In April, we entered into a new, five-year, senior revolving credit facility of $265 million, which replaced the $240 million senior revolving credit facility that was set to expire in October of this year. The new credit facility will expire in April of 2017. Borrowing options and restrictive covenants are similar to those of our previous $240 million senior revolving credit facility.

The new $265 million senior revolving credit facility includes a $110 million letter of credit facility, and a $15 million -- $50 million, excuse me -- Canadian sub facility. In conjunction with this new senior revolving credit facility, we terminated our additional $25 million letter of credit facility.

Yesterday, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin's common stock. The dividend is payable on June 11, 2012, to shareholders of record at the close of business on May 10, 2012. This is the 342nd consecutive quarterly dividend to be paid by the company.

Before we conclude, let me remind you that, throughout this presentation, we have made statements regarding our estimates of future performance. Clearly, these are forward looking statements, and results could differ materially from those projected. Some of the factors that could cause actual results to differ are described, without limitations, in the risk factors section of our most recent Form 10K and in our first quarter earnings release.

A copy of today's transcript will be available this afternoon on our website, in the Investor section under Calendar of Events. The earnings press release and other financial data and information are available under Press Releases. Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions) Frank Mitsch, Wells Fargo Securities.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

You referenced, in a discussion on Chlor Alkali, the unplanned outage in Q1 spilling over into Q2, and I was wondering if it might be possible to size that for us, in terms of either financial impact, or in terms of volume impact that you are seeing there? Just to also clarify, you do not have any major planned turnarounds in Q2 in that area?

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

No, we do not have any major turnarounds. It is worth about 3% in operating rate for us.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

Okay.

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

The outage is worth about 3%.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

And what percent of that was in Q1 versus what percent of that in Q2?

John Fischer - *Olin Corp - Sr. VP and CFO*

The -- Frank, the impact on Q2 is about 3%.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

Okay

John Fischer - *Olin Corp - Sr. VP and CFO*

The impact in Q1 was less than 1%.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

Okay, great. I just want to clarify -- It sounded to me that your freight rates -- impacting your ECU netback, that was -- the freight rate was sequentially down, was that correct?

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

That was correct.

John McIntosh - *Olin Corp - Sr. VP, Operations*

It was. It was most like -- it was most attributable to just a comparable -- the quarter we were comparing it with, we had some extraordinary freight shipments because of logistical issues, so it was really an indication of a benefit from a comparable period. We don't expect freight costs -- we don't expect that trend to continue. As a matter of fact, we expect freight cost for the full year to be an increase over what we saw in 2011.

Frank Mitsch - *Wells Fargo Securities, LLC - Analyst*

Okay. Okay, fine, yes. That was kind of an unusual comment to hear. Never seems that freight rates actually go down. Lastly -- but you are forecasting that you're electricity costs will be down year-over-year on the Chlor Alkali side. Could you size that for us in terms of order of magnitude, your expectations there?

John McIntosh - *Olin Corp - Sr. VP, Operations*

I would rather just explain what is driving it than try and size it. As we look at our fuel mix, our portfolio of fuels from the companies we buy electricity from, that portfolio is shifting away from coal and shifting towards natural gas. And in today's environment, natural gas-generated fuel is obviously a benefit, and so as we look at the balance of the year, we just expect to see that trend manifest in our numbers.

Operator

Christopher Butler, Sidoti & Company.

Christopher Butler - *Sidoti & Company - Analyst*

I was hoping that you might talk a little bit towards Chlor Alkali pricing a little bit more, with the two price increases that were announced as kind of a backdrop. The assumption that I've been under is, depending on volume growth as the year progressed, would determine whether the chlorine price increase took hold versus the caustic soda price. It was probably going to be one or the other. A little bit surprised that it seems like there is less in the cards overall? Could you talk to that a bit for us?

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

I think simplistically what we would tell you is, that we expect chlorine prices to firm up as we move into the seasonably stronger summer period. We also believe that caustic price increases that were announced, that have not yet been successful, may just be stalled.

Christopher Butler - *Sidoti & Company - Analyst*

As we look at this quarter and take out SunBelt, could you talk to the organic volume growth that you saw?

John Fischer - *Olin Corp - Sr. VP and CFO*

Chris, if you took out SunBelt, the chlorine and caustic soda volumes were essentially flat. The growth we saw was in hydrochloric acid and bleach.

Christopher Butler - *Sidoti & Company - Analyst*

Looking towards the spring, it sounds like you're optimistic about a good bleach spring season for you?

John McIntosh - *Olin Corp - Sr. VP, Operations*

Yes we are.

Christopher Butler - *Sidoti & Company - Analyst*

I appreciate your time.

Operator

Alex Yefremov, Bank of America Merrill Lynch.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

I just wanted to come back to electricity contracts. Could you explain to us whether the declines that you see in your electricity costs is a function of lower prices on existing contracts, or a re-signing of those contracts that expire? And also, maybe, if you could address what percentage of your electricity contracts, on average, are re-signed each year?

John McIntosh - *Olin Corp - Sr. VP, Operations*

All of our electricity contracts are long-term contracts, so we don't typically have annual contract extensions or contract renewals. So, this is just based on -- our electricity price is just based on what the utilities are charging for industrial rates that are applicable to a large industrial consumer like Olin. Including what they are paying for their respective fuels they use in their generation portfolio.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

So, the declines in the cost that you see as a function of, basically, repricing existing contracts to a lower rate, is that correct?

John McIntosh - *Olin Corp - Sr. VP, Operations*

That is correct.

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

Fuel adjustments.

John McIntosh - *Olin Corp - Sr. VP, Operations*

Yes. It's a fuel adjustments as part of a tariff for a large industrial electricity consumer.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

If you look at those fuel adjustments, what kind of leverage is there to natural gas prices? Is it pretty straightforward, versus spot natural gas, or maybe it's half that rate, or -- could you just give us some sense of sensitivity versus spot natural gas?

John McIntosh - *Olin Corp - Sr. VP, Operations*

I don't -- we don't have that information, because the utilities manage their fuel acquisition as a pretty well-guarded part of their portfolio. I can tell you that when look at our exposure to the various fuels, whether it's coal, natural gas, hydro-power or nuclear, we are very comfortable that we have a balanced portfolio, and we don't have undue exposure, positive or negative -- negative exposure in any of those areas.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Just a follow up, if I may, on Winchester. Are you expect -- do you expect to increase prices this year versus last year? It sounds like you are sighting some positive price trends there.

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

We have price increases that have been announced that take effect June 1.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Can you size them?

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

In the 2% to 6% range, depending upon a product.

Operator

Don Carson, Susquehanna Financial.

Don Carson - *Susquehanna Financial Group - Analyst*

Just want to clarify on pricing. You talk about the potential for lower prices in Q2. Is this just from the ECU? Or is this a comment on by-products like hydrochloric acid and bleach as well? I am wondering specifically on HCl, with the downturn in drilling rig activity, are you seeing any reduction in demand or prices?

John McIntosh - *Olin Corp - Sr. VP, Operations*

On -- the pricing comment is related to ECU pricing. It is driven by the fact that first quarter caustic index prices dropped $25 in the first quarter. Chlorine index pricing dropped $45. To the extent that we have contracts that are tied to index pricing, we are going to have to deal with those changes in the second quarter, so it is ECU. From an HCl standpoint, we have seen some seasonal reduction in demand relative to the oil and shale gas fields. But nowhere else. We continue to see strong HCl demand in steel, in high fructose corn syrup and in the other markets that we serve with our HCl product.

Don Carson - *Susquehanna Financial Group - Analyst*

Joe, your initial guidance for Q1 was $0.35 to $0.40, including a $2.5 million restructuring cost. You came in at $0.48. What was the driver of this upside, and are you being similarly cautious with your Q2 guidance? Could there be similar upside?

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

What I would say there, Don, is that our performance certainly was better from a bleach -- from an HCl perspective, a little bit from a volume perspective, for the first quarter. In the second quarter, I think where we are in the second quarter is -- it wouldn't take a lot for it to get better. I think there is just a little bit of uncertainty as to what demand levels are going to be, and what that may have effect from a pricing perspective.

Don Carson - *Susquehanna Financial Group - Analyst*

Finally, on cash flow, what happens to CapEx next year -- and I know you have talked in the past about, perhaps, returning more cash to shareholders. Just wondering whether you are thinking of accelerating your share repurchase, or whether that would be a bump in the dividend?

John Fischer - *Olin Corp - Sr. VP and CFO*

Our expectation is that capital spending next year will probably be a round number, $100 million less than it is forecast to be this year, would put it somewhere between $100 and $125 million. Keeping in mind that maintenance capital is probably in the $80 to $85 million range today. I think we have said all along that our preference for the use of cash is to invest in the business first. We would look at the dividend second, and we would be more aggressive on share repurchases third.

Operator

Dmitry Silversteyn, Longbow Research.

Dmitry Silversteyn - *Longbow Research - Analyst*

Couple of questions, if I may. What -- can you give us an idea of what your bleach premiums to ECU were in the quarter, as well as your hydrochloric acid premiums?

John McIntosh - *Olin Corp - Sr. VP, Operations*

We have said that our bleach premiums typically run in the $100 to $200 range, and that, in the quarter we just finished, that we were at the high end of that range. On HCl premiums, and this is a premium to chlorine, the number in the last quarter was roughly comparable to that in terms of range. But I would say that HCl being sold into either shale or oil, has an additional premium associated with it.

Dmitry Silversteyn - *Longbow Research - Analyst*

So, something better than $200 premium versus a ton of chlorine?

John McIntosh - *Olin Corp - Sr. VP, Operations*

Into that market segment over the last quarter, yes.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. If you look at combined bleach and hydrochloric acid volumes versus your ECU, what percentage of your production was these two products?

John McIntosh - *Olin Corp - Sr. VP, Operations*

About 12% of our capacity is -- we can produce as bleach, and about 8% is hydrochloric acid.

John Fischer - *Olin Corp - Sr. VP and CFO*

In the first quarter, obviously, bleach is weaker, so we didn't use the full 12%.

Dmitry Silversteyn - *Longbow Research - Analyst*

Right. Okay. Okay. 8% of chlorine, 12% hydrochloric acid. Okay. Your utilization rates expectations, I think you talked about having flattish utilization rates in the second quarter, because of these two customer outages, one of which will last into the second quarter. Do you expect utilization rates to -- can you look out beyond second quarter, or is that too soon to talk about third quarter utilization rates?

John McIntosh - *Olin Corp - Sr. VP, Operations*

We -- our expectation for operating rates in the second quarter were not flat. We talked, in our prepared comments, about mid-80% operating rates. Our operating rates for the first quarter were in the 80% range.

Dmitry Silversteyn - *Longbow Research - Analyst*

I meant flat year-over-year. I apologize.

John McIntosh - *Olin Corp - Sr. VP, Operations*

We are forecasting a second -- an improvement in the second quarter, and typically second and third quarter are, for us, the highest utilization quarters that we experience during the course of the year. We see nothing to indicate that that trend won't continue to forecast anything more specific than that in the third quarter -- is really something that we just don't have that much clarity on.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. Got it. Question on pricing environment. You talked about the price increases in caustics are stalling, or being delayed, and it doesn't sound like you're very optimistic about the chlorine price increase. Has anything changed in the environment in perception of buyers, sellers; to give you some confidence that the index pricing, at least, will start moving up in the second quarter. So, hopefully, by the third quarter you get to see some price increases?

John McIntosh - *Olin Corp - Sr. VP, Operations*

I can make a comment anecdotally about what we see in our system.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay.

John McIntosh - *Olin Corp - Sr. VP, Operations*

We are late on caustic shipments, and have been for a significant part of the first quarter. And that trend has continued. From our perspective, it wouldn't take much in terms of a reduction in demand for chlorine, driven by the strength of the downstream derivative markets, or operating problems, or planned shutdowns across the industry, to make that caustic demand situation even tighter than it currently is, as we see it right now. We continue to see strong demand on -- in the caustic molecule for the market segments we serve. We think we are potentially at a transition point where it wouldn't take much movement on the chlorine side for us to see positive caustic pricing movement.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. Despite the tightness of the market we've seen in the first quarter, and seeing right now, there's not a price movement, but you think if it tightens further, that we can see this log jam breaking?

John McIntosh - *Olin Corp - Sr. VP, Operations*

From our perspective, we are telling our customers that we can't meet their shipment dates, and we're pushing to the extent we can -- a pricing philosophy that is consistent with that. And we assume, or see, the potential that the rest of the industry will -- could be in a similar position.

Dmitry Silversteyn - *Longbow Research - Analyst*

Got it. Got it. Final question. You talked about moving more to natural gas, and less coal, in terms of your energy source. How much of your energy needs are met by natural gas currently?

John McIntosh - *Olin Corp - Sr. VP, Operations*

We've not giving those numbers out, but what I will say again is that, when you look at those four fuels, we feel we are very balanced, and we feel good about our position. It is not anything we are doing. This is driven by regulations that the utilities are facing associated with air emissions, and that is what is driving them away from coal as a fuel source, and towards natural gas, which is cleaner from the standpoint of using it in generating electricity.

Dmitry Silversteyn - *Longbow Research - Analyst*

So, it is not you changing vendors or suppliers, so to speak, of electricity. It is just that your suppliers are changing their starting point?

John McIntosh - *Olin Corp - Sr. VP, Operations*

Yes, sir. That is correct.

Operator

Herb Hardt, Monness.

Herbert Hardt - *Monness, Crespi, Hardt & Co. - Analyst*

As you look out at your CapEx over the next few years, does that ratio of bleach and HCl get much higher?

John Fischer - *Olin Corp - Sr. VP and CFO*

As we move through 2012, and complete the HyPure plants, we will have gone from about 8% of our capacity being able to be dedicated to bleach, to 15%. We have said as a long-term objective that we would like to get that up to 20%, so that will require additional investment beyond the end of 2012. I think we're also looking at the hydrochloric acid market, and what has happen to it, and trying to assess the long-term nature of the current demand. And that would also be an opportunity for us to invest. We would not at all be uncomfortable with putting 12% to 15% of our chlorine capacity into HCl. And that would also require investment.

Operator

Edward Yang, Oppenheimer.

Edward Yang - *Oppenheimer & Co. - Analyst*

I'm sorry if I missed this, but the better-than-expected operating rate in the quarter, was that weather related, and is that going to -- did that borrow any future demand from future quarters?

John McIntosh - *Olin Corp - Sr. VP, Operations*

No, it --

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

I don't believe so.

John McIntosh - *Olin Corp - Sr. VP, Operations*

No. No, it wasn't a quarter-over-quarter change.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. Sounds like you are optimistic on the pricing outlook, but we really haven't seen a lot of traction on the price increases yet, both on the chlorine or caustic side yet. Before those contract prices are accepted, would spot prices move up ahead, and kind of narrow the gap with current contract prices? Currently they are below. Or was that -- that really doesn't have any influence on whether those contracts get accepted?

John McIntosh - *Olin Corp - Sr. VP, Operations*

If you are a buyer, that is the position you would take, is that spot prices ought to change before contract prices do. But, if you look historically, that relationship doesn't always hold. And I think you just have to look at what's going on in the marketplace, and what the supply/demand balance is. And there can be events that change that, that will happen in a manner that will drive both contract and spot pricing.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. There are a couple of cross currents here. It sounds like, from what we are hearing, North American housing is getting better, but China is getting weaker, or -- it is a little wobbly right now. What is more important?

John McIntosh - *Olin Corp - Sr. VP, Operations*

I don't know that you can necessarily qualify as one being more important. China is important, because China is still an exporter of caustic into the U.S. West coast, but they are very disadvantaged now because of freight rates. And they are really disadvantaged from going anywhere else with caustic in North America. Caustic exports out of North America continue to be very strong, and will be very similar to what they were in 2011, which was net export numbers in excess of a million tons going to South America. When we look at the other world geographies, we typically look at it from a caustic standpoint, as to who is most competitive and who has conserved the geographies closest to them. Chlorine derivatives are going to be driven by what China's demand pattern is, because that, and the Far East, are where most of the chlorine derivatives end up these days.

Edward Yang - *Oppenheimer & Co. - Analyst*

And your comments on the exports again, this year being as strong as last year. That's on the caustic sides, or the chlorine derivative sides? On the vinyl side?

John McIntosh - *Olin Corp - Sr. VP, Operations*

On the caustic side specifically, but chlorine derivative exports are -- were strong last year, and we forecast that that will continue this year as well.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. And finally, on Winchester. Are you seeing a pickup in demand just related to the election, or is this more of a recurring kind of improvement you are seeing?

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

There has been just an ongoing pickup, which may be related to the election, and also is related to an undercurrent of interest in personal defense that just continues to be there.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay.

Operator

Gregg Goodnight, UBS.

Gregg Goodnight - *UBS - Analyst*

I actually have one question that hasn't been asked. The inventories of caustic, both that producers and downstream, how do you typify those right now? Are they -- is it fairly full tanks, are they slim inventories? Has the pickup in rates of the industry replenished the inventories, could you typify that for me, please?

John McIntosh - *Olin Corp - Sr. VP, Operations*

I can tell you that, our inventories across our system are low, and that inventories in our terminal system are also low. And that our customers are not sitting on large inventories of caustic either. I've heard mixed reports about distributor inventories and distributor tanks up and down the river system. In some cases, I've heard reports that they -- because of the mild winter, they've bought inventories a little sooner than normal in preparation for an early bleach season and some early seasonal demand. But that is anecdotal at best. But, when we look through our system, all the way to our customers, caustic inventories are low.

Gregg Goodnight - *UBS - Analyst*

Okay. As a follow up, when you've had issues with your own shipments, have you tried to arrange swaps with other producers? And if you have, what has been your experience? Is there a material available?

John McIntosh - *Olin Corp - Sr. VP, Operations*

We have tried to arrange swaps. In some cases, material availability was an issue because we couldn't -- we could find caustic available, but it was diaphragm caustic and not high-purity caustic. But I wouldn't say that there is an abundance of caustic available in the market right now, from any of the producers in the industry.

Gregg Goodnight - *UBS - Analyst*

Okay. That's all I had.

Operator

Roman Kuznetsov, Gates Capital Management.

Jeff Gates - *Gates Capital - Analyst*

This is actually Jeff. I have a question. A few questions, actually. First, on capacity. Is there any you -- can you talk about the new capacity additions in North America that might be coming on, and it would those be natural gas based? Are there -- can you give us your rough fuel mix between the coal and hydro and natural gas? Secondly, on the freight rates. I know you had a good performance this quarter versus a tough comp -- I think last year they were up 20%. Can you tell me what they have been up the last three years, and what you expect them to be up the next three years?

John McIntosh - *Olin Corp - Sr. VP, Operations*

The only capacity announcement that is out there is the Westlake announcement. They are forecasting an additional plant in their system being built between now and the end of 2013. In terms of fuel mix, we don't specifically give out numbers for the respective fuels, other than to say between coal, natural gas, hydro and nuclear, we have a balanced portfolio as we look across our system. And that is really all -- as specific as we have gotten. I don't think -- from a freight standpoint, I don't have last three years' numbers in front of me, but I guess -- I wouldn't expect future freight increases to look much different than they've looked in recent history.

John Fischer - *Olin Corp - Sr. VP and CFO*

I guess, Jeff, I would say if you were looking to model something, an average about 10% per year is what we've seen over a longer period of time.

Jeff Gates - *Gates Capital - Analyst*

One last question, actually two others. First, on the environmental outlays, if I recall from the 10-K, it was about $60 million of outlays this year. If I recall, did you say the expense was going to be comparable, which is around $20, so the delta would be about $40 of outlay above the expense?

John Fischer - *Olin Corp - Sr. VP and CFO*

Jeff, the outlays that we referred to in the 10-K cover not just the legacy environmental sites, but also environmental expenditures associated with the operations of our current sites. What we have said is, that we expect to spend between $20 and $30 million a year for modeling purposes, to service the legacy sites. And the expense that we referred to in 2012 being equal to '11 was associated with the legacy sites.

Jeff Gates - *Gates Capital - Analyst*

For the whole Company, what would the environmental expense be for the -- for '12, and what would the outlay be?

John Fischer - *Olin Corp - Sr. VP and CFO*

If you were looking at expense for the entire Company, there is approximately $20 million -- $20 to $25 million that shows up in Corporate and Other that is associated with the legacy. And then there is another $20 or $25 million a year that shows up in Cost Of Goods Sold, associated with the plant operations.

Jeff Gates - *Gates Capital - Analyst*

Okay. So the delta is only about $15 million, then. Or something like that.

John Fischer - *Olin Corp - Sr. VP and CFO*

Something like that.

Jeff Gates - *Gates Capital - Analyst*

Okay. That's helpful.

John Fischer - *Olin Corp - Sr. VP and CFO*

Historically, the spending around the environmental -- the legacy environmental has had a fairly high standard deviation, anywhere from 15 to 30.

Jeff Gates - *Gates Capital - Analyst*

Okay. That's helpful. Just one last question, sort of bigger picture. Does the housing recovery help the company, or does that make it more challenging on the caustic side?

John Fischer - *Olin Corp - Sr. VP and CFO*

Housing recovery that is slow and steady is good for the company. A spike in housing, we would think, in the short run would be negative, because it would put more caustic in the market in the short run than the market might be able to absorb without reducing prices.

Jeff Gates - *Gates Capital - Analyst*

Okay. All right. Nice quarter. Congratulations.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Joseph Rupp for any closing remarks.

Joseph Rupp - *Olin Corp - Chairman, President and CEO*

We just want to thank you for joining us, and we look forward to reporting our results to you in July, at the end of the second quarter. Thank you.

Operator

The conference is now concluded. Thank you for attending today's presentation. Please disconnect your lines.
