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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second quarter Olin Corporation earnings conference call. My name is Nora, and I will be your coordinator for today. (OPERATOR INSTRUCTIONS) I would now like to turn the presentation over to your host for today's conference, Mr. Joseph Rupp, Chairman, President and Chief Executive Officer of Olin Corporation. Please proceed, sir.

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

Good morning and thanks for joining us today. With me this morning are John Fischer, Vice President and Chief Financial Officer; John McIntosh, Vice President and President of our Chlor Alkali Products business; and Larry Kromidas, our Assistant Treasurer and Director of Investor Relations.

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Sales for the second quarter of 2008 were $428.3 million, compared to $266.2 million in the second quarter of 2007. Net income from continuing operations in the second quarter of 2008 was $35.5 million, or $0.47 per diluted share, compared to $21.9 million, or $0.29 per diluted share in the second quarter of 2007.

Chlor Alkali earnings improved 27% compared to the second quarter of 2007, which reflects the contributions and synergies of the Pioneer acquisition and improved pricing. These favorable developments allowed the business to overcome lower volumes and higher costs, primarily in the areas of freight and electricity. Winchester's second quarter pretax earnings of $9.5 million represent a record second quarter for the business. Winchester's results reflect the combination of improved volumes and pricing.

The second quarter 2008 results include $9.7 million of environmental expenses, which are approximately 90% higher than the first quarter 2008 level and approximately 70% higher than expected in the third quarter 2008. The increased level of environmental expenses in the second quarter 2008 primarily represented costs for remediation at a former manufacturing location.

Second quarter 2008 results also included approximately $5 million of non-cash stock-based compensation expense, which reflected the positive performance of our stock during the quarter. This level of expense is approximately twice the level experienced in the first quarter of 2008.

Second quarter 2008 results included an $800,000 pretax pension curtailment charge associated with the transition of our McIntosh, Alabama Chlor Alkali hourly workforce from a defined benefit pension plan to a defined contribution plan. Finally, our second quarter 2008 tax rate included approximately $800,000 of favorable adjustments related to the resolution of prior period issues.

Third quarter 2008 earnings are projected to be in the $0.65 to $0.70 per diluted share range, which would represent the best quarterly result from operations since the 1999 spin-off of Arch Chemicals. We expect that Chlor Alkali results will improve compared to the second quarter, driven by higher operating rates and improved ECU netbacks.

The seasonal strength of the industrial bleach business is contributing to the higher operating rates. Winchester results are expected to be in line with the results experienced in the first two quarters of 2008. Finally, as we mentioned previously, we expect environmental and pension expenses to decline in the third quarter compared to the second quarter.

Now to a more detailed discussion on the businesses, beginning with Chlor Alkali. Chlor Alkali Products earned $70.4 million in the second quarter, which includes a $24.3 million contribution from the Pioneer operations. The contribution from Pioneer includes the benefits of the synergies realized. The impact of these synergies was approximately $10 million in the second quarter.

Chlor Alkali Products earnings in the second quarter of 2007, which did not include the Pioneer operations, were $55.3 million. ECU netbacks were $590 in the second quarter of 2008, which compares favorably to the second quarter 2007 Olin only ECU netback of $510. The operating rate in the quarter was 89%, which compares unfavorably to the Olin only operating rate of 97% experienced in the second quarter of 2007.

Chlorine and caustic soda shipment volumes increased 54% year-over-year due to the inclusion of Pioneer; however, on a pro forma basis including Pioneer in 2007, volumes were 8% lower in the second quarter of 2008 compared to the second quarter of 2007. This reduction in volumes resulted from lower levels of overall chlorine demand across most customer segments.

During the first half of this year, demand for caustic soda remained strong. However, caustic soda supply was constrained because of reduced operating rates, driven by weakness in chlorine demand resulting in a significant supply and demand imbalance. This imbalance, along with increased freight and energy costs resulted in unprecedented caustic soda price increase announcements. During the second quarter, Olin announced four caustic soda price increases that totaled $410 per ton. This brought the total number of caustic soda price increases announced in 2008 to five, with a total value of $490 per ton.

As we discussed in our first quarter earnings call, the timing of an announced market price increase impacts Olin's ability to immediately implement the increase. During the first quarter, the $80 per ton price increase was not totally reflected in the published first quarter market indices, causing many customers to see implementation in the third quarter. Similarly, the most recently announced $160 per ton price increase was not reflected in the published second quarter market indices, delaying its implementation until the fourth quarter.

During our first quarter earnings call we also discussed provisions in some of our caustic soda contracts that limit the amount of increase that can be implemented in a specific quarter. The impact of these limitations will be to delay the implementation of some of the announced price increases. While we have seen unprecedented levels of caustic soda pricing during the second quarter, we have continued to experience weaker

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chlorine prices. Chlorine prices in Olin's system declined in the second quarter of 2008 compared to the first quarter, and we expect the decline to continue through the balance of 2008 and into the first half of 2009.

However, taking into account all of these issues, we currently expect ECU netbacks in Olin's system to improve sequentially well into 2009. We have also experienced improved pricing for two of our value-added products; bleach and hydrochloric acid. Year-to-date price increases of $270 per ton for bleach and $30 per ton for hydrochloric acid have been announced and implemented. Bleach and hydrochloric acid combined represent approximately 15% of the ECUs Olin produces and sells and these prices are not reflected in our netbacks.

We expect our operating rate in the third quarter of 2008 to improve to the low to mid 90% range, due partially to the seasonal strength of our bleach business. Third quarter bleach shipments are expected to increase 20% compared to the second quarter of 2008, and over 50% compared to the first quarter of 2008.

During the quarter, the chlor alkali business continued to face higher costs, specifically electricity and freight costs. Freight costs, which as a reminder, are reflected as a reduction in our ECU price, increased 23% in the second quarter of 2008 when compared to the second quarter of 2007. Year-to-date, the freight component of our ECU netbacks has increased 33% compared to the first half of 2007. As a further point of reference, 2008 freight costs are approximately 70% higher than they were at the beginning of 2005.

Second quarter 2008 electricity prices represent an increase of approximately 15% compared to the first quarter of 2008 and the second quarter of 2007. Electricity costs in the Olin system are typically higher in the second quarter of the year compared to the first quarter, but the significant increase in the price of natural gas experienced in the second quarter generated a larger than normal increase. And as a point of reference, the utilities that supply electricity to our Henderson, Nevada and St. Gabriel, Louisiana facilities depend heavily on natural gas.

During the second quarter, the joint venture bleach plant we established last fall with Trinity Manufacturing reached full production rates and became profitable. We invested approximately $11.6 million in the facility and are responsible for marketing the bleach. The location of this facility compliments our existing bleach business.

Also during the quarter we announced that we were evaluating the possibility of constructing a salt-to- bleach plant in Northern California. This represents an additional opportunity to expand our leading position in industrial bleach.

We continue to make excellent progress in achieving synergy savings from the Pioneer acquisition and we now believe it is likely that we will exceed the $40 million per year objective that we identified at the end of the first quarter. As a reminder, during the first quarter we increased the synergy forecast from $35 million to $40 million per year. During the second quarter, the shutdown of the Dalhousie, New Brunswick facility was completed. This shutdown will generate $8 to $10 million in annual cost savings that we began to realize in the second quarter. These savings are a part of the total $40 million per year of projected synergies.

Finally, we are beginning to realize the benefits of rationalizing the size of the combined Olin and Pioneer railcar fleets. By the end of 2008, we expect to be operating as a combined company, with 5 to 6% fewer railcars in the sum of the separate companies prior to the merger. This represents projected annual cost savings in the $2 to $3 million range.

Now turning to Winchester. Winchester’s second quarter of $116 million and earnings of $9.5 million represent record second quarter results for the business. These compared to sales of $100 million and earning of $5.6 million in the second quarter of 2007. Winchester also turned in record first quarter results. The second quarter earnings reflect a combination of higher selling prices and improved volumes, which were partially offset by higher material and commodity metal prices.

Winchester experienced improved volumes to commercial customers and law enforcement customers, reflecting contracts that were awarded in 2007. These more than offset lower sales to military customers. The lower level of military sales in the quarter reflects the timing of deliveries under these contracts.

The cost of commodity metals and other raw materials continues to be a major challenge for the Winchester business. During the second quarter, the spot price for copper averaged approximately $3.80 per pound, which compares to the approximately $3.00 per pound price that occurred at the end of 2007.

Steel prices have increased steadily over the past two years and we experienced an additional 30% increase effective July 1. Steel represents approximately 5% of Winchester's material costs. During the second quarter, Winchester did see moderation in the price of lead. The average spot

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price for lead declined from approximately $1.30 per pound in the first quarter of 2008 to $1.05 per pound in the second quarter of 2008. In spite of this decline, the price of lead remains approximately 400% higher than pre-2004 levels.

While Winchester continues to experience strong overall consumer demand, there have been reactions to the higher level of product prices. Ammunition distributors have become more cautious buyers and have been delaying orders, while other customers have been trading down from higher quality, higher performance products to more standard products. During the quarter, Winchester completed the relocation of approximately half of its military packing operations from its East Alton, Illinois facility to its Oxford, Mississippi facility. This relocation, which involves approximately 100 jobs, is expected to be completed in the third quarter and is expected to generate annual cost savings of approximately $2 million.

Our second quarter results and our third quarter outlook continue to demonstrate the benefits of the acquisition of Pioneer that was completed in the third quarter of last year. During the second quarter, these benefits have allowed us to overcome the overall weak demand for chlorine, plus the increasing electricity and freight costs. Further, it allows us to forecast record operating results in the third quarter. We are continuing to realize the expected synergies and they are expected to enhance our results further as we move forward.

The Winchester business has successfully overcome escalating costs and should benefit from its ongoing cost reduction programs. I remain optimistic about Olin's prospects for the balance of 2008 and as we look forward to 2009.

Now I'd like to turn the call over to John Fischer, Chief Financial Officer, who will review several financial items with you. John?

John Fischer - ***Olin Corporation – VP and CFO***

Thank you, Joe. First I'd like to discuss a few items on the income statement. Selling and administrative expenses increased 9%, or $2.8 million during the second quarter of 2008, compared to the second quarter of 2007. The increase is attributable to the inclusion of the Pioneer operations in the second quarter 2008 results. As a point of reference, Pioneer incurred SG&A expenses in the second quarter of 2007, of $9.7 million, compared to $5.2 million in the second quarter of 2008.

Legal and legal-related expenses were $2.4 million lower in the second quarter of 2008, and the combination of defined benefit and defined contribution pension plan expenses declined by $3.1 million. These SG&A expense reductions were partially offset by higher incentive expenses, which were primarily the result of mark-to-market adjustments on stock-based compensation.

During the quarter, Olin's common stock appreciated 32% or $6.40 per share. Every one dollar change in the Olin stock price changes stock-based compensation expenses by approximately $400,000. Stock-based compensation expense in the second quarter of 2008 was $4.9 million compared to $3.3 million in the second quarter of 2007.

Corporate and other expenses in the second quarter of 2008 declined by $3.7 million from the second quarter of 2007, primarily due to lower defined benefit pension plan expenses and lower legal and legal-related costs. These were partially offset by the higher stock-based compensation expenses and higher environmental expenses.

Second quarter 2008 environmental investigatory and remediation expenses were $9.7 million, compared to $7.0 million in the second quarter of 2007 and $5.1 million in the first quarter of 2008. These costs relate primarily to remedial and investigatory activities associated with former waste disposal sites and past operations.

The increased level of environmental expenses in the second quarter primarily represents cost for remediation at a former manufacturing location. We currently expect that these expenses in the third and fourth quarters of 2008 will be 30 to 40% lower than the second quarter and we continue to believe that full-year charges for environmental investigatory and remedial activities will be approximately 25% lower than full-year 2007 expenses.

Total company defined benefit pension plan income was $1.9 million during the second quarter of 2008, compared to expenses of $8.3 million in the second quarter of 2007. The second quarter 2008 income includes the $800,000 curtailment charge Joe mentioned earlier. This conversion from a defined benefit pension plan to a defined contribution plan, which impacted approximately 200 McIntosh, Alabama hourly employees, is consistent with our strategy to further reduce the risk associated with our defined benefit pension plan.

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The year-over-year improvement in defined benefit pension expense reflects the impact of the $100 million voluntary contribution made in May of 2007, favorable investment returns earned in 2007, a 25-basis point increase in the discount rate used to value liabilities, an increase in the amortization period for plan losses and the impact of the plan freeze for salaried and non-bargained hourly employees that became effective January 1, 2008. The $10.2 million decline in defined benefit pension plan expense was partially offset by higher defined contribution pension plan expenses of $1.6 million.

Beginning in 2008, all salaried and non-bargained hourly employees, in addition to all employees hired after January 1, 2005, were participating in the defined contribution plan. So far this year, the defined benefit pension plan has generated approximately breakeven returns. This level of returns has preserved the over-funded position that existed at December 31, 2007. The 2008 performance reflects the actions taken in 2007 to reduce the plan's exposure to equity investments and increase its exposure to fixed income investments.

The tax rate for the second quarter was 35.2%, which included $800,000 of favorable adjustments associated with the resolution of prior period issues. We now forecast that the full-year 2008 rate, including the favorable adjustments associated with the resolution of prior period issues, will be in the 35 to 36% range.

Now turning to the balance sheet. Cash and cash equivalents at June 30, 2008 were $206.9 million compared to $257.1 million at June 30, 2007 and $332.6 million at December 31, 2007. The year-to-date decline in cash and cash equivalents reflects the combination of normal seasonal growth in working capital, predominantly in the Winchester business and the impact of higher selling prices. We continue to forecast that cash and cash equivalents will decline during 2008, as a result of the high level of projected capital spending, primarily reflecting the St. Gabriel conversion and expansion project.

We also expect working capital to increase approximately $40 million during 2008, reflecting the combination of higher sales volumes, higher selling prices and increased raw material costs in Winchester and higher selling prices in Chlor Alkali.

Capital spending during the second quarter was $40.5 million, approximately 50% of which was associated with the St. Gabriel conversion and expansion project. As a reminder, this project is expected to be completed in the first quarter of 2009 and is expected to generate annual cost savings of approximately $25 million. We are continuing to forecast full-year 2008 capital spending to be in the $200 to $210 million range.

Second quarter 2008 depreciation expense was $17.6 million and we continue to project full-year depreciation expense in 2008 of approximately $70 million. Annual depreciation expense is expected to increase approximately $10 million with the completion of the St. Gabriel project.

Yesterday, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. The dividend is payable on September 10, 2008 to shareholders of record at the close of business on August 11, 2008. This is the 327th 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 10-K and in our second quarter earnings release. A copy of today's transcript will be available this afternoon on our website in the Investors section under Calendar of Events. The earnings press release and other financial data and information is available under Press Releases.

Operator, we are now ready to take questions.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Don Carson from Merrill Lynch.

Don Carson - ***Merrill Lynch - Analyst***

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I'd like to walk through just the ECU pricing outlook. I know there's some plusses and minuses. But on the caustic front, Joe, you mentioned that the last 160 increase is not in the industry indices, you won't get until Q4. But looking at the approximately--the other $240 of increase you had in the quarter, I'm just wondering what the timing of realization is there, given some of the contract caps you have and also some of the takeaways in terms of lower chlorine prices and higher freight costs? So if you could perhaps walk us through how you see--?

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

John will talk you through that. As we did mention, we are forecasting higher ECU prices well into 2009 and John will give you a little bit on the contracts. John?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

Don, just to give you a sense of what's been reflected in pricing indices so far, of the $490 of announced price increases that occurred in the first half of 2008 on caustic, only $140 of that number has been reflected in one of the price indices that I looked at yesterday. So there's a significant amount of the pricing announcements that have been announced so far, that will continue to be reflected in these indices as we move through the third quarter and into the fourth quarter. We expect indices the end of July to reflect a significant jump from where they were at the end of June.

But overall, we expect to continue to see, even with no further price increase activity, the caustic pricing indexes to go up through the balance of this year and into the first of next year. And based on our typical quarter lag experience that we've tended to see, we would expect the caustic side of the molecule, on an index basis, to move up into the first half of '09.

We do expect to continue to see chlorine prices drop, as mentioned in the remarks, they dropped in the second quarter. We expect to continue to see those prices decline. But I would make a point that at 89% operating rates historically, which is what the industry reported in second quarter, we would have seen chlorine price increases that were more significant in terms of the magnitude than we've seen in the second quarter and that we've seen reflected in our system as well.

Don Carson - ***Merrill Lynch - Analyst***

And John, what's the impact of the caps that you have in place? What percentage of your contracts does that cover and what's the status of renegotiating those caps? I know some people had approached you perhaps to give up some of the cap this year in return for ongoing limits next year.

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

We have had a couple of occasions where beginning on July 1, where we're operating with improved pricing from customers who wanted to, I guess, stretch the pain out a little more than having to face it all at the beginning of the year. So we've seen that phenomenon impact our system. We still will have some limitations through the balance of this year, but that's another reason why we believe that we'll continue to see overall ECU pricing gains well into 2009.

Don Carson - ***Merrill Lynch - Analyst***

Okay. And then John, just an industry comment. What impact, if any, are you seeing from the pending Shintech startup as they place that caustic in the market? And with these kind of prices, are you seeing any demand destruction, you know, any caustic users trying to switch to soda ash, which I know is also tight? Just if you could comment on those two aspects?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

The Shintech startup, as where most people expected there to be kind of a psychological impact on pricing, has really become a non-event. And it's our understanding that most of the caustic that will come out of that plant once it starts up, will either have to be used to pay back other people in the industry, you know, exchange caustic with them based on the delay in their startup schedule and/or will be caustic that will be exported out of the U.S. to meet export obligations that they have.

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So, we really don't expect their startup, which we understand is sometime very soon, to have any material impact on the North American market. As a matter of fact, in some cases it'll help with the serious, serious imbalance we have, especially with all the force majeure announcements that have already occurred late in the second quarter and in the third--early in this quarter.

In terms of demand destruction, we haven't seen it yet. The substitution that is most logical that you mentioned, which is soda ash for caustic, we haven't seen any of that occur yet, and I think the reason is just exactly what you said. Soda ash availability is such that no one can commit to a long-term and continuing supply of soda ash. And so, security of whatever alkali agent that you're using tends to become the overriding issue. And people are really forced to continue to use caustic if that's what they're currently contracted to use.

Operator

Frank Mitsch from BB&T Capital Markets.

Frank Mitsch - ***BB&T Capital Markets - Analyst***

You know, Joe, you mentioned in your outlook that you thought Winchester would show similar results to what it did in the first, in the second quarter and obviously those were very strong results. Traditionally, however, the third quarter is the best quarter for the Winchester business. So are you being a little bit conservative there or are you kind of maxed out? Can you talk a little bit about what's going on there?

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

What we're seeing, Frank, is in the third quarter we're going to see some pretty healthy hits from pricing, particularly in the area of steel and resins, that we're not going to have a chance to be able to offset our costs; rather, we're not going to have a chance to offset from a pricing point of view. We also will start--we anticipate potentially as we get out further, that there's some moderations we talked about from a lead perspective that may start to offset that as we get out in the fourth quarter.

The other concern we have a little bit is with the commercial shooter, is what we've talked about is that they are buying down and also the distributors are fairly cautious about what's going to happen with this hunting season. And we know that in the fishing category, for example, that that has slowed down considerably. So, we're trying to reflect what we think is reality as we get into the third quarter.

Frank Mitsch - ***BB&T Capital Markets - Analyst***

Well, with the cost of food being what it was, I would think hunting would be up. But yes, you've got to drive pretty far to get to some of those fields. And the discussion regarding the synergies from the Pioneer transaction, I believe you said that you'd raised your expectation from $35 to $40 million. You think you're going to exceed that this year. So the question is--and you mentioned the Dalhousie shutdown being about $10 million in and of itself. Where do you think that could get to?

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

Greater than 40. What's happened there is that we're real pleased. Originally we came out with the 35 number. We felt really good about what occurred so far in the first nine months here and saw the $40 million number. And our sense is that we can get past that $40 million number, Frank. And you know, we're not getting up to $50 million, if I could--.

Frank Mitsch - ***BB&T Capital Markets - Analyst***

Okay, that's fair. And then lastly, I know you guys aren't super big on the alumina side, but what percent of your caustic sales now are in the alumina market?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

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We export very little caustic currently, although we will look to export more post the startup of the converted and expanded plant at St. Gabriel. But historically, before the acquisition, Olin exported no caustic, and right now, we really don't have the ability to satisfy all of our North American contract accounts and still have the caustic to export. As I said, we see that changing with the expansion. And for us, the logical market and one of the fastest growing markets for exporting caustic will be South America.

Frank Mitsch - ***BB&T Capital Markets - Analyst***

All right. So look for that to be a 2009 event, not necessarily an '08 event?

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

That's correct.

Operator

Christopher Butler of Sidoti.

Christopher Butler - ***Sidoti & Company - Analyst***

Just sort of wanted to circle back on the ECUs. I'm right in saying that if the markets expected that there to be any impact on caustic from the Shintech startup, you know, we'd probably already be seeing that reflected, right?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

I would think that's fair, Chris.

Christopher Butler - ***Sidoti & Company - Analyst***

And looking at the chlorine side of the equation, you had said that you were expecting chlorine to be down. Just to clarify, are you talking sequentially down here for the remainder of the year or down compared to 2007 levels?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

Sequentially down for the rest of the year.

Christopher Butler - ***Sidoti & Company - Analyst***

So the stability that we may have seen here at the end of the second quarter, that's something that's temporary it sounds like?

John McIntosh - ***Olin Corporation – VP and President Chlor Alkali Division***

Well, we saw chlorine price decrease from first quarter to second quarter and our forecast is that's going to continue. Although as I've said earlier, it is definitely on a different trend line than we would have seen at this kind of operating rate and looking at it--in comparing to historical chlorine price changes.

Christopher Butler - ***Sidoti & Company - Analyst***

And shifting gears a little bit on the environmental expense, the remediation that caused the up-tick in the quarter, could you give us a little color on this? Was this sort of a one-shot and no longer a concern issue or is this an increase in projected costs on an ongoing remediation?

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John Fischer - ***Olin Corporation – VP and CFO***

No, it was one-shot on a site that we shouldn't see repeat. I think, Chris, if you went back and looked at, for example, 2007, there was quite a bit of deviation from quarter to quarter in terms of what our environmental expenses were. We had one very large quarter. And I think that's what we're saying we're going to have this year. And that quarter was the second quarter.

Christopher Butler - ***Sidoti & Company - Analyst***

And finally, just looking at the interest expense for the quarter, it was down from year-over-year end sequentially, but debt remained fairly constant. Are we looking at variable interest rates coming down here?

John Fischer - ***Olin Corporation - CFO and VP***

Well, debt is actually down about $8 million year-over-year. In the first quarter we repaid about $8 million of industrial revenue bonds. So in terms of total debt it should be down and that's what's really driving it. The other thing is, interest earned on cash balances is down just because short-term interest rates are down.

Operator

Edward Yang of Oppenheimer.

Edward Yang - ***Oppenheimer Securities - Analyst***

I had a couple of modeling questions as well. First on the CapEx outlook for 2009, if I recall, that St. Gabriel expansion was in two stages. Will you be exercising the second phase of that expansion and what would be your CapEx guidance for 2009?

John Fischer - ***Olin Corporation – V.P. and CFO***

We have made no announcement that we're going to exercise the second phase of St. Gabriel. And I would expect at this point, Ed, that capital spending will be at a much lower level in 2009, probably slightly higher than the forecasted level of depreciation.

Edward Yang - ***Oppenheimer Securities - Analyst***

And the forecast level of depreciation as in the mid-70s?

John Fischer - ***Olin Corporation – VP and CFO***

We're running about 70 now. St. Gabriel will add about 10, so that would put us at 80.

Edward Yang - ***Oppenheimer Securities - Analyst***

And is that sort of the base CapEx going forward or are you going to basically switch that around depending on volumes?

John Fischer - ***Olin Corporation – VP and CFO***

Something in the neighborhood of depreciation levels would be what we would consider to be base, and then any expansion or investments would be on top of that.

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Edward Yang - ***Oppenheimer Securities - Analyst***

Okay. And there's obviously a lot of puts and takes that go into your overall corporate and other expense line items. When you factor all that in, what do you think your corporate and other expenses or income will be in 2008 and 2009?

John Fischer - ***Olin Corporation - CFO and VP***

The two biggest drivers that are variable in corporate and other, are environmental, which we just talked about, and we expect that to be down 25% year-over-year from 2007 to 2008. The other big driver is the defined benefit pension plan, which, if you look at the numbers, should be down something in the neighborhood of $20 million, 2007 to 2008. I do not see significant declines on the defined benefit pension plan going forward and I don't see significant changes in our outlook on environmental going forward.

Edward Yang - ***Oppenheimer Securities - Analyst***

Okay. What about headquarters' costs or things of that nature?

John Fischer - ***Olin Corporation – VP and CFO***

Those tend to move around in a fairly narrow range and I wouldn't see those changing dramatically year-over-year. I mean, we talked about legal, and legal-related is down this quarter, but stock-based is up. Those are the things that tend to be variable.

Edward Yang - ***Oppenheimer Securities - Analyst***

Okay, thank you. And you spoke a bit about, in response to the question on substitution on the customer side to soda ash. I understand that. Could you help me understand on the supplier side, are suppliers able to switch from potassium hydroxide to caustic or does that even make sense?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

No, there really are not very many applications at all, and sure not any of any significant quantity, where that substitution is legitimate. And even with the high price of sodium hydroxide, potassium hydroxide prices are rising at an ever increasing rate as well, because of raw material input pricing. So that's not a substitution that really makes any sense.

Edward Yang - ***Oppenheimer Securities - Analyst***

Okay, understood. And finally, I would love to get your opinion. Clearly, a bit of an unusual situation in the industry with chlorine being so weak and caustic being so tight. Have you seen an environment like this in the past, and if you have, how has it resolved itself in the past and how does this all play out in the context of what could be a fairly uncertain economy?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alakli Division***

We have seen this in the past. This is a cyclical business and chlorine cycles and caustic cycles tend to not operate in sync. And so there have been periods in the past when chlorine demand has been low and industry operating rates have been low and caustic has been in short supply and prices for caustic have increased. We've also seen that change when demand for chlorine picks back up, industry operating rates will then increase. That makes more caustic supply available and reduces some of the pricing pressure on caustic. But it also increases the pricing pressure on chlorine, because of increased demand.

So, you know, what you see is different parts of the ECU leading and lagging, but historically we believe that the volatility between the low point of the market and the high point of the market is going to be significantly smaller in the future than it's been in the past, because of energy input

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costs and other considerations. And so, we don't expect dramatic changes in ECUs, even though it may be caustic providing more value in one period of time or chlorine in a different period of time.

Edward Yang - ***Oppenheimer Securities - Analyst***

Thank you, appreciate those insights.

Operator

Mike Judd from Greenwich Consultants.

Mike Judd - ***Greenwich Consultants - Analyst***

I just missed a couple of numbers. You said the operating rate in the second quarter was 87%, was that right?

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

89%.

Mike Judd - ***Greenwich Consultants - Analyst***

Okay, great. And the ECU price, the netback price was?

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

590.

Operator

Sergey Vasnetsov with Lehman Brothers.

Sergey Vasnetsov - ***Lehman Brothers - Analyst***

In the past few years, I was having a look at energy and metals prices escalate and so I think chemical companies were actually jealous and upset. Now chemical was able to match it until recently, the caustic seems to be on the trajectory. So is caustic the new copper?

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

We understand that.

Sergey Vasnetso - ***Lehman Brothers - Analyst***

So no, seriously, is there some limit there or sky's the limit since 2000 (inaudible) a bargain one year from now? When do you see some other mechanisms, conservation, etc., kicking in to adjust for that?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali***

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Sergey, historically there has been a point at which either the economy or the price for caustic or a combination of both has provided some restraint on demand. But part of the dilemma we face now has really been driven by the supply side and by supply disruptions and availability issues from the producer community. And so you know, that over time will ultimately moderate itself as well.

Another phenomenon we've seen in the past that's tended to moderate or try to bring back into balance the supply/demand for caustic, has been material that's been imported into the U.S. from other geographies in the world. And although that phenomenon hasn't been significant in recent quarters, if you look back far enough, there have been periods of time when the differential in the U.S., between U.S. caustic prices and caustic prices in other parts of the world, got high enough that it incentivised people to export caustic into the U.S.

Of course you know, the US has, you know, the weak dollar provides some advantages to the US producers. So, all of these things move independently, but in aggregate I think they'll tend to put some level of constraint upon--you know --the trajectory will not be endlessly up, I guess is another way to say it.

Sergey Vasnetsov - ***Lehman Brothers - Analyst***

Okay. So the balance, the mechanism will kick in, either as far as decline of the industrial economy or a recovery in the caustic price?

Joe Rupp - ***Olin Corporation – Chairman, President and CEO***

Yes.

Operator

Charles Jobson from Delta Partners.

Charles Jobson - ***Delta Partners - Analyst***

Have you thought about implementing the freight surcharge and breaking with industry practice or are you still going to eat the freight increases?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

When we negotiate new contracts now, it's our philosophy going into those discussions to separate out the price of the product and all other costs, which would include freight and fuel surcharges. And as we work through our portfolio of contracts, we will have some degree of success at doing that and that will give us some degree of flexibility in being able to more quickly pass on those costs, external really to the price of the product.

Charles Jobson - ***Delta Partners - Analyst***

Okay. How long or short a process is it going to be to get the significant amount of contracts switched over to that?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

Well, we have contracts that are three to five years in duration, so we're talking about a contract cycle to work through our contracts of somewhere in the three-year time period.

Operator

Costas Karathanos from Goldman Sachs.

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Costas Karathanos - ***Goldman Sachs - Analyst***

Two quick questions for John. The first question, with operating rates at normal levels and actually weaker than peak levels for sure, Are you surprised by the frequency of upland outages? And then the second question is, do you have any updates on the railroad issue for transporting chlorine?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

The first question, in terms of unplanned or unscheduled outages across the industry, I guess the only answer I have to that or perspective I have to that is this industry's been pushed pretty hard from an output standpoint for several years. And everybody has been dealing with the strain that puts on producing assets and there have been, and we've suffered in our own system in some unplanned outages that have really disrupted the supply side. Hopefully, if everyone is focusing as we are on improved reliability then that's not going to be a continuing issue for the industry.

Your second question, an update on rail, we mentioned in our comments that our freight rates have increased quarter-over-quarter 20-some percent, and the first half of the year, 30-some percent and we don't expect those increases to go away. And we're working very diligently with our carriers and with other companies through trade associations, to look for ways--to pursue ways to mitigate some of these very significant increases in freight costs.

Operator

Don Carson from Merrill Lynch.

Don Carson - ***Merrill Lynch - Analyst***

Just a follow-up in terms of cash flow in the balance sheet. As you get through the St. Gabriel capital expenditures it looks like you're going to have some pretty strong cash flow generation the next few years. You've already got pretty strong balance sheets. Joe, what are your priorities in terms of use of your cash position and your cash flow? What capital expenditure opportunities do you see and what are your thoughts about returning cash back to shareholders, either through a dividend increase or share repurchase?

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

Our first option would be to continue to try to grow our chemical business, from an M&A activity and from a strategic activity. You have to assume that we're looking at ways that we could expand our business. And absent the opportunity to do that in this market, then as we get out into 2009, etc., then we have to consider what you've just talked about. In other words, we have to reward our shareholders in some form. And that's on our minds constantly. We prefer to do it by growing the business, but if we can't do that, then there's other ways that we'll have to go to reward shareholders.

Don Carson - ***Merrill Lynch - Analyst***

And Joe, when you say grow the business in Chlor Alkali, so you would--?

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

I prefer to say chemical, Don, because there's limitations on what we may or may not be able to do from a Chlor Alkali perspective, but it would be Chlor Alkali or a related business.

Don Carson - ***Merrill Lynch - Analyst***

Okay. Yes, that's what I was wondering if you just sort of outlined your plans in Chlor Alkali, but I guess there's limited further consolidation opportunities there.

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

Right.

Operator

Richard O'Reilly from Standard & Poor's.

Richard O'Reilly - ***Standard & Poor's - Analyst***

Another question for John. If he could give us an idea of what the exposure of the system to natural gas power supply is? I think traditionally Olin had a low exposure. Can you bring us up to date on that?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

Let me try. If you stack the power exposure to the different fuels, in descending percentage with the coal being the highest, the top four are coal, hydro, natural gas and then nuclear. And although we haven't given out individual numbers for each of those, I think it would be fair to say that coal and natural gas together represent slightly more than half of our fuel exposure. That obviously means hydro and nuclear represent slightly less than half.

Richard O'Reilly - ***Standard & Poor's - Analyst***

Okay. And just for my clarification, the ECU price for the quarter came in slightly higher than what you had thought a couple of months ago. Was that on the gross price side or was that on the cost side? What was the improvement?

John McIntosh - ***Olin Corporation – V.P. and President, Chlor Alkali Division***

Well, I guess the improvement was a little bit above--the 590 is a net number, so it has freight already discounted from it. We had better mix than we had forecast in the quarter and a little bit less impact from the cost side, and so our netbacks were improved slightly.

Operator

Your last question comes from Barrett Eynon – Brownstone Asset

Barrett Iman

Just a couple of questions to make sure I heard you right. You said that of the improvement in Chlor Alkali operating income 24.3 million is from Pioneer and of that 24.3, 10 million is from synergies, is that right?

John Fischer - ***Olin Corporation - CFO and VP***

That's correct.

Barrett Iman

And then one other question. You guys don't sell any PVC or VCM, correct?

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

We do not, but we sell chlorine into the vinyls--.

Barrett Iman

Right, which is used by that. Okay. Thanks.

Operator

You have no questions at this time. I would now like to turn the call over to Mr. Joseph Rupp for closing remarks.

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

Thank you for joining us this morning and we'll look forward to reporting our results of our third quarter in October. Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your presentation and you may now disconnect. Good day.

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