FINAL TRANSCRIPT

Thomson StreetEvents[SM]

Conference Call Transcript

OLN - Q2 2010 Olin Corporation Earnings Conference Call

Event Date/Time: Jul 23, 2010 / 02:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Joseph Rupp
Olin Corporation - Chairman, President & CEO

John Fischer
Olin Corporation - CFO

John McIntosh
Olin Corporation - VP, President, Chlor Alkali Products

CONFERENCE CALL PARTICIPANTS

Frank Mitsch
BB&T Capital Markets - Analyst

Edward Yang
Oppenheimer & Co. - Analyst

Christopher Butler
Sidoti & Company - Analyst

Adam France
1492 Capital - Analyst

PRESENTATION

Operator

Good day, Ladies and Gentlemen and welcome to the second quarter Olin Corporation Earnings Conference Call. My name is Kyonna and I will be your operator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of this conference. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today Mr. Joseph Rupp, President, Chairman and CEO. You may proceed.

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

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

Last night, we announced that net income in the second quarter of 2010 was $16.9 million, or $0.21 per diluted share, compared to $27.8 million, or $0.36 per diluted share, in the second quarter of 2009. Second quarter 2010 results in our Winchester and Chlor Alkali business is improved compared to the first quarter of 2010. These improvements were partially offset by a higher effective tax rate in the second quarter of 2010. Winchester achieved its highest second quarter segment earnings in its history and the second best quarterly earnings ever. Reflecting the continuation of the stronger than normal demand that began in the fourth quarter of 2008. In the second quarter of 2010, Winchester benefited from strong sales to commercial, military and law enforcement customers. Winchester's second quarter 2010 segment earnings were $21.1 million compared to $19.1 million in the second quarter of 2009. Chlor Alkali's second quarter 2010 segment earnings of $26.1 million, more than doubled, compared to the first quarter of 2010 and represented the third consecutive quarter of sequential earnings improvement. Both ECU netbacks and product volumes improved from the first quarter of 2010.

Second quarter 2010 Chlor Alkali segment earnings include approximately $6 million of costs associated with our second quarter planned maintenance outages at five manufacturing locations. The second quarter 2010 Chlor Alkali operating rate was 83%, which was higher than both the first quarter of 2010 rate of 75%, and the second quarter 2009 rate of 70%. Second quarter 2010 earnings include $2.8 million of pretax recoveries from third parties of environmental costs incurred, and expensed in prior periods. However, our second quarter 2010 earnings did not include the $2 million of favorable tax adjustments that were forecast as a part of our second quarter earnings guidance.

Third quarter 2010 net income is forecast to be in the $0.35 to $0.40 cent per diluted share range. The third quarter 2010 Chlor Alkali segment earnings are expected to improve, compared to second quarter 2010 reflecting continued improvement in pricing. Earnings in the Winchester segment are expected to decline from the record third quarter 2009 levels, but are forecast to reflect strong seasonal demand. Charges to income for environmental and remedial activities are expected to be comparable in the third quarter with the second quarter after giving consideration to the second quarter recoveries. Third quarter 2010 results are also forecast to include approximately $6 million of favorable adjustments to income tax expense.

Now, let me discuss both segments, beginning first with Chlor Alkali. During the second quarter of 2010, our Chlor Alkali business continued to experience improved demand for both chlorine and caustic. As I mentioned earlier, the operating rate during the second quarter of 2010, of 83%, represents an increase from the first quarter of 2010 rate of 75%. The second quarter 2010 operating rate includes the negative impact of five planned maintenance outages, including a 19-day outage at our Henderson, Nevada facility and a ten-day outage at our Niagara Falls, New York, facility. There were also planned outages during the quarter in Augusta, Georgia, Charleston, Tennessee and in our McIntosh, Alabama facilities. As I mentioned earlier, second quarter Chlor Alkali segment earnings included approximately $6 million of maintenance expenses associated with these shutdowns. Giving consideration to the manufacturing capacity that was unavailable during the prior capacity reduction actions, -- due to the prior capacity reduction actions during the month of June, the Chlor Alkali business operated at a 94% rate.

Our third quarter planned outages are limited. And last week, we completed a five-day outage at the St. Gabriel, Louisiana, location. However, chlorine customer outages during the third quarter may cause our third quarter operating rate to remain in the mid 80% range. The higher operating rates reflect improved demand for not only chlorine and caustic soda during the quarter, but also bleach. Second quarter 2010 chlorine caustic soda volumes improved 7%, compared to the first quarter of 2010, and 23% when compared to the second quarter of 2009. I should point out, that even though we have experienced a significant improvement in chlorine and caustic soda shipments this year, demand remains well below historic levels. Bleach volumes increased 37% in the second quarter of 2010, compared to the first quarter of 2010, and 19% when compared to the second quarter of 2009. This represents the tenth consecutive quarter we've experienced year-over-year increases in bleach shipments. We believe we are on pace to increase bleach shipments by 20% to 25% in 2010, compared to 2009.

During the second quarter of 2010, potassium hydroxide shipments were consistent with the first quarter of 2010, but increased 88% compared to second quarter of 2009. The second quarter of 2009 potassium hydroxide shipment levels were adversely impacted by a raw material availability issue associated with the labor stoppage at a supplier. We currently believe that the full year 2010 shipments of potassium hydroxide will increase approximately 50% compared to 2009 levels. Finally, second quarter 2010 shipments of hydrochloric acid increased 26%, compared to the first quarter of 2010, and increased 21% compared to the second quarter of 2009.

During the second quarter of 2010, we experienced increased chlorine shipments to each of our major end-user groups. Shipments to urethane customers more than doubled, compared to the second quarter of 2009, while shipments to vinyls customers increased 7%, and shipments to TIO2 customers increased 6%, compared to the second quarter of 2009. Our second quarter 2010 ECU netback was $470, which was a 7%, increase from the first quarter of 2010 ECU netback. The second quarter 2010 increase, also represents third consecutive quarter of increases in our ECU netback, from approximately $375 experienced in the third quarter of 2009, which we believe was the low point of the cycle. We also believe that we will see an additional increase in ECU netbacks in the third quarter of 2010, compared to the second quarter. Olin's second quarter 2010 ECU netback reflected the positive impact of the $75 per ton caustic soda price increase that was announced in December. The second quarter ECU netback also included a small benefit from the $80 per ton caustic soda price increase that was announced in February. The majority of that impact will likely be realized in our system in the third quarter. We do believe that industry pricing indices have reflected the majority of this increase.

As we had forecast during our most recent earnings call, we did see chlorine prices in our system decline, in the second quarter of 2010, from the first quarter of 2010 levels. During the second quarter of 2010, there were additional price increase announcements of $50 per ton on chlorine and $35 to $50 per ton on caustic soda, depending upon the grade. At this point, neither of these increases has been included in market indexes and any benefit from the most recent chlorine or caustic price increases will likely be realized in the fourth quarter. Final word on pricing during the second quarter, Olin did announce price increases of $60 per ton for potassium hydroxide and $20 per ton for hydrochloric acid. Freight costs, per ECU, shipped in the second quarter of 2010 were comparable to those experienced in both the second quarter of 2009 and the first quarter of 2010. This trend reflects the benefits of the St. Gabriel, Louisiana facility, which accounted for 14% of the chlorine produced by Olin during the second quarter, all of which was shipped by pipeline. During the second quarter of 2009, there was no chlorine produced at the St. Gabriel plant and the cost savings from the increased pipeline shipments offset higher railroad freight rates.

As I mentioned earlier, bleach volumes in the second quarter of 2010 increased 19% ,compared to the second quarter of 2009, and were 35% higher in the second quarter of 2008. Growing this element of our Chlor Alkali business continues to be a priority. As we discussed in our first quarter earnings call, we've recently invested in expanding a bleach joint venture and have begun construction of a low salt, high strength bleach facility at our McIntosh, Alabama location. This facility will require $15 to $20 million of capital over 2010 and 2011 and it is expected to begin operation in 2011. It will expand our bleach manufacturing capacity by approximately 15% and reduce the cost of shipping bleach. We're also in the early stages of evaluating two additional low salt, high strength bleach facilities that would be co-located at existing Chlor Alkali facilities. We also continue to investigate additional opportunities to expand our bleach business, but at present, as evidenced by our decisions to invest in low salt, high strength facilities, we found that return opportunities favor internal growth over acquisition.

Over the past several quarters, we've discussed legislation that has been introduced in both the United States Senate and the United States House of Representatives which, if enacted would ban the production of Chlor Alkali products using mercury cell technology, two years from the date when the bill is enacted into law. Over the past 90 days, there have not been any new developments regarding this legislation. However, Olin believes there remains a risk that the legislation, or regulation, may ultimately cause mercury cell technology for the production of chlor alkali products to be phased out in the United States. Timing of a potential phase-out, obviously, remains uncertain. Olin currently operates two facilities, Augusta, Georgia and Charleston, Tennessee that utilize mercury cell technology. These facilities have a combined capacity of approximately 350,000 tons, or 18% of our total manufacturing capacity.

Based on our experience during the recently-completed St. Gabriel, Louisiana conversion expansion project, Olin believes that the cost to convert the most modern, -- to the most modern membrane technology is approximately $800 to $1,200 per ton. Because of the magnitude of this cost, the decision to convert, or shut down, must consider the individual attributes of each facility including the customer base, the sustainability and proximity to the customers, the cost inputs of the facility and the co-products produced at that site and the network and capabilities of other facilities. These analyses are currently on-going within Olin.

Now, turning to Winchester. Winchester experienced the highest level of second quarter earnings in its history and it was the second highest level of quarterly earnings ever. Second quarter 2010 Winchester sales were $147.7 million, an increase of 5%, compared to the second quarter of 2009. The increase in the second quarter of 2010 sales reflects the combination of higher -- a higher level of military, law enforcement and international sales partially offset by lower commercial sales. Military and law enforcement sales increased 21% in the second quarter of 2010, compared to the second quarter of 2009, and have increased 15% during the first six months of 2010, compared to the first six months of 2009. Second quarter 2010 military and law enforcement sales were also substantially higher than they were in the second quarter of 2008. During the second quarter of 2010, commercial sales declined approximately $6 million, compared to the second quarter of 2009 and commercial sales have declined approximately $12 million during the first six months of 2010 when compared to the first six months of 2009. It should be noted, the second quarter of 2010 commercial sales remain well above second quarter 2008 levels.

During the third quarter of 2010, we are forecasting that the combination of the most robust seasonal quarter of the year, and the continued refilling of the inventory pipeline, will result in a strong third quarter for Winchester, although, we expect the segment earnings to be lower than they were in the third quarter of 2009. We believe that this could be the last quarter of the surge. Winchester's commercial backlog was $117 million at the end of June of 2010, which is a reduction of over 50% from the June 2009 level, and reduction from the March 2010 level of $160 million. Winchester's customers, including distributors and retailers, are now reporting a decline in the sales of commercial ammunition from the 2009 levels. Winchester does expect to continue to experience robust sales of ammunition to military and law enforcement customers. This backlog, which has been studied throughout 2010, was $118 million at the end of June.

Winchester earned $21.1 million in the second quarter of 2010, compared to $19.1 million in the second quarter of 2009. And as I said earlier, this represents the best second quarter ever for the Winchester business and the second best level of quarterly profit in its history. Improved second quarter 2010 Winchester profitability reflects, lower manufacturing costs and improved pricing, which more than offset a less favorable product mix and higher commodity costs. During the second quarter of 2010, Winchester's acquisition costs for both lead and zinc increased approximately 13%, compared to the second quarter of 2009 while the acquisition price of copper declined 12%. For the balance of 2010, based on current levels of commodity prices, Winchester is forecasting a negative year-over-year impact from commodities.

In spite of the slowdown in commercial demand, I remain optimistic about the prospects for Winchester. Over the past several years, Winchester has experienced growth in both the law enforcement and military product areas, as well as in some commercial products. This growth, we believe, will result in a higher level of earnings in the future non-surge periods than were experienced by the business prior to the start of the most recent surge. As we look forward to the second half of 2010 and into 2011, I continue to believe that both our Chlor Alkali and Winchester businesses, as well as the company in total, are well-positioned. Chlor Alkali business has positive momentum on the pricing front. It continues to realize growing benefits from both the bleach and potassium hydroxide initiatives that were undertaken over the past several years. While we remain cautious about the overall level of demand, the fact that the Chlor Alkali business has been solidly profitable during the down part of the cycle is noteworthy. At the same time, Winchester is proven to be a solid complimentary business to Chlor Alkali and has a positive long-term outlook.

Finally, as a company, we have a solid balance sheet that affords us the opportunity to look for and pursue investment opportunities and options that will enhance value. I would like to turn the call over to our Chief Financial Officer, John Fischer, who will review several financial items with you. John?

John Fischer *- Olin Corporation - CFO*

Thank you, Joe. First, I'd like to discuss a few items on the balance sheet.

Cash and cash equivalents at June 30, 2010, were $388.4 million, compared to $411 million at March 31, 2010 and $192.2 million at June 30, 2009. The decrease in the cash balance from March reflects the continuation of the normal seasonal working capital for growth in both the Chlor Alkali and Winchester businesses. In the Chlor Alkali business, the increase in working capital reflects the increased sales volumes and improved pricing that we're experiencing in the second quarter. While in the Winchester business, the increase in working capital reflects the normal build-up of inventory as the business moves towards the fall hunting season. We expect working capital in both businesses to decline in the second half of the year due to these same seasonal factors. Olin typically experiences working capital growth of $50 million to $100 million during the first two quarters of each year, followed by a third and fourth quarter liquidation. We are currently forecasting that Olin will finish 2010 with a cash balance of at least $425 million. The seasonal swings in working capital are a key component of our cash planning.

In addition to the working capital needs, we have a continuous call on cash associated with funding legacy environmental liabilities. Spending associated with legacy environmental matters has averaged approximately $25 million annually over the past five years. We also have a defined benefit pension plan that, while not an issue today, is large relative to the size of the company. And as Joe discussed earlier, we also currently face uncertainty and potential investment decisions surrounding our Chlor Alkali facilities that utilize mercury cell technology. For these reasons, we believe it is prudent, and appropriate, for Olin to maintain a cash balance of between $200 and $250 million at all times. It should also be noted, that a portion of the proceeds from our 2009 debt offering, which are currently being carried as cash, were targeted to repay the $75 million of debt that matures in 2011.

Capital spending during the second quarter of 2010 was $20.3 million compared to $37.8 million in the second quarter of 2009. For the first six months of 2010, capital spending has been $41.7 million compared to $87.6 million there in the first six months of 2009. The year-over-year decline reflects the completion of the St. Gabriel, Louisiana conversion and expansion project,which was on-going during 2009. Full year 2010 capital spending continues to be forecast in the $70 million to $80 million range and 2010 depreciation expense is forecast to be in the $85 million to $90 million range.

During the second half of 2010, Olin has the opportunity to issue approximately $50 million of variable rate tax advantage, five-year bonds through the state of Alabama's allocation from the Gulf Opportunity Zone Act of 2005. If obtained, this would be our lowest cost debt. These bonds would be used to fund capital projects at the McIntosh, Alabama facility. In addition, Olin may also redeem approximately $19 million of fixed rate tax-exempt bonds that mature in 2016. The combination of these two actions, if successful, could result in a small increase in expense in 2010 and a reduction of interest expense in 2011 and beyond. Olin also has $75 million of debt that matures in 2011. That, when repaid, will reduce interest expense by approximately $4 million per year.

Now, turning to the income statement. Second quarter 2010 charges to income for environmental investigatory and remedial activities were $2.7 million, which includes $2.8 million of recoveries from our third parties for environmental costs incurred and expensed in prior periods. During the second quarter 2009, there were $7.2 million of charges related to environmental investigatory and remedial activities, which includes $800,000 of recoveries of environmental costs incurred and expensed in prior periods. During the first six months of 2010, these charges excluding recoveries, have totaled $6.1 million. These charges relate primarily to remedial and investigatory activities associated with former manufacturing operations and waste disposal sites. Without the full year 2009 recoveries of $82.1 million of environmental costs incurred in expense in prior periods, we anticipate that the full year 2010 charges for environmental investigatory and remedial activities will be 15% to 20% less than the 2009 level of $24.1 million. We continue to believe there are additional opportunities to recover environmental costs incurred and expensed in prior periods during 2010, but the timing and amount of any additional recoveries is uncertain.

On a total company basis, defined benefit pension plan income was $5.3 million in the second quarter of 2010, compared to $4.6 million of income in the second quarter of 2009. We are not required to make any cash contributions toward domestic defined benefit pension plan in 2010, and believe the earliest we may be required to make any cash contributions is 2012. As a reminder, we do have a small Canadian defined benefit pension plan to which we will be required to make small contributions in 2010. Defined contribution pension expense was $3.2 million in the second quarter of 2010, compared to $3 million in the second quarter of 2009. As a reminder, our defined benefit pension plan is frozen to new entrants, all salaried, all non-union hourly and most union employees. As a result, the majority of our active employees participate in the defined contribution pension plan.

Included in our second quarter 2010 earnings guidance of $0.15 to $0.20 per diluted share, was the expectation that we would realize approximately $2 million of favorable adjustments to income tax expense related to the release of a portion of evaluation allowance recorded against a foreign tax credit carry forward deferred tax asset in Canada. This approximately $2 million will likely be realized in a future period. Included in the actual second quarter 2010 results, was approximately $900,000 of favorable adjustments associated with the expiration of statutes of limitation. The tax rate during the second quarter of 2010, after giving consideration to the approximately $900,000 of favorable adjustments, was 36.5%. In the third quarter of 2010, we expect to recognize approximately $6 million of favorable tax adjustments related to both the expiration of statutes of limitation and the release of a portion of a valuation allowance recorded against a foreign tax credit, carry forward deferred tax asset in Canada.

Yesterday, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. The dividends is payable on September 10, 2010, to shareholders of record at the close of business on August 10, 2010. This is the 335th 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. Literally, 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 our risk factor 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 web site 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're now ready to take questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Our first question comes from the line of Frank Mitsch of BB&T Capital. You may proceed.

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

Good morning, gentlemen.

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

Good morning, Frank.

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

You know, Joe, when you were talking about the results in the Chlor Alkali business in the second quarter, you mentioned I guess your operating rates around 83%. Much of that lower operating rate than perhaps others had reported. In fact, one company was in the low 90s. Could be attributed to the turnarounds that you took. Now, as you look at the third quarter, do you have any -- what would be the impact on operating rates from turnarounds, and I think you said you're looking for 85%, part of that is due to lower demand from a chlorine customer and so, therefore, it would run at lower rates. Is that 85% though, is that what you also think the industry will operate at or do you think the industry will be above or below that?

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

I think we would say, and John is that probably the industry is in the 85% to 90% range is really where they are, which is where we've been operating. We, as you correctly pointed out, got impacted in the second quarter because of our outages. We do have a customer who is going to take a major outage in the third quarter which will affect us. But, I think, some depends upon what happens with the ability for everybody to continue to export in the vinyls market. To the extent that, that can continue, the industry will run at a higher rate.

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

Alright. So, sequentially though, you anticipate at a minimum flattish operating rate, if not higher, and then looking at the other side of the equation, the ECU, you talked about the price increases, the fact that you realized the majority of the $80 caustic increase here in the third quarter, sequentially, I think you were up 5% to 7% on ECU in the second quarter. Are you looking for that order of magnitude or more or less in the third quarter?

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

More or less in the third quarter is really where we would be looking for.

John McIntosh - ***Olin Corporation - VP, President, Chlor Alkali Products***

A lot of it, I think, Frank, is due to what happens to the price increases that are, have been announced last quarter, that have the potential if they're accepted in the market place to have some small impact for us in the third quarter ,even though the majority would be in the fourth quarter. There was both chlorine and a caustic price increase that were announced. You know, some of our contracts allow us to get benefit for increases in the current quarter, as opposed to, having to wait a quarter. But you know, the clarity of those is unsure at this point in time. There's been some early evidence that some of the indices may recognize part of the chlorine increase and part of the caustic increase. If that happens, that would be a positive for us. Not only, partially in the third quarter, but momentum mainly in the fourth quarter.

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

Our theme is that we're going to get the balance of the 80 in the third quarter. And there's the potential for the latest price increase in the fourth quarter, but that's in negotiation.

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

I understand that on the chlorine side, there are some customers that have, that are resisting more than others, and that others have already taken the increase. So, that would be -- you would probably see part of that in the third quarter, but most of that in the fourth quarter then?

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

That is correct.

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

All right. And then lastly, Joe, in talking about Winchester, you mentioned that you think you'll be down year-over-year. Last year, around $23 million. Obviously, you had a great second quarter here at $21 million. I don't think you've ever had a third quarter that was less than your second quarter in terms of results. Is 2010 possibly that year?

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

It could be slightly less, Frank. Yes.

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

Alright. And then you're talking much of this is the impact of higher commodities, as well as, your backlog in starting to trend down.

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

That's exactly right. I would still say it will be a very good quarter by historic standards.

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

Alright. Terrific. Thank you so much.

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

Thank you.

Operator

our next question comes from the line of Edward Yang of Oppenheimer. You may proceed.

Edward Yang - ***Oppenheimer & Co. - Analyst***

Hi, good morning. Thanks for taking my question. On Chlor Alkali, could you provide the monthly breakout, in terms of operating rates in the second quarter, and where you are currently running at around in July?

John McIntosh - ***Olin Corporation - VP, President, Chlor Alkali Products***

This is John. The operating rates for the quarter were by month were 80, 81, 89, roughly for the third quarter. And our average was, 83, 84.

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

Second quarter.

John McIntosh - ***Olin Corporation - VP, President, Chlor Alkali Products***

Oh, that's what I mean. Second quarter.

Edward Yang - ***Oppenheimer & Co. - Analyst***

And John, where are you running so far in July?

John McIntosh - ***Olin Corporation - VP, President, Chlor Alkali Products***

We're running at roughly the same levels.

Edward Yang - ***Oppenheimer & Co. - Analyst***

83% or closer to the 89% that you exited?

John McIntosh - ***Olin Corporation - VP, President, Chlor Alkali Products***

Close to the, what our comments are -- comments said earlier were that we expect to be in the mid-80% in the third quarter. That's where we're currently at.

Edward Yang - ***Oppenheimer & Co. - Analyst***

Ok. Looks like June operating rates for the industry bounced back from a disappointing May. What do you think accounts for so much of the volatility, in terms of, operating rates going from above 90% to low 80% and now we're kind of back to close to 90% again for the industry.

John McIntosh - ***Olin Corporation - VP, President, Chlor Alkali Products***

Well, I think that there were turnarounds that, were major, by some of the major producers that occurred in the month. You know, that had an impact on the specific month that was low and then, I think, the bounce back came from some demand probably that moved from month-to-month because of that. So, I think that the one thing that's been relatively constant, is the amount of export volume that we've seen out of North America and Chlor Alkali derivatives products into the export markets. And I think that's continued to be strong. But, I think, the anomaly was more driven by the supply side.

Edward Yang - ***Oppenheimer & Co. - Analyst***

And in terms of further price increases in your ability to get traction on price increases, what kind of operating rate do you need? I mean, you've been, this cycle has been a little bit different in that you've been able to raise and the industry has been able to raise prices when operating rates were very, very low. Mid 60% to 50% range. But going forward, do you need an industry operating rate to be at a minimum of 85%, give or take? What's kind of the threshold level there for price increases?

John McIntosh - ***Olin Corporation - VP, President, Chlor Alkali Products***

I guess, I don't think that there is a finite threshold anymore. I think you have to sort out all of the pieces of the demand that are out there. When there's strong demand, but it is export-based as opposed to merchant, Chlor Alkali demand in North America and I think the operating rate numbers are influenced high and that doesn't necessarily mean the export volume its being fulfilled by the integrated producers. That it signals underlying strength across the broader market segments, that at Olin, meets with its merchant Chlor Alkali business. I don't think you can just look at one number and from that define whether you've met some threshold or not. You have to sort it out and look at where the demands coming from and how broad that demand is across all of the markets.

Edward Yang - ***Oppenheimer & Co. - Analyst***

Ok. Appreciate the color. And circling back around Winchester, Joe, you mentioned that you think this is a last quarter of the surge. Where do you think demand revenues and earnings for Winchester will plateau?

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

Obviously we haven't forecasted, Edward. What we think is, as the surge ends and starts to come down, it will come to a higher level than it was pre-surge.

Edward Yang - ***Oppenheimer & Co. - Analyst***

Ok. Thank you very much.

Operator

Our next question comes from the line of Christopher Butler of Sidoti & Co. You may proceed.

Christopher Butler *- Sidoti & Company - Analyst*

Hi. Good morning, Guys.

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

Good morning, Chris.

Christopher Butler *- Sidoti & Company - Analyst*

Just jumping off that last question, historically, how quickly has demand declined following a surge like this?

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

It will decline over a one-to-two year period. It just depends.

Christopher Butler *- Sidoti & Company - Analyst*

And how much of your sales do you sell into law enforcement there?

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

We've increased, we've stated before, that we're in the law enforcement military 30% plus range. Which is a change from where we used to be.

Christopher Butler *- Sidoti & Company - Analyst*

And switching gears to Chlor Alkali, with the maintenance outages that you had in the quarter, were there any volumes that you lost as a result or added costs that were in your ECU netback, freight or something of that nature, that wouldn't have been there otherwise?

John McIntosh *- Olin Corporation - VP, President, Chlor Alkali Products*

We don't believe that we were impacted by necessarily sales that were lost. We ended the month with significant late list on both products, chlorine and caustic. We think that's volume that we'll be able to have the opportunity to make up as long as underlying demand stays strong. Our freight numbers for the quarter were really no change from prior quarter on an ECU basis. We don't think there was an impact in that cost category because of the outages. We had built inventory, appropriate inventory, at the locations where we had planned outages so we didn't run into a negative freight burden for the month.

Christopher Butler *- Sidoti & Company - Analyst*

And do you have ECU net back implied in your guidance that you're expecting for the third quarter?

John McIntosh *- Olin Corporation - VP, President, Chlor Alkali Products*

Just that it's up versus the second quarter.

Christopher Butler *- Sidoti & Company - Analyst*

And finally, looking at the balance sheet, you had thrown out a number of numbers as far as the capital structure is concerned. Furiously typing into my calculator, but it seems at the end of the day, you may have about $100 million of cash more on the balance sheet than you would need as a prudent reserve. Is that a good way of looking at it?

John Fischer *- Olin Corporation - CFO*

I think that's a fair analysis, Chris.

Christopher Butler *- Sidoti & Company - Analyst*

And thoughts on what you're going to do with that going forward?

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

Chris, as we've stated before, our preference would be to further invest in our business, or to find an acquisition, that would allow us to go downstream, that will allow us to get an acceptable return on that money. And obviously we're continuing to work on that down those avenues.

Christopher Butler *- Sidoti & Company - Analyst*

And it seems that you're leaning more toward internal investments?

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

I think that the keyword that we said there is presently. We actually have some good investments that we can make. We believe the high strength, low salt bleach is an excellent investment for us. It gives us the kind of returns we're looking for. And I think as we've stated in the past, in the acquisition area, is evaluations are still the issue. And when we find something that meets the valuation that we're looking for, we would not hesitate to make that acquisition.

Christopher Butler *- Sidoti & Company - Analyst*

I appreciate your time.

John Fischer *- Olin Corporation - CFO*

Thank you.

Operator

Our next question comes from the line of Adam France of 1492 Capital. You may proceed.

Adam France *- 1492 Capital - Analyst*

Good morning. Thank you for taking my call. I have two quick questions. When I'm putting together a model, before the $6 million in tax benefits that you're expecting, what is the tax rate that I should be using?

John Fischer *- Olin Corporation - CFO*

What we've said is the statutory tax rate typically is somewhere between 37 and 39%. One factor to consider is the permanent items that run through our tax rate on a quarterly basis, are credits, so they reduce the rate and those credits have, in periods of low earnings, a disproportionate effect on the rate. But, as a base statutory rate, I would say 37 to 39%. The permanent items drive that down to the low end of that range.

Adam France *- 1492 Capital - Analyst*

Ok. With respect, if I heard you correctly, gentlemen, you talked about the industry pushing for a $50 chlorine increase and you all are doing $20. Is it normal for you not to be with the industry move? Explain the thinking, in terms of, being so much lower I guess.

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

We may have miscommunicated that. We're right there with the industry. We actually announced the price increase on chlorine. We actually announced the $75 price increase, of which we're pushing to $50, and had a TBA at $25 due to competitive situations. But, we're out trying to get every penny we can with that price increase.

Adam France *- 1492 Capital - Analyst*

Ok, perhaps I misheard you there. Then on the caustic, did you say $60?

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

Caustic soda is $35 to $50 depending upon the grade. Higher grade is $50. Lower grade caustic is $35.

Adam France *- 1492 Capital - Analyst*

Ok. Is that what you're doing or what the industry is doing?

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

That's what we're doing and pretty much what the industry is doing.

Adam France *- 1492 Capital - Analyst*

Ok. Very good. Thank you.

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

Thank you.

Operator

With no further questions at this time, I would like to turn the call back over to Mr. Joseph Rupp.

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

Thank you for joining us today. We look forward to speaking with you in October when we report the results of our third quarter. Thanks.

Operator

Thank you for your participation in today's conference. This concludes today's presentation. You may now disconnect and have a great day.