

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **OLN - Q2 2011 Olin Corp Earnings Conference Call**

**Event Date/Time: Jul. 22. 2011 / 3:00PM GMT**



Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

## CORPORATE PARTICIPANTS

**Joseph Rupp**

*Olin Corp - Chairman, President and CEO*

**John Fischer**

*Olin Corp - SVP and CFO*

**John McIntosh**

*Olin Corp - SVP of Operations*

## CONFERENCE CALL PARTICIPANTS

**Frank Mitsch**

*Wells Fargo Securities - Analyst*

**Edward Yang**

*Oppenheimer & Co. - Analyst*

**Don Carson**

*Susquehanna Financial Group - Analyst*

**Chris Butler**

*Sidoti & Company - Analyst*

**Alek Yefremov**

*BofA Merrill Lynch - Analyst*

**Herb Hardt**

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

**Dmitry Silversteyn**

*Longbow Research - Analyst*

**Andy Cash**

*UBS - Analyst*

**Gregg Goodnight**

*UBS - Analyst*

**Richard O'Reilly**

*Standard & Poor's - Analyst*

**Rafael Smith**

*JPMorgan - Analyst*

## PRESENTATION

**Operator**

Good morning and welcome to the Olin's second quarter 2011 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 also note this event is being recorded. I would now like to turn the conference over to Joseph Rupp, Chairman, President and CEO. Please go ahead.

---

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

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

Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

of Investor Relations. Last night we announced that net income in the second quarter of 2011 was \$42.1 million or \$0.52 per diluted share. That compares to \$16.9 million or \$0.21 per diluted share in the second quarter of 2010.

Our second quarter 2011 earnings included better-than-expected results from both the Chlor Alkali and Winchester businesses. And these more than offset a \$2.4 million pre-tax restructuring charge recorded primarily as a result of the ratification of a new Winchester, East Alton, Illinois five and one half year labor agreement. This new labor agreement will facilitate a smooth transition as work is relocated from East Alton, Illinois to Oxford, Mississippi.

The Chlor Alkali business continued to experience positive pricing and volume trends. ECU netbacks increased sequentially for the seventh consecutive quarter while shipments of chlorine and caustic soda reached their highest levels since the third quarter of 2008. We expect the positive pricing momentum to continue in the third quarter.

Second-quarter 2011 Chlor Alkali earnings include approximately \$11.3 million of incremental contribution related to the first quarter 2011 acquisition of the balance of the 50% of the SunBelt partnership that we did not previously own. Winchester's second-quarter sales exceeded expectations and reflect continued high levels of demand for handgun ammunition.

Second quarter 2011 earnings included \$9 million of pre-tax recoveries from third parties of environmental costs incurred and expensed in prior periods, and \$900,000 of favorable income tax adjustments. Third quarter 2011 net income is forecast to be in the \$0.50 to \$0.55 per diluted share range.

Third-quarter 2011 Chlor Alkali segment earnings are expected to improve compared to the second quarter of 2011 because of continued improvement in pricing, and the seasonally strongest quarter for bleach sales. The combination of planned multi-month outages by two chlorine customers and a weakening of chlorine demand supporting chlorovinyl exports are expected to negatively impact shipment volumes in the second half of the third quarter.

Earnings in Winchester are expected to exhibit the normal third quarter seasonal strength but are forecast to decline from the third quarter of 2010 levels, reflecting lower volumes, a less favorable product mix and higher commodity metal costs, partially offset by higher selling prices.

Third-quarter 2011 results are also forecast to include approximately \$1.5 million of pre-tax recoveries from third parties of environmental costs incurred and expensed in prior periods, and an approximately \$4 million of pre-tax restructuring charge associated with the ongoing Winchester centerfire relocation and the Chlor Alkali conversion projects.

Yesterday, the Olin Corp Board of Directors approved a 3-year share repurchase program for up to 5 million shares of common stock. We believe our current financial profile and the outlook for both businesses makes this an opportune time to initiate a share repurchase program. The initiation of this program does not impact our ability to pursue strategic options.

During the second quarter, a new five and one half year labor agreement was ratified with all of Winchester unions in East Alton, Illinois. This new agreement, which replaces a 5-year contract that was scheduled to expire this December, is important to the success of the multi-year Winchester relocation project.

Included in this new labor agreement are certain post employment benefits that triggered the majority of the \$2.4 million restructuring charge that was recorded in the second quarter. Over the next 3 years, we anticipate that additional restructuring charges will be recognized associated with the Winchester relocation project and the Charleston, Tennessee Chlor Alkali conversion project and the Augusta, Georgia Chlor Alkali reconfiguration project.

As a reminder, we expect that the Winchester relocation project will reduce Winchester's 2011 pre-tax earnings by \$4 million to \$5 million and generate annual cost savings of approximately \$30 million at its completion in 2016.



Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

Now let me discuss both divisions separately and we will begin with Chlor Alkali. I'd like to provide an update on Chlor Alkali's situation in Japan. It's our understanding that all of the Japanese Chlor Alkali plants impacted by the tsunami have been restarted as of the end of June.

We believe the recent decline in spot prices for caustic in Asia reflects the improved supply dynamics as a result of these restarts. We also understand, however, that large industrial companies in Japan face the electricity restrictions equivalent to approximately 15% of their 2010 seasonal consumption. We believe that these restrictions will keep a floor under Asian caustic pricing.

Our Chlor Alkali business continued to see positive trends in both pricing and volumes in the second quarter. Second-quarter ECU netback excluding SunBelt was \$550 compared to \$525 in the first quarter 2011 and \$470 in the second quarter of 2010. The second quarter 2011 SunBelt ECU netback was approximately \$610. We expect the ECU netback to continue to increase in the third quarter of 2011.

During the second quarter, the \$100 per ton caustic soda price increase announced in January and March began to be reflected in the indices as well as a portion of the \$60 per ton chlorine price increase that was also announced in March. We expect that the benefit of these increases will be realized in the third quarter. We also believe that the \$50 per ton caustic soda increase announced in April will begin to be implemented in the third quarter.

Finally, Olin and one other producer announced an additional \$25 per ton caustic soda increase late in June. While the success of this most recent increase is unknown, we believe the dynamics of our system where caustic soda continues to be tight and where we continue to operate with a late list justifies this increase.

Second-quarter 2011 chlorine and caustic soda volumes, excluding SunBelt, increased 9% compared to the second quarter of 2010 and increased 7.5% compared to the first quarter of 2011. The second quarter operating rate was 85% and it reflects the impact of a 14-day planned maintenance outage at our McIntosh, Alabama facility, including SunBelt, that took place during the first part of April. During the first half of July, the Olin operating rate has been in excess of 90%, and we expect to continue to operate at this level into the month of August.

The strength of our bleach business is contributing to the higher operating rate. Our third quarter 2011 operating rate will be negatively impacted by planned multi-month outages by two chlorine customers that begin in July and September. These are planned outages.

There have been recently have been some signs of weakening demand for chlorine going into chlorovinyls exports which could reduce operating rates in the second half of the third quarter and into the fourth quarter. This has tempered our outlook for the third quarter 2011 earnings.

Second-quarter 2011 bleach volumes increased 24% compared to the second quarter of 2010 and bleach sales in June were a monthly record. Approximately 42,000 ECUs were sold as bleach during the second quarter of 2011 and since the first quarter of 2008, quarterly year-over-year bleach sales have increased for the last 14 consecutive quarters.

We are continuing to evaluate options to further expand our bleach business. Our first low salt, high strength facility is being constructed at our McIntosh, Alabama location. This facility, which we expect to be operational in the fourth quarter, will produce bleach approximately twice the strength of bleach produced using the traditional process.

We continue to evaluate additional opportunities to install this technology at other Chlor Alkali locations. The ability to ship higher strength bleach will reduce our freight costs. Freight costs continued to be a challenge in the second quarter of 2011. Freight costs per ECU increased approximately 6% from the first quarter 2011 levels, and they've increased approximately 25% since the second quarter of 2010. These increases continue to be driven by the cost of shipping chlorine by rail.



Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

As I said earlier, the first quarter 2011 acquisition of PolyOne's 50% interest in the SunBelt partnership contributed \$11.3 million in incremental earnings to the Chlor Alkali segment during the second quarter of 2011. We expect the acquisition to continue to be significantly accretive to our 2011 earnings as we proceed through the year.

The SunBelt plant has the lowest manufacturing costs in our system, and utilizes membrane technology and therefore, realizes some of our highest caustic soda netbacks. In addition, the current robust demand environment has allowed us to more fully utilize the plant's capacity to maximize the overall returns of our Chlor Alkali business.

Now turning to Winchester. During the second quarter of 2011, commodity metal costs continued to be a significant challenge for Winchester. These costs were the primary reason that Winchester's second-quarter 2011 segment earnings declined 44% compared to the second quarter of 2010.

In the second quarter of 2011, Winchester's purchase cost for copper and lead increased 29% and 6%, respectively, compared to the second quarter of 2010. During the first 6 months of 2011, these costs have increased 25% and 13%, respectively, compared to the first 6 months of 2010. These increases, including commodities and other materials, represent cost increases of approximately \$8 million in the second quarter and \$15 million in the first 6 months of this year.

In response to these cost increases, Winchester and two other major North American ammunition producers announced price increases that became effective during the second quarter. During the second quarter, Winchester's commercial product sales exceeded our expectations, and were similar to second quarter 2010 levels, well above the pre-surge levels that we experienced in the second quarter of 2008.

Second-quarter 2011 domestic military and commercial sales to international customers both improved compared to the second quarter of 2010. Now these improvements more than offset a lower level of law enforcement sales.

We expect third quarter 2011 commercial demand to be similar to the demand we experienced in 2010 and greater than the third quarter of 2008 levels. At this point, we have not had an indication that the normal 20% to 30% reduction in demand that typically occurs in the aftermath of a surge in demand will occur.

Winchester's second quarter 2011 results included costs associated with the initial training of the new workforce in Oxford, Mississippi. During the second quarter, approximately 14 million rounds of 9mm ammunition were produced on the Oxford training line. We also made substantial progress on the new Oxford facility and expect to begin relocating equipment to Oxford during the third quarter. To date, the project is on schedule.

As we look to the third quarter and the balance of 2011, we expect pricing in Chlor Alkali to continue to improve. While we have some concerns about demand, we believe the business is well-positioned for a strong 2011.

In Winchester, we were also well-positioned for a strong year with earnings well above the level we have seen in all of the strongest of the surge periods. As a result, we continue to believe that the Corporation has the opportunity to achieve a record level annual EBITDA in 2011. I'm going to turn the call over to our Senior Vice President and Chief Financial Officer John Fischer who will review several other financial matters with you. John?

---

**John Fischer** - Olin Corp - SVP and CFO

Thanks Joe. First, I'd like to discuss a few items on the income statement. Selling and administration expenses increased \$6.6 million or 18% in the second quarter of 2011 compared to the second quarter of 2010. The year-over-year increase primarily reflects the inclusion of SunBelt's selling and administration expenses as consolidated Olin expenses, higher management incentive costs, higher employee relocation expense, and higher legal and legal-related settlement partially offset by lower bad debt expense.



Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

The inclusion of the SunBelt expenses will cause absolute year-over-year selling and administrative expenses to be unfavorable for the balance of 2011. Second-quarter 2011 credits to income for environmental, investigatory and remedial activities were \$1.1 million, which included \$9 million of recoveries from third parties for environmental costs incurred and expensed in prior periods. There were approximately \$1.5 million of additional environmental recoveries that we had expected to be realized in the second quarter that were delayed until the third quarter.

During the second quarter of 2010, there were \$2.7 million of charges related to environmental, investigatory and remedial activities which included \$2.8 million of recoveries from environmental costs incurred and expensed in prior periods. After giving consideration to the recoveries in both periods, year-over-year expense related to environmental, remedial and investigatory activities increased by \$2.4 million.

These charges relate primarily to expected future investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites. We continue to forecast full-year 2011 expenses for environmental, investigatory and remedial activities prior to any recoveries will increase as much as 50% from 2010 levels. We also do not expect significant recoveries of environmental costs incurred and expensed in prior periods beyond the \$1.5 million forecast we received in the third quarter of 2011.

On a total company basis, defined pension plan income was \$5 million in the second quarter of 2011 compared to \$5.3 million in the second quarter of 2010. The second quarter 2011 total company pension income includes the \$1.1 million pension curtailment charge that was included in restructuring expense during the quarter.

We are not required to make any cash contributions to our domestic defined benefit pension plan in 2011. We continue to believe the earliest we may be required to make any cash contributions to that plan is 2013.

In 2011, we do expect to make a cash contribution to our Canadian defined benefit pension plan of less than \$5 million. Defined contribution pension plan expense was \$3.8 million in the second quarter of 2011 compared to \$3.2 million in the second quarter of 2010.

As a reminder, our defined benefit pension plan is frozen to new entrants, all salaried, all non-union hourly and most union employees. The second-quarter 2011 effective tax rate was 33.9% which included a net favorable adjustment of \$900,000 associated with the re-measurement of deferred state income taxes necessitated by a change in law and with the finalization of our 2010 Canadian income tax return. Excluding these items, the effective tax rate was 35.3%.

We continue to believe the full-year effective tax rate will be in the 36 to 37% range. During 2011, Olin will continue to benefit from the accelerated depreciation provided for in the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010. And we forecast a cash tax rate, excluding the impact of the re-measurement of Olin's 50% ownership interest in the SunBelt partnership that took place in the first quarter, of approximately 20%.

Earlier, Joe discussed the \$2.4 million restructuring charge included in the second quarter 2011 results. During the fourth quarter of last year, a \$34.2 million charge was recorded associated with the Winchester relocation, the Charleston, Tennessee mercury cell conversion and the Augusta, Georgia plant reconfiguration.

Under the current accounting rules, which were changed several years ago, certain types of costs including employee relocation, building demolition, and certain other employee costs are required to be expensed as incurred. As a result, we expect to incur approximately \$10 million of additional restructuring charges associated with the Chlor Alkali projects between now and 2012 and approximately \$20 million of additional restructuring charges associated with the Winchester relocation project between now and 2016.

Now turning to the balance sheet. Cash and cash equivalents at June 30, 2011, including the restricted cash associated with the Go Zone and Recovery Zone financings that were completed in 2010 and are classified as the long-term asset on the balance



Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

sheet was \$374.3 million. At the end of the second quarter of 2011, \$36 million of the \$153 million of Go Zone and Recovery Zone bonds were undrawn.

We continue to expect that both the undrawn balance and approximately 90% of the restricted cash to be utilized during 2011. During the first six months of 2011, there has been approximately \$95 million of working capital growth.

This reflects the normal seasonal pattern, amplified by the improved volumes for chlorine, caustic soda and bleach in Chlor Alkali and higher commodity metal prices in Winchester. Consistent with the normal annual pattern, we expect the majority of this working capital growth to be liquidated by the end of the year.

In December of 2011, we have approximate -- we have \$75 million of bonds that were issued in 2001 that mature. It is currently our intention to redeem these bonds using our cash. Also in December, \$12.2 million of the SunBelt notes will be repaid. SunBelt notes require \$12.2 million of repayments annually through the end of 2017.

Full year capital spending is projected to be in the \$235 million to \$255 million range compared to \$85.3 million in 2010. Approximately 65% of this spending is related to the Charleston, Tennessee mercury cell conversion project and the Winchester relocation project. We expect appreciation to be in the \$100 million range for 2011.

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 9, 2011 to shareholders of record at the close of business on August 10, 2011.

This is the 339th 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 Factor section of our most recent form 10K and our second 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. Earnings press release and other financial data are available under Press Releases. Now, operator, we are now ready to take questions.

---

## QUESTIONS AND ANSWERS

### Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Frank Mitsch of Wells Fargo Securities. Please go ahead.

---

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

Good morning, gentlemen.

---

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

Morning.

---



Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

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

Just a clarification first. On the \$11.3 million profit from SunBelt, is that above what your 50% ownership stake would have contributed, or was that an all-in figure?

**John Fischer** - Olin Corp - SVP and CFO

That's the amount above the 50% ownership stake would've contributed.

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

All right. Terrific. And I was wondering, in terms of your operating rates, you said you were 85% in the second quarter on Chlor Alkali. You are currently running north of 90%, but you seemed, obviously very cautious about the back half of the quarter given the two chlorine customer outages. Is your expectation overall that your volumes, that the 85% operating rate is maybe where you end up again in the third quarter, or should it be higher than that given the bleach season?

**John McIntosh** - Olin Corp - SVP of Operations

Frank, this is John. We believe that we are going to be operating as we are in July for at least the first 2 months of the quarter. We are still late on both products in terms of shipments. The softness or the customer-related reduction in demand is going to be an end-of-the-quarter result. So I guess I would forecast that we would be in the high 80s for operating rates for the quarter.

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

Terrific. Thank you.

**Operator**

Our next question comes from Edward Yang of Oppenheimer. Please go ahead.

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

Hi, good morning. On operating rates, coming back to that issue, in the second quarter, you exited April at 95%, so I am surprised that you ended up 85% for the full quarter. So why was that?

**John McIntosh** - Olin Corp - SVP of Operations

We had a -- in April, we had a significant outage, 2 weeks in duration, at the McIntosh and SunBelt plants. So we really started off, because of the outage, at a pretty low operating rate in the first month of the quarter.

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

So that was the entire reason for the 10% drop-off, John?





Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

**John McIntosh** - Olin Corp - SVP of Operations

Yes, sir.

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

Okay. And DuPont and OxyChem -- there's been an announcement that Oxy's going to build a plant for DuPont's TiO2 operations. Is there a way to -- do you know how big that will be, or -- and what is your opinion on -- in the past you have felt that industry supply would remain relatively disciplined. Does this change your outlook at all on that?

**John McIntosh** - Olin Corp - SVP of Operations

The announcement just came out yesterday, so we obviously haven't had a lot of time to look at it. I did see a number in an announcement that said it was roughly 180,000 ECU plant in terms of size, which was the first question you asked. Our take on it is that over the long haul, there still is an industry bias towards producing capacity. We believe that, coupled with the fact that over the next 5 years or some period of time, chlorine demand in North America is going to grow. We have announced capacity rationalizations at both our Charleston, Tennessee, and Augusta, Georgia, locations late last year. So the combination of all those facts doesn't really change our long-term perspective that we are going to be able to operate our plants and our capacity efficiently.

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

Okay. And the expected hit to demand from the reduced chlorovinyl end market, what do you think that would be in terms of the effect on your operating rates?

**John McIntosh** - Olin Corp - SVP of Operations

Well, we don't have a heavy concentration in terms of our market segments in the chlorovinyls process. And we really are only reacting to some very early signs that there might be some weakness out there, and some very early reports in the trade press. So I would be very hesitant at this point in time to try to put an impact on it. We don't -- we do expect, and can obviously reflect in our thinking, our own customers' outage plans during the quarter. And those will be much more significant, we believe, than the phenomenon you are questioning.

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

So at this point, it's just something to monitor?

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

That is correct.

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

And just finally, John, what is your opinion in terms of where we are in terms of the chlor alkali cycle? Obviously, there is still positive pricing momentum and industry pricing for -- industry ECU netback, for example, was up 8.5% in the second quarter. You mentioned both you and Dow announcing that additional \$25 caustic soda price increase. At the same time, again, there are some headwinds on the PVC side, which could impact your volumes but possibly boost caustic soda pricing. So when you



Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

net all this out, what is your gut feel in terms of -- are we starting to approach a peak in the cycle, do think that there's more to go in terms of your ability to grow Chlor Alkali earnings?

**John McIntosh** - *Olin Corp - SVP of Operations*

I think there's a couple of fundamentals that I reflect in having a very positive outlook. North America is still an energy -- a very competitive and leading place for chlorine derivatives to be produced. And with the exception of some potential softness on the vinyls derivative sides, we are continuing to see very strong export numbers in the other chlorine derivatives. When we look at our customer portfolio, we are confident that we're going to continue to see demand strength. We obviously believe we have lots of pricing opportunity in front of us, and so when we look at it overall, we feel positive about where we are.

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

Thank you.

**Operator**

Our next question comes from Don Carson of Susquehanna Financial. Please go ahead.

**Don Carson** - *Susquehanna Financial Group - Analyst*

Yes. Thank you. John, a couple questions on pricing. The \$100 did take effect during the quarter. I think one of the indexes was showing it up \$75, but you only had a \$25 realization. Just wonder -- how will the rest of that \$75 or \$100 roll through on Olin's realizations?

And then the \$50 price initiative, the trade rags are still saying that that is very tentative, that customers haven't accepted that. And I'm wondering whether the pending Formosa and Shintech start-ups are having a negative effect on not only that \$50, but on the \$25 subsequent increase that you and Dow have posted.

**John McIntosh** - *Olin Corp - SVP of Operations*

Don, you're right. The indexes that are published, some have moved \$75, some have actually moved a little higher than that (inaudible). There were \$100 worth of increases that were announced, so some portion of that \$100 has been implemented. When we look at our system, all of the price index movement was in the second quarter of the year. And as we have said before, pricing impact for us lags, and so we would not have expected, even in the normal situation, to see that pricing movement really translated into our results until the third quarter and some in the fourth quarter of the year. So that's behind my earlier comment that we feel like we've still got a lot of opportunity for price movement based on what's been announced, and when it's been recognized in pricing indexes.

The \$50 and the \$25, you are right, there's been some press that those increases are potentially not going to happen. I will just go back again to what I say -- our fundamentals across our portfolios would indicate both those caustic price increases should occur over the balance of the year. We are late in making shipments. And if there is any validity to some softening on the vinyls derivative side that has any impact on operating rates in North America, that's only going to tighten up the caustic side of the molecule, which may facilitate implementation of those price increases sooner than some of the current trade press might lead you to believe.

Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

**Don Carson** - *Susquehanna Financial Group - Analyst*

So just to clarify, so you would expect full realization of the \$100 by fourth quarter then?

**John McIntosh** - *Olin Corp - SVP of Operations*

Well, we have always said that we don't -- we never achieve, for a variety of reasons, 100% of what is implemented in the market. What we have said is that the price improvement we see in our system is typically realized in the first and second quarters following when those prices show up in indexes.

**Don Carson** - *Susquehanna Financial Group - Analyst*

And do you have any remaining caps or collars in your contracts that would prevent -- if you do get the \$50 and/or the \$25, would -- is there anything in your contracts that would prevent that from being realized? Are you capped at how much you can raise prices within a certain -- ?

**John McIntosh** - *Olin Corp - SVP of Operations*

Generally, no. There are some situations where, in a limited number of contracts where we provide a little longer terms on when prices change, and how much they change, but when we are only talking about an accumulative \$100 price increase, that's not at the level that would typically be an issue for us. Those provisions are typically in contracts to protect customers from the kinds of run-ups we saw a couple of years ago when caustic went up \$300, \$400, \$500 in a quarter, and that's why they're in there. But they wouldn't be operational at the kind of caustic increases that are in front of us now.

**Don Carson** - *Susquehanna Financial Group - Analyst*

Final question, John. Can you talk at all about your power cost, and what happened there sequentially in Q2, and what you're expecting in Q3?

**John McIntosh** - *Olin Corp - SVP of Operations*

Power cost is just, in general, were relatively flat relative to last year in the first half of this year. So there wasn't an impact.

**Don Carson** - *Susquehanna Financial Group - Analyst*

Thank you.

**Operator**

Our next question comes from Chris Butler of Sidoti and Company. Please go ahead.

**Chris Butler** - *Sidoti & Company - Analyst*

Hi, good morning, everyone.

Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

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

Good morning.

**Chris Butler** - Sidoti & Company - Analyst

Just shifting gears here a little bit, the Winchester business, you had said that you're not seeing the post-peak trough that historically has occurred after a couple of years of solid demand. Is the best way to look at this as an orderly decline to post-peak volumes, and could you talk to law enforcement sales? From what I've heard, their inventories have been low. Is this just a situation where demand is weak because of budget cuts, that sort of thing?

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

I think your comment about orderly decline is appropriate. That's what we are seeing. We're pleased really with the volume levels that we are seeing at this point in time.

And I think the law enforcement situation is a somewhat of a reflection of tightness in some of these local budgets. But it is being more than -- it is being offset as we talked about in the comments with improved military, and also at the federal budget [line] with people like the FBI.

**Chris Butler** - Sidoti & Company - Analyst

And could you give us what you're expecting as far as cost savings here over the next few years as you move down to Mississippi? I know that we've got the total number, but what are you expecting next year, 2012, 2013, how is this going to roll out now?

**John Fischer** - Olin Corp - SVP and CFO

Chris, we would not expect to realize any significant cost savings until probably the second half of 2013. And I think you'll probably really recognize the cost savings starting in 2014.

**Chris Butler** - Sidoti & Company - Analyst

And looking at the authorization for repurchases, a little bit of surprise especially with the significant CapEx that you're going to be using for the plant upgrades and the bleach production. Could you give us a little color around your thoughts on the repurchase with this spending and the possibility of maybe even adding capacity a year or two down the road?

**John Fischer** - Olin Corp - SVP and CFO

Well, Chris, the announcement isn't that big, and when we look at the balance sheet and we look at our financial profile, understanding that we are a commodity chemical company that's cyclical, and that we need to maintain a conservative financial profile, we were comfortable that it was appropriate to use some of our excess liquidity to return value to the shareholders. And we thought the timing was appropriate considering where we are financially, and as Joe said in his remarks, the program itself does not impact, from our perspective, our ability to pursue any strategic options.

**Chris Butler** - Sidoti & Company - Analyst

I appreciate your time.



Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

**Operator**

Our next question comes from Alek Yefremov from Bank of America Merrill Lynch. Please go ahead.

**Alek Yefremov** - BofA Merrill Lynch - Analyst

Good morning, gentlemen. Just wanted to get back to ECU netbacks. In the second quarter, your netbacks improved by \$25 sequentially. In your guidance, are you assuming ECU netback improvement of higher than that \$25, or lower?

**John McIntosh** - Olin Corp - SVP of Operations

It would be high -- we would have based higher, more improvement in our guidance.

**Alek Yefremov** - BofA Merrill Lynch - Analyst

More improvement, okay, thank you. And then I wanted to get your help in understanding competitive capacity additions and their impact on the market. So Shintech started up in early July, but from what I understand, they may have started marketing their material earlier. So is it fair to say at this point that Shintech's plant is in the market, and that capacity is priced in, or not yet?

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

I think we would believe that that is the case.

**John McIntosh** - Olin Corp - SVP of Operations

We would believe, based on our knowledge of the market, that a pretty significant part of that caustic moved offshore to support strong demand for caustic in South America and other geographies. And so we believe, for the most part, that capacity is in the market.

**Alek Yefremov** - BofA Merrill Lynch - Analyst

So no big change in competitive dynamics domestically after the start up, in other words?

**John McIntosh** - Olin Corp - SVP of Operations

We have not seen any yet.

**Alek Yefremov** - BofA Merrill Lynch - Analyst

Okay. A question on freight costs, what do you expect -- what are your expectations for freight costs sequentially in the third quarter. Could they come down potentially?

Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

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

No.

**Alek Yefremov** - *BofA Merrill Lynch - Analyst*

Okay, so up basically?

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

Yes.

**Alek Yefremov** - *BofA Merrill Lynch - Analyst*

And if I may, just a quick follow-up on the Oxy announcement. Your plant, your Charleston plant is, obviously, geographically pretty close. Could you make any comments as to -- would you see a, potentially any outside impact on your profits there just because of the proximity to this new capacity? And also, could it alter your -- potentially go/no-go decision on the conversion there?

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

No. The reality of it, as you know, we are shutting down Augusta, which is 100,000 tons, and we are downsizing in Charleston from 260,000 to 200,000. So it wouldn't change our decision making on that.

**Alek Yefremov** - *BofA Merrill Lynch - Analyst*

Okay, thank you.

**Operator**

Our next question comes from Dmitry Silversteyn from Longbow Research. Please go ahead. Actually, it looks like we have Herb Hardt in the queue right now. Mr. Silversteyn, please requeue, sir. Thank you.

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

Good morning. If your power costs were roughly flat in the first half, can you give us some sense of the outlook in the second half? And with that in mind, and price increases coming, can we assume margins will go up?

**John McIntosh** - *Olin Corp - SVP of Operations*

We would assume that price increases in the second half -- or the electricity in the second half of the year will be relatively flat as well. We do expect to see freight increases, freight cost increases in the second half. Margins may improve in the second half of the year, but I don't think it's going to be significant improvement.



Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

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

Thank you.

**Operator**

Thank you. Our next question comes from Dmitry Silversteyn of Longbow Research. Please go ahead.

**Dmitry Silversteyn** - *Longbow Research - Analyst*

Good morning. Can you hear me okay?

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

Yes, we can.

**Dmitry Silversteyn** - *Longbow Research - Analyst*

All right, great, guys. A lot of my questions have been answered, but I just want to understand the comment that you made about the EBITDA for 2011 being at record levels. Was that just for the Winchester business or for the Company overall?

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

Dmitry, we were talking about the Corporation, I think 2008 was our record level, about \$328 million of EBITDA. So we are saying we think will be in a position to exceed that.

**Dmitry Silversteyn** - *Longbow Research - Analyst*

That's helpful. Secondly, given all the puts and takes and the reversals in the environmental costs, I think you said that you expect your environmental costs to be up about 50% year-over-year for 2011, so you did about -- if my model is correct, about \$9 million in environmental costs in 2010. So should we expect about a \$13 million, \$14 million cost level in 2011? Is that the right way to think about it?

**John Fischer** - *Olin Corp - SVP and CFO*

The comment was -- if you exclude the recoveries, and if you go back and look, excluding recoveries last year was about \$16 million of expense, which would suggest we expect expenses to be in the mid-20 in 2011.

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

Excluding recoveries.

**John Fischer** - *Olin Corp - SVP and CFO*

Excluding recoveries.

Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

**Dmitry Silversteyn** - Longbow Research - Analyst

But you had about \$7 million in recoveries in 2010, and you already have \$1 million this year, and you expect to get more in the second half of the year. So the net of recoveries that we are looking at comparable numbers in environmental year-over-year?

**John Fischer** - Olin Corp - SVP and CFO

No, we are still looking at 2011 being higher. If you do it net, it's about \$9 million last year, and I think we talked about a total of about \$11 million of recoveries this year against a mid-20 number, which would put you at \$14 million or \$15 million.

**Dmitry Silversteyn** - Longbow Research - Analyst

Got it. That's what I was getting at. Okay, \$14 million or \$15 million. Good. Then next question is on the Winchester recovery and profitability. You commented that you expect the third quarter to be better than second quarter in terms of profits. But should these levels of profitability be maintained for the balance of the year, or is this a mid-season peak and then you're going to drop down into the -- ?

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

We are back to where we used to be. The normal cycle is the third quarter will be a strong quarter for us, and then the fourth quarter is a break-even quarter oftentimes in the past. That's when the hunting season is over with, and inventories are depleted, and then we go back and start all over again, first, second, third quarter, peaking out in the third quarter.

Our only point we want to make is that our levels of operation and profitability are equal to or greater than the best years we had prior to the surge. So we are encouraged with what's going on in that business. And it's only going to get better when we get this Oxford situation up and running.

**Dmitry Silversteyn** - Longbow Research - Analyst

Got it. Okay. And we talked about the -- so the transportation costs you expect to be up sequentially, in the same mid- to high-single digit level sequential transportation cost increases?

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

We wish that, but they'll be -- probably that's correct.

**Dmitry Silversteyn** - Longbow Research - Analyst

Okay, thank you very much.

**Operator**

Our next question comes from Andy Cash with UBS. Please go ahead.



Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

**Andy Cash** - UBS - Analyst

Hi, I was just curious, could you say why these two chlorine customers are having this multi-month outage?

**John McIntosh** - Olin Corp - SVP of Operations

I can speak generally to that, Andy. One of them is a situation where a customer typically has an extended outage, and they -- for this year, they moved it from the end of the year to the third quarter, and I don't know why. But I know it's typical, and they've just moved the calendar around. The other one is a customer that is investing in doing some significant capital investment in their facility, which necessitated them being down a little longer than normal.

**Andy Cash** - UBS - Analyst

Okay, so it sounds, in those two cases, temporary.

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

Yes.

**Andy Cash** - UBS - Analyst

You indicated there are some early signs, I think, of weakening, I think you're referring to chlorine demand, is that right?

**John McIntosh** - Olin Corp - SVP of Operations

Chlorine demand into the vinyl derivatives.

**Andy Cash** - UBS - Analyst

Right. Now, there's been some signs for a while in the Far East, and you're saying early signs. Are you talking about something in the last quarter and in the second quarter you started to see that, or what specifically are you referring to?

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

As we look forward, I think is what we are really trying to say there.

**Andy Cash** - UBS - Analyst

Okay. But there's some word that things are actually stabilizing in the Far East, whereas it sounds like things started to deteriorate, but what you're saying is actually opposite of that, that you are now saying things weakening when some are saying things improving. Is that what I'm hearing?

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

In the chlorovinyls export market, that's what we see, yes.

Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

**Andy Cash** - UBS - Analyst

Okay. It only goes back to your comment about the Japanese plant starting back up?

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

That's exactly right.

**Andy Cash** - UBS - Analyst

Okay. Thank you very much.

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

Thank you Andy.

**Operator**

Our next question comes from Gregg Goodnight of UBS. Please go ahead.

**Gregg Goodnight** - UBS - Analyst

Good morning, all.

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

Good morning.

**Gregg Goodnight** - UBS - Analyst

Some clarity with respect to chlorine. My understanding was there were several announcements for April 1 in the \$40 to \$60 a ton range, and originally the reporting or the consultant said some of this actually got into the market. Could you help clarify -- did any of that, in your opinion, get into the market? What is the status, and did you -- did your Company specifically see any tailwind for improved chlorine prices?

**John McIntosh** - Olin Corp - SVP of Operations

There was a chlorine price increase announcement going back to March of this year, 2011. And we did see some of that price increase implemented in the marketplace. We did see some improvement in chlorine pricing in our system, although some of it was offset by increasing freight costs, as I mentioned earlier.

**Gregg Goodnight** - UBS - Analyst

Okay. So, for the quarter, were you net-net sequentially up in chlorine? Did it contribute any to your ECU improvement?

Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

**John McIntosh** - *Olin Corp - SVP of Operations*

It did contribute to the ECU improvement.

**Gregg Goodnight** - *UBS - Analyst*

Okay. Second question, your Charleston plant, could you give us an update? My understanding is that will be pretty much complete by the end of 2012 and starting up in early '13. Is that project broken ground yet? Is the timing still what I said?

**John McIntosh** - *Olin Corp - SVP of Operations*

Your timing is correct, and the project is on schedule, Gregg.

**Gregg Goodnight** - *UBS - Analyst*

Okay. Operating rates, I'm sorry to bring this up again, but in the second quarter, you mentioned the 14-day outage at I guess it was SunBelt.

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

Plus our McIntosh plant. So it's -- .

**Gregg Goodnight** - *UBS - Analyst*

Okay, so there were actually two outages then?

**John McIntosh** - *Olin Corp - SVP of Operations*

Well, they were planned current outages.

**Gregg Goodnight** - *UBS - Analyst*

Okay.

**John McIntosh** - *Olin Corp - SVP of Operations*

One outage affecting both plants.

**Gregg Goodnight** - *UBS - Analyst*

I see. If you total up the lost availability of those outages, it still seems like your operating rate was significantly lower than what could be explained by the outages. Do you agree with that? And if so, were your demands constrained in the second quarter, or were there other issues that kept the operating rates depressed?

Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

**John McIntosh** - Olin Corp - SVP of Operations

Let me clarify that there was one other factor that we faced in the quarter, especially early in the quarter that I didn't mention in an earlier answer. And that was there were several operating issues with the railroads that impacted our plant operations early in the second quarter. So that was also another source of some operating rate issues. There was no demand constraint. As a matter of fact, we have been allocating caustic and on order control for caustic, and late in both chlorine and caustic shipments, really since the beginning of the year.

**Gregg Goodnight** - UBS - Analyst

And that would be my final question, if I could sneak one more in. I have talked to people in the industry that typify the current caustic supply situation is more balanced than it was in the first quarter. In other words, more inventory to be had, a better balance between supply and demand. Do think that is an accurate assessment of caustic in the U.S. market now?

**John McIntosh** - Olin Corp - SVP of Operations

I would say the only thing that I would -- the only part of the caustic market that that may be true based on our portfolio of customers is for diaphragm caustic. Membrane caustic is still very tight, and that's why we find ourselves in a late list, and why we feel like the caustic price increases still are positive opportunities for us.

**Gregg Goodnight** - UBS - Analyst

Excellent. Thank you very much for that color.

**Operator**

Our next question comes from Richard O'Reilly of Standard & Poor's. Please go ahead.

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

Thank you. Good morning, gentlemen. I also want to ask -- get back to the ECUs. The press release used a 26% increase in your price. And I just don't know what that number is all for, if it's a blend of the two numbers that you gave us with SunBelt. Can you explain that?

**John Fischer** - Olin Corp - SVP and CFO

That's the increase from the second quarter of 2010, and it excludes SunBelt in both cases.

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

Okay, so \$550 versus -- ?

**John Fischer** - Olin Corp - SVP and CFO

\$470.

Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

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

\$470. Okay, fine. That's the math? Okay. Thanks a lot.

**Operator**

Our next question comes from Rafael Smith of JPMorgan. Please go ahead.

**Rafael Smith** - *JPMorgan - Analyst*

Hi, can you hear me?

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

Yes.

**Rafael Smith** - *JPMorgan - Analyst*

Hi. Just a question on consolidation in the Chlor Alkali segment. Would you envision any type of consolidation with the other Chlor Alkali players? And second question is, would you envision any split of the Company between the Chlor Alkali business/chemical business and Winchester?

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

As you know, there has been consolidation over the past cycle. We bought Pioneer, Oxy bought Vulcan. We believe that there is the opportunity potentially for one more consolidation. But that's what we would say, there is that potential. And from our perspective, we think that we have two businesses that we understand very, very well. And while we are a chemical company, we do have a very successful ammunition company at this time, and so that's how we look at it.

Thank you.

**Operator**

Thank you. This concludes today's question-and-answer session. I'd like to turn the conference back over to our speakers for any final remarks they may have.

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

We would like to thank you for joining us today for our second-quarter results, and we look forward to talking with you in October when we report on our third-quarter results. Thank you very much.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

## Jul. 22. 2011 / 3:00PM, OLN - Q2 2011 Olin Corp Earnings Conference Call

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2011, Thomson Reuters. All Rights Reserved.

