THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

OLN - Q2 2012 Olin Earnings Conference Call

EVENT DATE/TIME: JULY 24, 2012 / 02:00PM GMT

OVERVIEW:

OLN reported 2Q12 sales of $508.7m and net income of $47.6m or $0.59 per diluted share.

CORPORATE PARTICIPANTS

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

John Fischer *Olin Corp - SVP and CFO*

John McIntosh *Olin Corp - SVP, Operations*

CONFERENCE CALL PARTICIPANTS

Maggie Cheung *Wells Fargo Securities - Analyst*

Edward Yang *Oppenheimer & Co. - Analyst*

Christopher Butler *Sidoti & Company - Analyst*

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

Bobby Geornas *Susquehanna Financial Group - Analyst*

Aleksey Yefremov *BofA Merrill Lynch - Analyst*

Dmitry Silversteyn *Longbow Research - Analyst*

Richard O'Reilly *Revere Associates - Analyst*

Sal Sali *Citigroup - Analyst*

PRESENTATION

Operator

Good morning and welcome to Olin's secondquarter 2012 earnings conference call. All participants will be in listen-only mode. (0perator Instructions) After today's presentation there will be an opportunity to ask questions. (Operator Instructions)

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

Last night we announced that net income in the second quarter of 2012 was $47.6 million, or $0.59 per diluted share, which compares to $42.1 million, or $0.52 per diluted share in the second quarter of 2011. Secondquarter 2012 net income included a $1.8 million pretax restructuring charge, primarily associated with the ongoing Winchester centerfire relocation project and secondquarter 2011 net income included a $2.4 million pretax restructuring charge associated with the Winchester centerfire relocation project and the Chlor Alkali mercury cell technology conversion projects. Sales in the second quarter of 2012 were $508.7 million compared to $529.1 million in the second quarter of 2011. During the second quarter of 2012, Olin generated adjusted EBITDA of $97.5 million, which represents the highest level of second-quarter adjusted EBITDA ever.

This record level of adjusted EBITDA was achieved in spite of our Chlor Alkali business experiencing a slowdown in chlorine demand that occurred during the second half of the quarter, and which negatively impacted Chlor Alkali segment earnings. As a result of this slowdown, chlorine sales volumes in the second quarter of 2012 declined when compared to the seasonally weaker first quarter. Second-quarter 2012 Chlor Alkali earnings reflect increased contributions from bleach, hydrochloric acid compared to second quarter 2011.

Winchester's second-quarter 2012 segment earnings were in line with the secondquarter of 2011 segment earnings. And secondquarter 2012 results also included a $5 million favorable tax adjustments. Thirdquarter 2012 net income is forecast to be in the $0.40 to $0.45 per diluted share range. Chlor Alkali segment earnings in the third quarter of 2012 are expected to decline compared to the second quarter of 2012 due to approximately $8 million of costs associated with two major plant maintenance outages and one-time startup costs associated with the Charleston, Tennessee mercury cell technology conversion project, and the Niagara Falls, New York HyPure Bleach plant and a continuation of seasonally weak chlorine demand.

Winchester earnings in the seasonally strong third quarter are expected to improve, compared to the second quarter. Thirdquarter 2012 earnings are also expected to include approximately $2 million of pretax restructuring charges primarily associated with the ongoing Winchester centerfire relocation project. Finally, the third quarter of 2012 forecast does not include any impact of the recently announced K. A. Steel Chemical Incorporated acquisition or any transaction costs related to the acquisition. And as you know, under the acquisition accounting rules that became effective in 2009, all transaction costs must be expensed.

Let me discuss Chlor Alkali in more detail. The key driver in our secondquarter 2012 Chlor Alkali results in our third quarter outlook is the weak level of chlorine demand which we began to experience in May and continued through the end of June. This decline is evidenced by the monthly trend in the operating rate over the second quarter. Our April rate was 84%, May rate 80% and June rate 74%, which resulted in a quarterly rate of 79%. In the quarter, total chlorine and caustic soda shipments declined 11% compared to the second quarter of 2011, and also declined 2.5% from the first quarter of 2012 levels.

The weakness in chlorine volumes was broad-based in our system, and we believe within the industry, with Olin's year-over-year shipments to vinyl's customers declining 10%. Shipments to titanium dioxide customers declined 20% and shipments to urethane customers declined 25%. On the positive side we continue to experience growth in the sales of bleach and hydrochloric acid. Year-over-year, bleach shipments increased 9.5% compared to the second quarter of 2011, and reached the highest quarterly level ever with shipments in excess of 46,000 tons. Olin has now experienced 18 consecutive quarters of increased year-over-year bleach shipments. Hydrochloric acid shipments increased 7% in the second quarter of 2012, compared to the second quarter of 2011.

In addition to the increased volumes, hydrochloric acid prices also improved, compared to the second quarter of 2011, and as a result, year-over-year contribution to earnings from hydrochloric acid increased approximately $7 million in the second quarter of 2012, compared to the second quarter of 2011. The third-quarter of 2012 earnings forecast assumes that chlorine and caustic soda volumes will improve only slightly compared to the second quarter but are expected to be lower than the third-quarter 2011 volumes. The third-quarter 2012 operating rate is expected to be in the low 80% range, which would be the lowest third-quarter operating rates since 2009 and the second lowest in the last 10 years. Second quarter 2012 ECU netbacks were approximately $575 compared to approximately $560 in the second quarter of 2011.

The year-over-year impact reflects that higher caustic soda prices partially offset by lower chlorine prices and higher freight costs per ECU shipped. Year-over-year freight costs increased approximately 7% in the second quarter of 2012 when compared to the second quarter of 2011. In the third quarter of 2012, we expect ECU netbacks to decline compared to the second quarter as a result of lower chlorine prices. At the present time, we do expect some portion of the $60 per ton caustic soda price increase to be realized in the market, but the benefit in the Olin system will be primarily in the fourth quarter.

The third quarter 2012 Chlor Alkali segment earnings were forecasted to be negatively impacted by expenses associated with major maintenance turnarounds at the Niagara Falls, New York and Becancour, Canada facilities. And start-up expenses associated with the Niagara Falls HyPure facility and the new membrane chlor alkali facility in Charleston, Tennessee. These expenses are estimated to be approximately $8 million. In addition, during the third quarter, the mercury cell plant in Augusta, Georgia, will discontinue chlor alkali production. We remain on track to have exited the production of chlor alkali products using mercury cell technology by the end of 2012. Third quarter 2012 Chlor Alkali segment earnings were also forecasted to be negatively impacted by seasonally higher electricity costs.

It is normal for Olin to experience higher electricity costs in the third quarter because of the peaking power prices during the highestusage period of the year. In spite of the third quarter sequential increases in costs, Chlor Alkali electricity costs per ECU produced have declined approximately 5% during the first two quarters of 2012. During the third quarter, the Niagara Falls HyPure bleach plant will begin operation, and this will increase our annual bleach capacity by approximately 33,000 tons. In addition, during the fourth quarter of 2012, the Henderson, Nevada HyPure plant with an additional 33,000 tons of capacity, will begin operation.

These additions will increase Olin's bleach capacity to approximately 300,000 tons, or 15% of our post mercury cell conversion and shutdown capacity. Currently have approximately 160,000 tons of hydrochloric acid production capacity available to be sold, so we have the ability to direct in excess of 20% of our ECU capacity to these value-added products. The acquisition of K. A. Steel will add approximately 50,000 tons of additional bleach manufacturing capacity, which increases the amount of our ECU capacity that can be sold as value-added products to the level in excess of 25%. We also believe that the K. A. Steel acquisition provides additional opportunities over the next few years to increase the amount of ECU sold as value-added products to 30% to 35% of our total capacity. In addition to producing higher margins, the value-added products reduced the amount of chlorine that is shipped by rail. And just to remind you, approximately 20% of our chlorine capacity is already delivered via pipeline.

Let me talk about Winchester. Winchester's continued to experience higher than normal levels of domestic commercial ammunition sales. This demand, which is being experienced across all product categories, is currently higher than all - - in all recent years except for 2009. The strength of Winchester's domestic commercial demand is evidenced by the June 30, 2012 back log, which is double when compared to the June 30, 2011 level. During the second quarter of 2012, strong commercial sales were partially offset by lower law enforcement sales. The level of military sales reflects the transition between two contracts; the original Second Source contract and the new one. We expect military ammunition sales to increase in the third quarter of 2012, compared to the second quarter. During the second quarter, we received a second year award on the new Second Source contract. Deliveries under this $56.6 million award will primarily occur in 2013.

Second-quarter of 2012 commodity metal costs, which have been a headwind for the business for the past several quarters were slight negative compared to the second quarter of 2011, and we expect thirdquarter 2012 commodity metal costs to be lower than they were in the third quarter of 2011. During the first six months of 2012, the Olin purchase cost of copper has increased approximately 7% compared to the first six months of 2011, while the average purchase cost of lead and zinc have increased approximately 1% compared to the first six months of 2011. Secondquarter 2012 Winchester results included approximately $500,000 cost penalty associated with the transition of operations from East Alton, Illinois to Oxford, Mississippi. During the third quarter, it is expected that the cost savings from the operations will offset the duplication in costs, and in the fourth quarter of 2012, we expect the relocation to generate $2 million to $3 million of lower costs.

We also expect that in 2013 the cost savings generated by the relocation will be in the $10 million to $15 million range compared to 2012 and we are confident that the $30 million per year total project savings will be achieved. As of the end of June, the majority of the centerfire handgun ammunition was being manufactured in Oxford, Mississippi. In addition, during the second quarter, the first centerfire rifle ammunition manufacturing training line was installed and started up in Oxford. Winchester earned $11.9 million in the second quarter of 2012, which was in line with the second-quarter of 2011 earnings. During the quarter, Winchester benefited from favorable pricing and commercial volumes, which offset lower military and law enforcement volumes and higher commodity and relocation costs. Winchester's seasonally strong third quarter earnings are forecast to improve in 2012 when compared to the third quarter of 2011, due to favorable pricing, commodity costs and sales volumes.

In spite of the weaker-than-expected volumes that our Chlor Alkali business experienced in the second quarter and into the third quarter, I believe that Olin has the opportunity to generate a record level of full year EBITDA in 2012. Our 2012 record level of EBITDA will not have had the benefits of three HyPure bleach facilities, two of which are yet to come on stream, without the benefit of the $30 million of cost reductions we expect to realize from Winchester centerfire relocation project, and without any of the benefits from the K. A. Steel transaction. Just to remind you, K. A. Steel generated $31 million of adjusted EBITDA in 2011, and we expect to realize $35 million of synergies with the acquisition.

Now I would like to turn the call over to our Chief Financial Officer, John Fischer, who will review several financial matters with you. John?

John Fischer *- Olin Corp - SVP and CFO*

Thank you, Joe. Before I talk about the second quarter, I'd like to illustrate the Olin view of the economics associated with the K. A. Steel acquisition. In calculating adjusted EBITDA for K. A. Steel, Olin essentially converted S Corporation financials to public company financials, primarily by addressing how owner taxes are treated. The combination of the 2011 K. A. Steel adjusted EBITDA of $31 million and the $35 million of annualized synergies we expect to realize when compared to the purchase price of $328 million, reduced by the $60 million present value of the incremental tax benefits made available to Olin by the Section 338(h)(10) election, results in an EBITDA multiple of approximately four times. We believe this is consistent with the type of post synergy multiples that were realized in both the Pioneer and the SunBelt acquisitions.

Now turning to the quarter, I would like to discuss a few items on the income statement. Selling and administration expenses increased $2.6 million, or 6%, in the second quarter of 2012, compared to the second quarter of 2011. The year-over-year increase reflects higher salary and benefit costs, a higher level of legal and legal-related settlement expenses, increased bad debt costs, partially offset by decreased relocation and recruiting charges and lower management incentive compensation, which included mark-to-market adjustments on stock based compensation. Second-quarter 2012 charges to income for environmental, investigatory and remedial activities were $300,000. Secondquarter 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 in expense in prior periods. After giving consideration to the recoveries in 2011, year-over-year expenses related to environmental, remedial and investigatory activities decreased by $7.6 million.

These charges related primarily to expected future investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites. The low level of second quarter expense reflects the timing of recognition of these expenses. We now estimate that full year 2012 expenses for environmental, investigatory and remedial activities, prior to any recoveries, will be in the $10 million to $15 million range, which will be approximately 35% lower than 2011. We do not expect any additional environmental recoveries in 2012. On a total Company basis, defined benefit pension plan income was $5.4 million in the second quarter of 2012, compared to $5 million in the second quarter of 2011. We are not required to make any cash contributions to our domestic defined benefit pension plan in 2012, and believe the earliest we may be required to make any cash contributions to that plan is 2014.

In 2012, we expect to make cash contributions to our Canadian defined benefit pension plan of less than $2 million. And as a reminder, under Canadian pension rules, service costs are required to be funded annually. Defined contribution pension plan expense was $4.5 million in the second quarter of 2012, compared to $3.8 million in the second quarter of 2011. The vast majority of our employees now participate in the defined contribution pension plan. Our domestic defined benefit pension plan is frozen to new entrants, all salaried, all non-union hourly and most union employees. During the second quarter of 2012, Olin recorded a $1.8 million restructuring charge. This charge was primarily related to employee severance and relocation expenses associated with our ongoing relocation of the Winchester centerfire ammunition manufacturing operations from East Alton, Illinois to Oxford, Mississippi, and exiting the use of mercury cell technology in the chlor alkali manufacturing process by the end of 2012.

We expect to incur approximately $8 million of additional restructuring charges associated with the Chlor Alkali projects through the end of 2013, and approximately $13 million of additional restructuring charges associated with the Winchester relocation between now and the end of 2016. We expect total restructuring charges in 2012 related to these projects to be approximately $8 million. The effective tax rate for the second quarter was 24.8%, which included $4.9 million of benefits primarily related to the Agricultural Chemicals Security Tax Credit under Section 45O of the Internal Revenue code that will be claimed on our 2008 to 2012 US Federal Income tax returns. Excluding these benefits, the effective tax rate was 32.5%. For the full year 2012, we now believe the effective tax rate will be in the 34% to 35% range, excluding approximately $5 million of these favorable tax adjustments. Due to the level of capital spending in 2012, and the resultant accelerated depreciation available, the forecasted 2012 cash tax rate is approximately 15%.

Now turning to the balance sheet. Cash and cash equivalents at June 30, 2012, including the restricted cash associated with the Go Zone and Recovery Zone financings that were completed in 2010 and are classified as a long-term asset on the balance sheet, total $224 million. As of June 30, 2012, there was $25.4 million of cash that remained restricted and will be available to fund additional 2012 capital spending at our facilities in Mississippi and Tennessee. We continue to expect all the restricted cash to be utilized in 2012. During the first six months of 2012, there's been approximately $77 million of working capital growth. This reflects a normal seasonal pattern, amplified by 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.

During the first six months of 2012, capital spending was $145.8 million, approximately 70% of which supported the Charleston mercury cell technology conversion project and the three HyPure bleach projects. We believe that the largest part of our 2012 capital spending was incurred in the first half of the year. Full year 2012 capital spending is projected to be in the $240 million range, compared to $200.9 million in 2011. The higher level of spending in 2012 and 2011 includes spending for the Chlor Alkali mercury cell conversion in Charleston, Tennessee, the construction of HyPure bleach facilities at three of our chlor alkali plants, and the ongoing Winchester centerfire relocation project. Depreciation and amortization expense in the second quarter of 2012 was $26.6 million, which compares to $25.4 million in the second quarter of 2011. Depreciation and amortization expense associated with the Chlor Alkali business was $22.4 million and $22.2 million in the second quarters of 2012 and 2011, respectively.

We expect quarterly depreciation expense to increase sequentially as we move through the year, and expect that full year 2012 depreciation to be in the $105 million to $110 million range. In the second quarter of 2012, we redeemed $7.7 million of industrial revenue bonds with maturities in 2017. We paid an early redemption premium of approximately $200,000, which was offset by the recognition of a $200,000 gain on interest rate swaps that were applicable to these bonds. Also in December, $12.2 million in payments will be made on the SunBelt notes. These notes require annual payments through the end of 2017.

During the second quarter of 2012, we entered into a new $265 million five-year senior revolving credit facility, which replaced a $240 million senior revolving credit facility that was set to expire in October of this year. The new credit facility will expire in April 2017. Borrowing options and restrictive covenants are similar to those of our previous $240 million senior revolving credit facility. The new $265 million senior revolving credit facility includes a $110 million letter of credit facility and a $50 million Canadian subfacility. In conjunction with this new senior revolving credit facility, we terminated our additional $25 million letter of credit facility.

During the first half of 2012, approximately 200,000 shares of Olin stock were repurchased at a cost of approximately $3.1 million. In July of 2011, as a reminder, Olin's Board of Directors approved a three-year, five million share repurchase program. Last week Olin's Board of Directors also declared a dividend of $0.20 on each share of Olin common stock. The dividend is payable on September 10, 2012 to shareholders of record at the close of business on August 10, 2012. This is the 343rd 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 our risk factors sections of our most recent Form 10-K and in our secondquarter earnings release. A copy of today's transcript will be available this afternoon on our website in the Investors section under Calendar of Events. The earnings press release and other financial data and information are available under Press Releases.

Operator, we are now ready to take questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Our first question comes from Frank Mitsch at Wells Fargo.

Maggie Cheung - ***Wells Fargo Securities - Analyst***

Hi, this is Maggie on our Frank. You had mentioned there were two major outages in Q3. I was wondering if you could just tell us how long the outages will be for and how it will impact your operating rates for the quarter?

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

The outages are approximately a week at both of the locations. And if you looked at the quarter, including every other thing that's planned, the total capacity that will be unavailable to us for the quarter is approximately 4%.

Maggie Cheung - ***Wells Fargo Securities - Analyst***

Okay. Thank you.

Operator

The next question comes from Edward Yang at Oppenheimer.

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

Hi. Good morning.

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

Good morning.

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

Could you talk on your confidence in terms of getting the full $60 caustic soda price increase and speaking more long-term price increases beyond that? I understand the co-product dynamics but do you need higher operating rates in general to get additional price increases beyond that $60?

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

Let me just talk about the caustic price increase that's currently, - - in the market, in play right now. The operating rates that were announced for June for the industry came up significantly from the second quarter rates, which was a function, really, of major outages that occurred in May that were completed by other industry participants. But the overall operating rate - - for the industry is still in the mid-80s. That operating rate is driven by chlorine demand, which we said in our remarks, is weak and continues to be - - continues to be weak.

The first thing that we've seen that we believe is a positive indicator for the caustic price increase occurring in the third quarter is we've seen both export prices and spot prices for caustic go up. And that's usually the process or the way it works is you see movement in those prices first before you see movement in contract prices. I would say, though, that - - contract price movement as it's being reported by industry magazines is not consistent. Some parts of the country are showing - - caustic prices going up, some part of the $60 in July, some are seeing that delayed further into the quarter into August.

We're confident we're going to see caustic price increases in the quarter, which then will impact our financial performance in the fourth quarter. But I wouldn't sit here today and predict whether the numbers $40 or $60, or what it is. But we believe we will see caustic pricing, in our system we're late on caustic shipments and so the dynamics of serving the customers we serve indicate we should see caustic pricing movement.

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

John, you mentioned spot prices on caustic moving up. But they're still below contract prices. So how does that dynamic work? Does spot caustic prices have to get closer to contract prices and then go up as well to get that contract price moving?

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

I mean, as long as the trends are - - of pricing are moving up, and the gap gets closed, that's usually or at least historically been - - an omen that says contract prices will start to move as well. Again, as we look at our system, we are late serving customers. And as we've tried to source caustic from other North American producers, we've been really unable to source significant amounts of caustic. So we believe caustic inventories, both at customer and producer locations, are low, and believe that we'll see caustic pricing move up.

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

Okay. And maybe a question for Joe.

There was another large industry merger that was announced - - PPG and Georgia Gulf. Once that deal gets done, are there any other opportunities for further horizontal consolidation in the chlor alkali industry? It's already a fairly consolidated industry. And given that deal occurring - - how does that impact or affect your thinking on dividends, stock buy-backs, how much cash you want to hold on a balance sheet and maybe some additional M&A activity as well?

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

Long question. Let me give a quick couple answers.

One is, Edward, as you know, we've consistently spoken about favorable industry dynamics in Chlor Alkali. And one of the reasons we've talked about that is we've talked about one of the elements of favorable industry dynamics is industry consolidation. And we believe that the PPG Georgia Gulf industry consolidation is a positive move. We continue to believe there's significant opportunities for us, for Olin to strengthen and expand our core business. And we also believe that the K. A. Steel acquisition will open up several other avenues for us from an opportunity perspective.

I would want to affirm that first and foremost, we don't believe that the acquisition of K. A. will have any impact on our dividend policy. And as you know, we're finishing up a pretty significant capital spending program with the conversion at Charleston, with the shutdown of Augusta, with the three HyPure bleach plants, and with Winchester. And that heavy capital spending will start to taper off as we get into 2013, which should position us to continue to be interested in bolt-on acquisitions within our core markets.

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

Okay. Thank you.

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

Thank you.

Operator

The next question comes from Christopher Butler at Sidoti & Company.

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

Hi. Good morning, everyone.

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

Good morning.

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

I was hoping you would be able to speak to the weak demand environment - - give us a little bit more color there? And what you're seeing thus far in July that gives you confidence that your utilization will get back up over that 80% threshold?

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

When we look at the markets that we serve, the three markets that were disproportionately worse in terms of weakened demand in the second half of the second quarter were the titanium dioxide business at a 20% reduction in market, or in demand, the vinyl's market with about a 10% reduction, and the urethane's market with a 25% reduction in demand.

We have seen some marginal improvement in the operating rates in the first part of the month of July. We have seen some recovery from outages and offline - - times that those customers were working through in the second quarter. It's early to tell - - from our perspective, how much of a - - how much strength is in - - this improvement, but we have seen some marginal improvement so far.

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

And shifting gears to the Winchester business, - - with the unfortunate events in Colorado, can you speak to what the outcome you expect as far as ammunition sales moving into the hunting season for you? Is this something that will hurt you? Does it help you because of regulation? What are your thoughts there?

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

I don't think we would comment anything on the impact of Colorado, because I'm not sure that we know that impact, or it would be appropriate for us to comment on that at this point. I think the second part, Chris, that you asked is this is the - - third quarter is the traditional hunting season and we will see demand pick up. The other piece for us is the military piece, which was we were kind of in transition between one contract and the other contract in the second quarter, we'll see improvements from a military perspective in the third quarter.

And more importantly, I'd just like to re-emphasize is that we've got a huge part of the startup of Oxford behind us. And so we're sailing ahead with the ability to really start to pick up as we get into the fourth quarter and beyond the cost savings that we had forecast down there.

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

Do you have any sense on the impact of the election? Is that - - is that continuing to help your demand at a growing pace or has that eased off a little bit?

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

Well I think what we mentioned is that our back log, if you compare June 2011 to June 2012, it's doubled. So I would - - I think there's a political impact might have an impact on that.

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

I appreciate your time.

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

Thank you.

Operator

Our next question comes from Herb Hardt at Monness.

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

Good morning. Two questions actually. When will there be a result on this re-bid of the Lake City contract?

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

The award announcement is expected sometime in the fourth quarter.

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

Okay. And secondly, what is the obligation on payout for SunBelt? How long does that go for?

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

The earn out was for three years and we are in the middle of the second year of performance against that earn out.

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

Okay, thank you.

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

Thank you.

Operator

The next question comes from Don Carson at Susquehanna.

Bobby Geornas - ***Susquehanna Financial Group - Analyst***

Good morning. This is Bobby Geornas for Don Carson. You mentioned that you expect the full impact of the caustic price increase to be realized in the fourth quarter. Do your projections assume that chlorine stabilizes here, or do you believe that chlorine has further downside between now and year-end?

John McIntosh *- Olin Corp - SVP, Operations*

We believe that looking at the whole variety of people that are prognosticating prices, the consensus seems to be, and it's supported by our review of our customer portfolio that chlorine pricing has really stabilized. Index chlorine pricing came down in the first quarter. It's been stable since and we really think there's not much movement either way in chlorine pricing for the balance of the year.

Bobby Geornas *- Susquehanna Financial Group - Analyst*

Okay. Just two questions related to the freight rate prices. Do you, it seems that the year-over-year rate has at least moderated a little bit even though obviously you've seen some continued increases in the rates. Do you see that rate on a year-over-year basis accelerating between now and the year end? Or where do you see that moving, maybe just relate it to freight? The premium that you capped during bleach, is that before or after considering the reduced freight -- the freight costs?

John McIntosh *- Olin Corp - SVP, Operations*

We don't expect to see - - much change in freight rates, through the balance of the year. We believe as we look at our system and the movement of product we will go through to satisfy our customers that we don't expect much change in the balance of the year.

John Fischer *- Olin Corp - SVP and CFO*

The netback when we talk about the premium over chlorine and caustic, we're talking about a netback compared to a net back, so the bleach premium includes the impact of freight.

Bobby Geornas *- Susquehanna Financial Group - Analyst*

Okay. Then just to clarify the answer that you gave in terms of not expecting a change, are you talking about your overall freight costs that mix shift becomes more favorable would offset a potential increase? Or do you mean that actually don't expect the freight rate - - per ton to increase, or change?

John McIntosh *- Olin Corp - SVP, Operations*

We don't expect the freight -- the increases to return to double-digit kind of increases that we've seen historically.

Bobby Geornas *- Susquehanna Financial Group - Analyst*

Okay, thank you.

Operator

The next question comes from Alex Yefremov at Bank of America.

Aleksey Yefremov *- BofA Merrill Lynch - Analyst*

Good morning, gentlemen. First question, could you help us understand the potential impact of Georgia Gulf and PPG combination on Olin? Do you expect any of the Olin's plants to be impacted by that?

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

No.

Aleksey Yefremov - ***BofA Merrill Lynch - Analyst***

Okay. Great. Thank you.

And then a follow-up on a Winchester comment that you made, that you expect $10 million to $15 million in savings to be realized in 2013. Does that include lower relocation costs, or not? And if not, what is your outlook for relocation costs in a year-over-year basis for next year?

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

The - - it does not include lower relocation costs. We are continuing to relocate right through the end of 2015. What it represents is essentially lower wage benefit costs and higher productivity associated with Oxford compared to what it was when we were operating in East Alton.

Aleksey Yefremov - ***BofA Merrill Lynch - Analyst***

So those relocation costs will not decline in 2013 yet?

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

We don't believe so, no.

Aleksey Yefremov - ***BofA Merrill Lynch - Analyst***

Okay, thank you. The final question, if I may, what was your ECU netback in the second quarter and utilization rate?

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

575 was the netback and 79% was the operating rate.

Aleksey Yefremov - ***BofA Merrill Lynch - Analyst***

Thank you.

Operator

Next question comes from Dmitry Silversteyn at Longbow Research.

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

There's a couple of questions, first of all I was curious on your guidance for the third quarter when you were talked about seasonally weak chlorine markets. Is that just a reflection that we were sort of winding down the municipal odor treatment market? Is that where the seasonal weakness comes from, or is there something else to your comments?

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

No, it's weak. Weaker than we would expect in the third quarter.

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

Okay, but not seasonal. I thought I heard you say seasonal weak. That may have been - -

---

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

If we did, we didn't mean to. It's the third quarter - -

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

It's weak for a third quarter season.

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

Got it. Okay. Got it. Thanks for clarifying that.

And then secondly, you're going to be out of mercury production by the end of the year - - converting one plant, shutting down the other. Given all the capacity that's going to come out -- obviously, you don't know what the volumes are going to be like next year. But if you assume that volumes are flat, what would the utilization rates be next year compared to this year? Are you looking at a 2% to 3% pickup in utilization rates, at flat volumes?

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

I think it's actually a little bit more than that. It's more like 4%.

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

Okay. So your volume sounds like even - - I'm sorry, your utilization rates even on flat volume should be somewhere in the mid-80s if you kind of look at this year volumes that you are going to be delivering?

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

That's correct.

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

Okay. Then finally, you talked about the slowdown you saw at the second half of the quarter, particularly in the urethanes, I think you said vinyls and GI02 markets, which were all down double-digits. Have you seen any changes in those markets? Was that just an inventory correction that the customers have gone through, or was it sort of a right-sizing inventory for a slow second half of the year expectation? Have you seen any changes in the buying patterns of those customers so far in July?

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

We've seen some improvement and anecdotally we've heard that it was a combination of some inventory change and a combination of just weak demand in those market segments, both weak demand - - domestically in North America and weak demand from an export standpoint.

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

Okay. That's helpful. Thank you very much, that's all the questions I had.

Operator

The next question comes from Richard O'Reilly at Revere Associates.

Richard O'Reilly - ***Revere Associates - Analyst***

Good morning, gentlemen. Several quick questions. First, your guidance for the third quarter, that does not exclude - - that excludes any impact on K. A. Steel, but there will be some expense related to the acquisition, you just haven't quantified it?

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

That's correct.

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

That's true.

Richard O'Reilly - ***Revere Associates - Analyst***

Okay, fine. Second thing, more of an accounting question. You're going to have restructuring costs and that's usually a line item but you also talked about start-up costs for the chlor alkali business, start-up costs with the new mercury cell. At what point is something a restructuring versus a start-up, if that doesn't sound too simple of a question?

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

I think the way to look at that is the restructuring is a project that goes to the Board and says we're going to incur these amount of expenses over a period of time and it runs through that line. The start-up, because we technically go through start-ups regularly through the year any time we have a plant shutdown, there's a start-up that goes with that. We've called this out because these are obviously more significant start-ups because the plant, the mercury cell plant is brand new and the bleach plant is brand new. But there's no provision in the accounting as we understand it to count that separately in our financial statements. It would just go through cost of goods sold.

Richard O'Reilly - ***Revere Associates - Analyst***

Okay. Fine. Third question, I think you said with the energy costs down year-over-year or up year-over-year 5%?

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

Down.

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

Down.

Richard O'Reilly - ***Revere Associates - Analyst***

Down, okay, fine. And what was it -- and then sequentially you think it's going to be higher in the third quarter?

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

Compared to the second quarter, that's correct.

Richard O'Reilly - ***Revere Associates - Analyst***

Compared to the second quarter. Okay, fine. The recent rise of natural gas prices, how much does that hurt you or help you vis-a-vis the rest of the industry?

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

I think we would view the industry as much more levered to natural gas than we are. The majority of the industry is concentrated in the Gulf Coast and they use natural gas to co-generate electricity. As we've said, we're about evenly exposed in our energy portfolio to gas, coal, nuclear and hydro. So our effect in rising natural gas prices is probably less than our competitors on the Gulf Coast.

Richard O'Reilly - ***Revere Associates - Analyst***

Fine. Okay. Great. Thank you now, guys.

Operator

The next question comes from Sal Sali at Citi.

Sal Sali - ***Citigroup - Analyst***

Hi there, my question has been answered. Thank you.

Operator

And our next question comes from Alex Yefremov at Bank of America.

Aleksey Yefremov - ***BofA Merrill Lynch - Analyst***

Hello, again. Just a quick follow-up. Your Chlor Alkali earnings went up about $1 million despite lower volumes and pricing. Was it the electricity costs that helped you sequentially in the quarter?

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

It was the vast sales of value-added products; bleach and in HCl that went up.

Aleksey Yefremov - ***BofA Merrill Lynch - Analyst***

Okay. And the last follow-up, you will be starting up Henderson bleach plant in the fourth quarter. Can you help us understand the start-up costs for that plant?

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

We have - - the start-up costs for the bleach plants, and we have one in the third quarter and one in the fourth quarter, are approximately $2 million, based on our best guess.

Aleksey Yefremov - ***BofA Merrill Lynch - Analyst***

Okay. Great. Thanks a lot.

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

Thank you.

Operator

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

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

We want to thank you for joining us this morning. We look forward to speaking with you in October when we announce the results of our third quarter. Thank you very much.

Operator

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