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OLN - Q2 2013 Olin Earnings Conference Call

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OVERVIEW:

OLN reported 2Q13 sales of $652m and net income of $43.7m or $0.54 per diluted share. Expects 3Q13 diluted EPS to be $0.65-0.70.

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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

Frank Mitsch *Wells Fargo Securities, LLC - Analyst*

Edward Yang *Oppenheimer & Co. - Analyst*

Don Carson *Susquehanna Financial Group / SIG - Analyst*

Christopher Butler *Sidoti & Company - Analyst*

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

Aleksey Yefremov *BofA Merrill Lynch - Analyst*

John Roberts *UBS - Analyst*

Jason Freuchtel *SunTrust Robinson Humphrey - Analyst*

Dmitry Silversteyn *Longbow Research - Analyst*

Cooley May *Macquarie Research Equities - Analyst*

Richard O'Reilly *Revere Associates - Analyst*

Jeff LaPatin *LFP,LP - Analyst*

Thayer Wade *Donegal Securities - Analyst*

James Finnerty *Citigroup - Analyst*

Doug Rischbieter *Private Investor - Analyst*

PRESENTATION

Operator

Good morning everyone, everyone, and welcome to the Olin Corporation's second quarter conference call. All participants will be in a listen-only mode.

(Operator Instructions) After today's presentation there will be an opportunity for you to ask questions

(Operator Instructions)

Please also note today's event is being recorded. At this time I'd like to turn the conference call over to Mr. Joseph Rupp, Chairman, President and CEO. Sir, please go ahead.

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

Good morning and thank you for joining us today.

With me are John Fischer, Senior Vice President and Chief Financial Officer; John McIntosh, 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 2013 was $43.7 million, or $0.54 per diluted share which compares to $47.6 million or $0.59 per diluted share in the second quarter of 2012. Sales in the quarter of 2013 -- second quarter of 2013 were $652 million, compared to $508.7 million in the second quarter of 2012.

During the second quarter of 2013 Olin generated $108.7 million of adjusted EBITDA, which is the second-highest -- the highest second quarter level in the history of the Company. The record adjusted EBITDA was driven by strong volumes and reduced costs in the Winchester business. We now believe that during 2013, Olin can generate an adjusted EBITDA in the range of $425 million to $460 million.

In the second quarter of 2013, the Chlor Alkali segment earnings declined compared to second quarter 2012 levels due to lower hydrochloric acid prices, higher costs associated with planned maintenance outages and plant startups, and higher electricity costs due to increased natural gas prices. Sales of chlorine and caustic soda and ECU pricing in the second quarter of 2013 were similar to the second quarter 2012 levels. The contribution to earnings from hydrochloric acid sales declined approximately $6 million during the second quarter of 2013 when compared to the near record quarterly level in the second quarter 2012.

Second quarter 2013 Chemical Distribution earnings fell short of our expectations due to margin compression on caustic soda sales, caused by a lag experienced in recovering producer price increases. The elevated level, the commercial demand that the Winchester business began to experience in the fourth quarter of 2012 continued through the second quarter.

Second quarter 2013 commercial sales increased approximately 60% compared to the second quarter of 2012 and, as a result, Winchester achieved the highest level of quarterly segment earnings in its history. Second quarter 2013 earnings also included $1.5 million of pretax gains associated with the disposition of real estate in a $3.8 million of favorable income tax adjustments. Second quarter 2012 earnings included $6 million of favorable income tax adjustments.

Third quarter 2013 net income was forecasted to be in $0.65 to $0.70 per diluted share range. Chlor Alkali third quarter 2013 earnings are expected to improve compared to third quarter of 2012 due to improved ECU pricing, record levels of bleach sales and an approximately $10 million favorable customer contract settlement. Commercial volumes in Winchester are expected to remain at elevated levels. Third quarter 2013 earnings are forecast to be higher than third quarter 2012 levels, but lower than the record second quarter 2013 levels due to reduced production resulting from normal third quarter planned outages. Third quarter 2013 earnings are expected to include approximately $2 million of restructuring charges.

Let me discuss the businesses beginning with Chlor Alkali. Second quarter 2013 chlorine and caustic soda shipments were similar to second quarter of 2012, but declined slightly compared to the first quarter of 2013 volumes. During our first quarter earnings call we talked about an erratic demand pattern that we began to experience in 2012. That pattern continued in the second quarter of 2013. During the second quarter, the Chlor Alkali monthly operating rates ranged between 80% and 89%, and averaged 84% for the entire quarter. This second quarter operating rate was consistent with the first quarter 2013 rate.

During the second quarter of 2013, chlorine shipments to vinyls customers increased 48% when compared the second quarter of 2012, but declined 11% compared to the first quarter of 2013. Chlorine shipments to urethanes customers declined 39% in the second quarter of 2013, compared to the second quarter of 2012, and also declined 29% compared to the first quarter of 2013 levels. Shipments to titanium dioxide customers increased 13% in the second quarter of 2013 compared to the second quarter of 2012 and 15% in the second quarter of 2013 when compared to the first quarter of 2013.

Shipments of hydrochloric acid in the second quarter of 2013 declined approximately 2% compared the second quarter of 2012, while second quarter 2013 hydrochloric acid pricing declined approximately 35% compared to the second quarter of 2012. The combination of lower selling price and slightly lower volumes reduced the second quarter year-over-year profit contribution from hydrochloric acid by approximately $6 million.

During the first six months of 2013, the profit contribution from hydrochloric acid has declined approximately $14 million compared to the first six months of 2012. I want to emphasize that during the first six months of 2012 a combination of high demand and reduced by-product acid supply resulted in record hydrochloric acid prices that drove record levels of profit contribution from that product. Those market conditions had corrected by the third quarter of 2012, and the second quarter of 2013 results reflect what we consider more normal conditions. Under these normal conditions, hydrochloric acid commands a premium price compared to chlorine and it is a positive contributor to our overall Chlor Alkali profitability.

We recently completed our hydrochloric expansion project at Henderson, Nevada, and we are currently evaluating additional opportunities to expand our ability to convert chlorine into hydrochloric acid. Second quarter 2013 shipments of bleach increased 5% compared to the second quarter of 2012 and this represents the 22nd consecutive quarter of quarterly year-over-year increases in bleach shipments.

During the second quarter, we achieved full rate operation on our third HyPure bleach plant located in Henderson, Nevada. During the third quarter we expect bleach shipments to exceed 50,000 ECUs, which will be the highest level of quarterly bleach shipments ever. Freight costs per ECU in the second quarter of 2013 declined compared to the second quarter of 2012 and the first quarter of 2013. These declines, while small, are unusual based on our experience over the past several years. Electricity costs per ECU produced in the second quarter of 2013 increased approximately 10% compared to the second quarter of 2012 due to higher natural gas costs. This represents a quarterly year-over-year cost increase for the business of approximately $5 million.

On a year-to-date basis, electricity costs per ECU produced have increased approximately 6%. For the full year we expect total electricity costs per ECU to increase approximately 5%. During the second quarter of 2013, there were planned plant outages at Niagara Falls, New York; Henderson, Nevada; and our St. Gabriel, Louisiana facilities. In addition, second quarter 2013 Chlor Alkali results included one-time startup expenses associated with the Henderson HyPure bleach facility and the new hydrochloric acid burner.

In total, the second quarter of 2013 Chlor Alkali financial results included approximately $7.6 million of discrete maintenance expenses. This compares to less than $1 million of this type of expense in the second quarter of 2012 and approximately $1.5 million in the first quarter of 2013. There is one planned outage scheduled for the third quarter which includes the McIntosh, Alabama, plant and SunBelt. This outage is expected to generate one-time maintenance costs of $3 million to $4 million.

The second quarter of 2013 ECU netback was approximately $575, which is in line with the second quarter of 2012 netback and an improvement over the first quarter of 2013 netback of approximately $565. Increase in the ECU netback for the first quarter of 2013 to the second quarter of 2013 primarily reflects improved chlorine pricing and the benefits of lower freight costs. Expect ECU netbacks to improve further in the third quarter of 2013 compared to the second quarter of 2013, primarily due to improved caustic soda prices. Approximately $30 per ton of the $50 per ton caustic soda price increase was announced in late February has been reflected in price indices, and this will benefit Olin in the third quarter of 2013.

In late February, there was a $60 per ton chlorine price increase announced that was not followed by all the major producers and at this point we consider it to be unsuccessful. In May, there was a $40 per ton caustic soda price increase announced that to date has not yet been accepted in the market. We believe several producers have deferred the increase to later in the year.

We expect third quarter 2013 Chlor Alkali earnings, which include an approximately $10 million favorable contract settlement to improve significantly from the second quarter of 2013, driven by seasonally strong bleach volumes, improved ECU netbacks and lower plant outage and startup-related maintenance expenses.

Now turning to Chemical Distribution. During the second quarter the upward trend in caustic soda prices had a negative impact on the margin in the Chemical Distribution business. This is consistent with historical patterns experienced by KA Steel, most recently in the first part of 2010. The typical distribution contract provides for price adjustments based on changes and published prices over a 30 to 60 day period. During the second quarter, this resulted in margin compression, the most severe of which occurred early in the quarter.

Margins improved during the month of June compared to those realized in April and May. We believe that the distribution business realized its peak caustic soda margins during periods of flat to declining producer prices, and this is consistent with KA Steel's historical experience when their margins peaked in late 2008 and early 2009. I would emphasize that higher caustic soda prices, while a short-term negative for Chemical Distribution business, are significant positives for Olin in total.

Second quarter of 2013 Chemical Distribution sales were $113.4 million and consisted primarily of caustic soda sales. Bleach sales were -- increased approximately 60% from the first quarter of 2013 levels and represented approximately 9% for the second quarter chemical distribution sales. Second quarter Chemical Distribution revenues also include the sale of Olin-produced hydrochloric acid and potassium hydroxide.

Second quarter 2013 Chemical Distribution segment earnings were $2.2 million. In the second quarter of 2013, Chemical Distribution EBITDA was $6.1 million. Caustic soda margin compression experienced in the quarter was larger than anticipated, and as a result the expected improvement in the second quarter of 2013 Chemical Distribution segment compared to first quarter did not occur.

We continue to make progress in the expanding sales of Olin Chlor Alkali produced products through the Chemical Distribution. And as I mentioned during the second quarter of 2013, Chemical Distribution included quantities of both hydrochloric acid and potassium hydroxide, neither of which were sold by the business prior to the acquisition by Olin. The sale of these two products plus beach represents the key components of the $35 million in synergies we expect to realize at the end of the three years.

And now Winchester. During the second quarter of 2013 commercial demand in the Winchester business continued at the surge levels that began in the fourth quarter of 2012. As a result, second quarter 2013 sales increased approximately 60% compared to the second quarter of 2012 or approximately 4% higher than the first quarter 2013 commercial sales. The high level of second quarter 2013 commercial sales resulted in record quarterly sales of $198 million for the business.

Sales to law enforcement customers were also strong during the second quarter of 2013 and increased 37% when compared to the second quarter of 2012. The commercial and law enforcement increases more than offset an expected 25% decline in military sales, which reflects the completion of a contract in 2012. This contract, as expected, was not renewed by the U.S. Army.

We currently expect the second quarter of 2013 level of commercial sales to continue at least through the balance of 2013. This outlook continues to be supported by a strong commercial backlog. June 30, 2013 commercial backlog was approximately $525 million which compares to approximately $495 million as of March 31, 2013, and approximately $125 million in June 30, 2012. The total Winchester backlog including military and law enforcement was approximately $650 million at June 30, 2013, compared to $255 million at June 30, 2012. Combined effect of the record level quarterly sales, lower commodity and metal costs and the cost benefits associated with the Oxford, Mississippi centerfire ammunition relocation resulted in Winchester business generating a record level of quarterly segment income. Second quarter 2013 Winchester segment income was $37.1 million and the second quarter segment EBITDA was $40.8 million.

During the second quarter of 2013, the per pound purchase of the three primary commodity metals utilized by Winchester, copper, lead and zinc, all declined compared to the second quarter of 2012. The per pound cost of copper declined 8%, lead by approximately 2% and zinc declined approximately 13%. These declines had favorable year-over-year impact in the second quarter of 2013 of approximately $2 million and have had a year-to-date impact of approximately $4 million.

Due to the higher expected lead costs in the third quarter of 2013 we do not expect this trend to continue. In addition to lower commodity metal costs, the Winchester business also continued to benefit from cost savings realized from the ongoing centerfire ammunition relocation project. In the second quarter of 2013 these cost savings were approximately $4 million compared to a cost increase of approximately $2 million in the second quarter 2012.

In the first six months of 2013, the centerfire ammunition relocation project has resulted in a year-over-year profit improvement of approximately $14 million. We continue to believe that the full-year 2013 cost savings of approximately $15 million will be realized from this relocation project, which would represent approximately $20 million of Winchester profit improvement in 2013 when compared to 2012. We also continue to forecast that at least $30 million of annual savings will be realized once the relocation is complete in early 2016.

Winchester sales continue to be limited only by their ability to produce product. During the third quarter there will be planned maintenance outages that may reduce production levels below those experienced in the second quarter. And for this reason, Winchester's third quarter 2013 sales and segment earnings are forecast to be slightly lower than those experienced in the second quarter of 2013 but higher than the level achieved in third quarter of 2012.

The performance of the Winchester business, the continued growth of the bleach and hydrochloric Acid businesses and the contribution and opportunities associated with the distribution business have resulted in both a higher and more stable level of cash flow for Olin. We have also completed all the major capital spending projects in the Chlor Alkali business and the majority of the Oxford relocation spending.

For these reasons we intend to utilize some of our cash flow for share repurchase. On July 21, 2011, our Board of Directors approved a three-year share repurchase program for up to 5 million shares of common stock. During the second quarter of 2013 approximately 415,000 shares were repurchased under that program and to date in excess of 1 million shares have now been repurchased. It is our objective to continue to repurchase shares on an opportunistic basis.

Now I'd 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*

Thanks, Joe.

First I'd like to discuss a few items on the income statement. Selling and administration expenses increased $3.6 million or 8% in the second quarter of 2013 compared to the second quarter of 2012, primarily due to the inclusion of the selling and administration expenses of the KA Steel business of $2.5 million and higher stock-based compensation. The increases were partially offset by lower legal and legal-related settlement costs.

Selling and administration expenses as a percentage of sales were 7% in the second quarter of 2013, compared to 9% in the second quarter of 2012. Second quarter 2013 charges to income for environmental, investigatory and remedial activities were $2.4 million, compared to $300,000 in the second quarter of 2012. These charges relate primarily to expected future environmental, investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites.

Third quarter 2013 expenses for environmental, investigatory and remedial activities are expected to be in the $2 million to $3 million range and full year 2013 expenses for environmental, investigatory and remedial activities are now forecast to be in the $9 million to $12 million range. This forecast does not include any recovery of environmental, investigatory and remedial costs incurred and expensed in prior periods.

On a total company basis, defined benefit pension plan income was $5.1 million in the second quarter of 2013 compared to $5.4 million in the second quarter of 2012. We are not required make any cash contributions to the domestic defined benefit pension plan in 2013. In addition, under the pension funding relief provisions of the Moving Ahead for Progress in the 21st Century legislation that was enacted in 2012, we may not be required to make any additional cash contributions toward domestic defined benefit pension plan for several years.

During the first six months of 2013 a $500,000 cash contribution was made to our Canadian defined benefit pension plan. We expect to make approximately $500,000 of additional cash contributions to this plan during the balance of 2013. As a reminder, under Canadian pension rules service costs are required to be funded annually.

During the second quarter of 2013 Olin recorded a pretax restructuring charge of $200,000 associated with exiting the use of mercury cell technology in the chlor alkali manufacturing process and the ongoing relocation of the Winchester centerfire ammunition manufacturing operations from East Alton, Illinois, to Oxford, Mississippi. In the third quarter of 2013 and for the full-year 2013 restructuring charges for these activities are estimated to be approximately $2 million and $7 million, respectively.

The effective tax rate in the second quarter of 2013 was 30.3%, which included $3.8 million of favorable tax adjustments. We continue to believe that the full-year effective tax rate without adjustments will be in the 35% to 37% range. We also continue to believe that the 2013 cash tax rate, which reflects the benefits of accelerated depreciation included in the 2010 Jobs Creation Act will be approximately 20%.

Now turning to the balance sheet. Cash and cash equivalents at June 30, 2013, including the restricted cash associated with the Go Zone financings that are classified as long-term assets on the balance sheet totaled $148.2 million. As of June 30, 2013, the restricted cash balance was $6.6 million. Cash and cash equivalents including restricted stock at March 31, 2013, were $103.7 million.

During the first two quarters of 2013, working capital employed has increased by $65.5 million, which is consistent with Olin's normal seasonal pattern. Because of the high level of demand in Winchester, the normal seasonal inventory build has not occurred. This has been replaced by a higher level of receivables. Year-over-year, June 30 Winchester accounts receivable have increased approximately $30 million, while year-over-year Winchester inventories have declined approximately $35 million. The June 30, 2013, working capital increase includes approximately $10 million associated with the Chemical Distribution business.

Capital spending in the second quarter of 2013 was $24.4 million compared to $69.9 million in the second quarter of 2012. Capital spending in the first six months of 2013 has declined by $91.2 million compared to capital spending in the first six months of 2012. Depreciation and amortization expense during the second quarter of 2013 was $34.2 million compared to $26.6 million in the second quarter of 2012.

We are now forecasting that full-year 2013 capital spending will be in the $100 million to $120 million range, and we continue to forecast that full-year 2013 depreciation and amortization expense will be in the $135 million to $140 million range. We continue to feel comfortable about the financial -- our financial condition and believe we are entering a period of increased financial flexibility.

During the second quarter we generated approximately $50 million of cash flow. This is a strong quarterly performance in spite of a quarter that included increases in receivables and inventory, as well as share repurchases of approximately $10 million. In addition to significantly lower levels of capital spending, Olin faces less than $40 million of required debt repayments between now and December of 2016, and does not face any cash contributions to the large domestic defined benefit pension plan.

Yesterday, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. The dividend is payable on September 10, 2013 to shareholders of record at the close of business on August 9, 2013. This is the 347th consecutive quarterly dividend to be paid by the Company.

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

A copy of today's transcript will be available on our website in the investors section under on Calendar of Events. The earnings press release and other financial data and information are also under Press Releases.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Frank Mitsch, Wells Fargo Securities.

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

Gentlemen, how are you today?

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

Great.

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

Super. I wanted to follow up on a KA Steel. You mentioned that the margin compression is something that you have seen in previous periods where caustic soda prices have inflated. So it begs the question, when would you anticipate seeing that reversed and then seeing it drop to the bottom line, seeing margins expand? And also, we noticed that the inter-segment sales ticked up materially from Q2 to Q1. I guess some of that is seasonality, but could you talk about just in general what you are seeing in the KA Steel business with your suppliers now that you're coming up on the one-year anniversary with that business?

John McIntosh - *Olin Corp - SVP, Operations*

Frank, this is John. Let me try to answer a couple of those questions. We have seen an improvement late in the second quarter on margins. A typical distributor will see price increases from its suppliers at the beginning of a period, at the beginning of a quarter. That results in a margin compression for the distributor until he can pass those price increases along. Price increases on caustic really were loaded towards the second half of the second quarter and we were able to see some meaningful margin improvement in June and we expect to see continued margin improvement through the balance of 2013.

We don't typically comment on supplier situations but -- and so I'm just going to let that question be. But I would tell you that we still are comfortable that our one-year synergies for KA Steel of $7 million to $10 million and our three-year synergy target of $35 million are achievable. Part of what will make those happen is related to that inter-company question you asked. We started in the second quarter to see other products produced by Olin, namely hydrochloric acid and potassium hydroxide, show up within KA Steel as KA Steel was prepared and started to actually sell volumes of those products into the geographies that KA Steel sells into. We expect to see that trend continue to grow as that will be the basis for the synergy numbers that we have committed to.

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

Great. Is it fair to say, if I'm just looking at the sales side of it, almost 20 -- between 20% and 25% of KA Steel sales are coming from Olin. Where was that figure a year ago prior to the transaction?

John McIntosh - *Olin Corp - SVP, Operations*

It would have been probably in single digits.

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

Okay. Terrific. John -- sorry, the other John. You talked about you're entering a period of increasing financial flexibility. Obviously, the share buybacks doubled in the quarter although we really didn't see in terms of the shares outstanding dropping. I guess it's a matter of timing. Can you talk about when would we anticipate seeing the share count fall and is the pace that you did in Q2, is that something that we ought to be thinking about for the balance of the year?

John Fischer - *Olin Corp - SVP and CFO*

I think the share count dropped something in the neighborhood of 350,000 shares in the quarter and I think as we move forward you will see them, the actual share count drop below 80 very soon. I would just say that we are viewing share repurchases that we will be in the market but we are going to be opportunistic and try to do it in a manner that best creates shareholder value.

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

Fair enough. Thank you.

Operator

Edward Yang, Oppenheimer.

Edward Yang - *Oppenheimer & Co. - Analyst*

Hi, good morning. Just following up on the KA Steel questions, is it that the Chlor Alkali business does better and then KA Steel would do worse? Do they edge each other out?

John McIntosh - *Olin Corp - SVP, Operations*

There is some benefit in that regard especially as caustic prices change. The dynamics for a manufacturing company and the distribution company are deferred in that type of environment.

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

In a changing environment.

John McIntosh - *Olin Corp - SVP, Operations*

In a changing, yes.

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

Long term, right.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. And so, John, just to understand the margin squeeze that occurred in the second quarter, is that truly a timing issue and then you get it after a lag and what are some of the lags there? Is it basically three months or six months?

John McIntosh - *Olin Corp - SVP, Operations*

Well, just to talk about that quarter specifically, there was a $50 price increase on caustic announced in late February. For the most part, most suppliers passed along a $50 increase at the beginning of the second quarter to their distributors on caustic. And so immediately, if you're a distributor and you have that situation occur, you have an immediate $50 hit to your margins. And then it's up to you as a distribution company to pass that price increase along. And as I said in an earlier answer, we did see significant margin improvement in KA Steel towards the end of the quarter, which is a reflection of the fact that we were able to pass that price increase along to our ultimate customers. It just took us some part of the quarter to make that happen.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. You mentioned that the percentage of Olin products that KA Steel was selling has increased from the single digits to the current, it looks like 23%. How high -- how much higher can that go and does that affect KA Steel, the Chemical Distributions business' relationship with other vendors outside of Olin?

John McIntosh - *Olin Corp - SVP, Operations*

Well, as I said earlier, we really are just coming online now with our -- after having spent time getting set up logistically and in every other way to be able to sell new products through KA Steel that Olin produces. And so we are going to continue to see that set of activities and those chemicals be the way that we are going to increase KA Steel sales into their geography. In those situations we don't see there being any impact on other people because those are products that KA Steel hasn't sold before and we are just taking advantage of Olin's capacity to move those products in a geography that Olin could never make it to before.

Edward Yang - *Oppenheimer & Co. - Analyst*

Got you. Thank you much.

Operator

Don Carson, Susquehanna Financial.

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

Thank you. Question on caustic pricing. Just wondering how much of the -- you said $38 to $50 February increase looks like it's been posted in the rags and just wondering how much you expect to get that in Q3, how much will go into Q4? And this recent -- it seems to be a reversal in the prospects for this recent $40 price initiative. It looked like a month ago you were going to get it. It seems that with weak demand down in South America that inventories are backing up a bit. So can you just comment on what is happening with demand out of South America for U.S. caustic and what impact do you think that will have on domestic pricing?

John McIntosh - *Olin Corp - SVP, Operations*

I can't comment specifically on aggregate demand in South America. What I can't speak to and I have read some of the same commentary that you are talking about in regards to caustic pricing. I would say the offset to that commentary is that operating rates for the North American chlor alkali industry retreated pretty dramatically in June for the time of year that it is, down 4% to 83%. If that trend continues, then I believe that there is the opportunity for part of the $40 price increase to make it into the marketplace. That is what is going to determine the success or not of this $40 price increase for caustic that is on the table right now. Whether or not chlorine operating rates continue at the June level, which was a surprise to everybody and really most people couldn't explain why that occurred or whether those operating rates inch back up.

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

Any change in your views as to what's going to happen as we get into early 2014 with some of the new capacity starting up? I know Dow was talking about perhaps shutting down some of their lower margin chlorine derivatives. Is it your expectation that shutdowns will largely offset most of the new capacity coming online next year?

John McIntosh - *Olin Corp - SVP, Operations*

I expect there to be some rationalization. It hasn't necessarily been reflected in some of what's been reported by the industry trade press. I also believe that we will see a continuation of two trends that I think bode well for the North American chlor alkali industries' ability to effectively deal with even some net increase in capacity. One is the export of chlorine equivalents which are up almost 20% year-over-year through May and that effectively takes caustic that would've been produced somewhere else in the world and it ends up being produced in the US where it can be exported to the markets that we typically serve. I think the other thing that is important and is a continuing trend is that year-over-year caustic imports from May year-to-date this year compared to the same period last year are up 18%. So we are continuing to solidify our position -- North America is, as the place where chlor alkali and derivative products are most economically made and that leads to strengths in our ability to place our product in other parts of the world.

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

Thank you.

Operator

Christopher Butler, Sidoti and Company.

Christopher Butler - *Sidoti & Company - Analyst*

Hi, good morning, everyone. You touched on this on some of the last questions, but could you walk us through your utilization here during the second quarter? You had mentioned a pretty widespread in month-to-month.

John McIntosh - *Olin Corp - SVP, Operations*

The industry second quarter numbers went from 85 to 86 as a quarter, although as I mentioned earlier, the -- or it went from 85 to 84, I'm sorry. As a mentioned earlier, there was a pretty significant increase in the last month of the second quarter. Olin's operating rates from first quarter to second quarter actually went from 85% to 86%.

Christopher Butler - *Sidoti & Company - Analyst*

And month-to-month through the second quarter?

John McIntosh - *Olin Corp - SVP, Operations*

Olin's operating rates were a little bit scattered because, especially in the months where we had significant outages, that impacted our operating rate on a month-to-month basis. But ours were as a said driven by explainable outages in our system, which is contrary to what -- we haven't been able to ascertain an explanation for what the industry May to June results did.

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Christopher Butler - *Sidoti & Company - Analyst*

And just so that I understand this clearly, if things stays soft as they were in June and we do see a little bit of the May caustic price increase go through, then some of the commentary that you have on the distribution side of the business improving in the second half gets adjusted because there's another squeeze. Is that thinking about things right?

John McIntosh - *Olin Corp - SVP, Operations*

That is possible, yes, offset by the improved realization of caustic in the chlor alkali business.

Christopher Butler - *Sidoti & Company - Analyst*

And can you talk to your repurchases in terms of an acquisition strategy? Does this mean that you don't see a good pipeline here in front of you as far as what you might like to do here over the next few years that way?

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

I think what we would say, consistent with what we would always said, Chris, is that we still have an interest in acquisitions and we continue to pursue them. We just are in a situation right now where opportunistically we have the cash and we chose to start to move on our reward to shareholders that way.

Christopher Butler - *Sidoti & Company - Analyst*

I appreciate your time.

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

You're welcome.

Operator

Herb Hardt, Monness.

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

Good morning. I have two questions actually. One, the $10 million contract adjustment, is that a pretax or after-tax number?

John Fischer - *Olin Corp - SVP and CFO*

That is a pretax number.

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

Okay, secondly, higher costs for electricity, does that get passed through in things like bleach or is that a -- something that is contracted for on an annual basis?

John McIntosh - *Olin Corp - SVP, Operations*

We don't -- our electricity prices are set by long-term contracts and we don't have the ability to take short-term increases in electricity costs and pass them through.

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

Bleach pricing in general, has that been strengthening on a seasonal basis?

John McIntosh - *Olin Corp - SVP, Operations*

It has been. It's been driven by seasonal demand. It's also been driven as bleach producers increase price to make -- to take into account the increasing caustic prices that they are paying. So we have seen price increases announced late in the second quarter for third quarter 2013 applications.

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

Thank you.

Operator

Aleksey Yefremov, Bank of America Merrill Lynch.

Aleksey Yefremov - *BofA Merrill Lynch - Analyst*

Thank you. I had a question on the bleach market. Could you describe recent trends in terms of bleach pricing in premium versus ECU and also, in the medium term, could you describe your outlook for supply/demand balance in the bleach market? You are adding capacity, perhaps your competitors too. How does that compare to market growth? Thank you.

John McIntosh - *Olin Corp - SVP, Operations*

Our premium -- our bleach premium over selling chlorine and caustic is -- continues to be in the $150 and plus range, which is consistent with what we have seen historically. We see bleach -- I mean, bleach prices are going up, driven by, in some sense, by the raw material cost increases but also driven by the fact that demand is real strong. If you look at our system, and I believe in our remarks we talked about forecasting a record bleach sale quarter for the third quarter of this year. And so we are very comfortable with our forecast and very bullish on what the bleach market looks for -- is looking at going forward. Overall supply demand, there really haven't been significant announcements of people building plants to add bleach capacity. As a matter of fact, you could make the argument that we actually have seen people who used to make bleach become customers of Olin bleach by rail, which is one of our business strategies to improve our utilization and bring to market some of the expertise and some of the use of the assets we have.

Aleksey Yefremov - *BofA Merrill Lynch - Analyst*

Thank you. And then a more broad-based question. Just in principal, could Olin be a buyer of Dow's chlor alkali assets? Are there any things that could [blog] that purchase potentially?

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

I -- without getting into big detail that we would always say that further consolidation in chlor alkali we always would have an interest in. We still believe that there is an opportunity for one more consolidation.

Aleksey Yefremov - *BofA Merrill Lynch - Analyst*

Do you think from -- if you can answer this question, from [antitrust] perspective or financial flexibility, could Olin be one of the potential buyers or not?

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

What we've said is, is that we would be interested in consolidation.

Aleksey Yefremov - *BofA Merrill Lynch - Analyst*

Got it. Thank you. A final question, if I may. Could you just comment on regional or east coast caustic soda market? It seems like that market has been pretty strong in the first half in the absence of European imports. How do you see the situation developing in the second half? Do you see higher imports or a continued lack of imports from Europe supporting prices?

John McIntosh - *Olin Corp - SVP, Operations*

I believe the best forecast we have is that we will continue to see imports from Europe being low. As I mentioned earlier, year-to-date through May the net export balance in North America is up 18%. We don't really see that changing in the second half, even when you look at the regional performance.

Aleksey Yefremov - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

John Roberts, UBS.

John Roberts - *UBS - Analyst*

Good morning, guys.

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

Good morning, John.

John Roberts - *UBS - Analyst*

Could you give us an update on the pension expense sensitivity to long-term interest rates?

John Fischer - *Olin Corp - SVP and CFO*

The way our pension plan is invested today, we're virtually not sensitive to that. We've got the duration of the plan -- assets in the duration of the plan liabilities pretty much matched. So if interest rates go up and the liability goes down, we are going to see a compression in our asset base. We saw that when -- as the interest rates came down. We stayed fully funded. So we don't see a lot of sensitivity to that, John.

John Roberts - *UBS - Analyst*

So you're fully immunized. And then how much was the military down in Winchester? And I ask that just at what -- at some point when the commercial side comes off a little bit, is there a lower base because of the military sequestration drop?

John Fischer - *Olin Corp - SVP and CFO*

We are actually operating today at a higher base level than we were three or four years ago because the seconds -- the follow-on second source contract that we were awarded last year was about 50% per year higher in terms of revenue. So as we look out, John, for the next four years, which is determined at contract, we are really not exposed to declines in our military business.

John Roberts - *UBS - Analyst*

And then just lastly on the commercial side of Winchester, are there any operating metrics you can talk about that give you some visibility into the future of that business on the commercial side since it's been so strong here? I'm thinking about average order sizes or frequency of orders or something that says that the flow is still healthy in terms of new business coming in.

John Fischer - *Olin Corp - SVP and CFO*

I think the best measure is the level of the backlog. I think the backlog is 3X to 4X what it has been historically and if you look at -- if we were to see at the end of the third quarter the backlog go back to where it was at the end of 2012, I think that's an indication that the order flow has dropped back. But right now, as long as it is 3 to 4X on a comparative basis to a non-surge period, that is a strong indicator.

John Roberts - *UBS - Analyst*

And it's holding stable? 3 to 4X is a wide range, so is it 3 or 4 or it's -- wherever it is, it's staying stable across the --

John Fischer - *Olin Corp - SVP and CFO*

It's actually been growing as a percentage of the non-surge backlog.

John Roberts - *UBS - Analyst*

Okay. Thank you.

Operator

Jason Freuchtel, SunTrust.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Good morning. You indicated transportation costs were unusual on the quarter. What was the driver of that activity and what is your expectations for next quarter?

John McIntosh - *Olin Corp - SVP, Operations*

Overall transportation costs went down as we mentioned in our remarks. And that's positive news for us because of the nature of our business. It's hard for us to take one quarter of activity and define that as a long-term trend. We would hope that the combination of strategic things we have done in our chlor alkali business, expanding our internal consumption of products at the expense of shipping them by rail, reconfiguring our plants, reducing capacity at a couple of our locations, all of these things which reduce our dependence on rail transport and the strong stance we've taken in the regulatory arena of filing suit or of creating a charge at the STB that is rate based, we hope all those things are an indicator that we are taking steps that have -- are positioning us to see this become more than just a one quarter trend.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Okay. And how much did they decline on a sequential or year-over-year basis?

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

We really don't really report on that but we are making a comment that they really didn't increase this last quarter.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Great. Thank you.

Operator

Dmitry Silversteyn, Longbow Research

Dmitry Silversteyn - *Longbow Research - Analyst*

Good morning, everybody. Just a couple of questions since a lot of them have been asked already. First of all, on the share repurchase authorization versus dividend increases, can you give us idea of what the Board thinking was there? You talked about some 300 whatever consecutive quarters of dividend payments, but, going back the last several years, you really haven't done much in terms of dividend increases in a cyclical stock like Olin. What is the rationale for buying back stock rather than increasing dividend?

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

Dmitry, as you know, our dividend yield is at the high end of companies in the chemical industry. And so at this point in time we considered share repurchases a better method of return on value to shareholders. That being said, we continue to look at the dividend on a quarterly basis. We look at both avenues of how to return to the shareholders.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. Fair enough. On hydrochloric acid, you talked about lower demand and lower pricing which probably go hand-in-hand. In terms of lower demand, was it high in 2012 on fracking activity or was there another market that significantly distorted the baseline demand picture for the chemical and what's the outlook for that market in 2013 and forward?

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

As you know, natural gas prices went down. The rig counts went down as far as from a drilling perspective. I think they are down 10% year-on-year at this point in time. I think most people believe that as the price of natural gas goes back up that there will be more drilling activity with regard to that.

John McIntosh - *Olin Corp - SVP, Operations*

Another factor is on the supply side in 2012 you really had a situation where all the by-product produced -- all the by-product manufacturers that generate by-product HCl were operating in an environment in which they were at reduced rates. So the supply side of the HCl market was really constrained because of that. And that helped create the environment in 2012 where we had all-time record HCl pricing.

Dmitry Silversteyn - *Longbow Research - Analyst*

Right

John McIntosh - *Olin Corp - SVP, Operations*

In 2013, especially in the second quarter, we have seen an improvement in HCl demand in oil and gas exploration. We've seen an improvement in mining and we believe that those are going to continue and be a positive for our volumes in the third quarter.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. Thank you. And then finally, on bleach -- thanks for providing the ECU premium that you guys were selling bleach at. But if you look at the growth in year-over-year bleach volumes, it's been in the single-digit range for the last several quarters. If I might recollect correctly, your expectations for the business when it was launched as a separate business unit within Chlor Alkali I think your expectations for growth were significantly higher, at least double-digit levels if not teens levels. Is that correct, first of all, and secondly, what do you attribute the lower growth of bleach volumes to if it is lower than you expected?

John McIntosh - *Olin Corp - SVP, Operations*

I think part of -- and I'm not sure that I would support that the growth is lower. I would have to go back and look harder at the numbers. But one of the things that we are doing is that we have started up new capacity at three of our locations. We also have expanded our shipping by rail capabilities. All of those things I think are positioning us, at this point in time, for a period in front of us in which we can grow the business significantly again.

Dmitry Silversteyn - *Longbow Research - Analyst*

Actually, looking back to my notes, you did not give an explicit growth rate expectations but you did say that you expect bleach to be about 25% of your ECU production. I think it was by 2015 or 2016, which if you extrapolate that was the growth rate that was implied. Is the 25% still a goal in the timeframe the same or --

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

It's a combination. I think we've said 17% for bleach and 13% for HCl, taking up to a total of 30%.

John Fischer - *Olin Corp - SVP and CFO*

It's a combination. The 25% was a combination of bleach and HCl.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. Thank you very much. And that is still the plan and the timing is still on track?

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

Yes.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. Thank you very much.

Operator

Cooley May, Macquarie.

Cooley May - *Macquarie Research Equities - Analyst*

Good morning, guys. I have a few general questions. First, per your comments earlier, if there are all these export market opportunities for chlorine derivatives and caustic, why would any U.S. chlor alkali producers such as Dow permanently reduce capacity from current levels?

John McIntosh - *Olin Corp - SVP, Operations*

Well, I can't speak to what Dow's situation is and what decisions they make and what reinvestment commitments or constraints they have in front of them. I can say that we expect that chlorine derivatives will continue to be a market in which these producers will try to take advantage of and -- but that's really until North American demand returns to what you would consider to be a more normal level. And then there will be the ability to use whatever assets they are committing to this to satisfy derivative demand in North America. We believe that overall, because products -- derivatives and/or caustic products are produced here, that has an impact on whether or not they are produced in some other part of the world. So we don't necessarily see that as being the negative issue for the market that a lot of people perceive it to be.

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

The biggest derivative product is EDC, VCM or PVC, as you know. And Dow is not in PVC. They are in EDC, VCM and they choose their points what they want to do.

Cooley May - *Macquarie Research Equities - Analyst*

Yes, but taking that point, given that most of your chlorine derivatives are in bleach and HCl and you are not producing EDC, where do you think your chlorine is going to find a home after you -- two of your customers backward integrate later this year?

John McIntosh - *Olin Corp - SVP, Operations*

Well, we are continuing to grow our bleach and our HCl business. And that is a consumer of chlorine. We have also reduced capacity over the last 18 months across our system. I would also say that our chlorine demand -- our chlorine market serves a broad variety of end-use points in North America and so we are comfortable that our portfolio is varied enough that that is not a concern for us.

Cooley May - *Macquarie Research Equities - Analyst*

Okay. And given that your caustic suppliers to KA Steel are also your competitors, do you view supplier departure, such as possibly Formosa, Dow, Axial, what have you, as an ongoing risk? And could this be a reason why you are sourcing more caustic internally?

John McIntosh - *Olin Corp - SVP, Operations*

We are sourcing were caustic internally because that is the way to increase the asset utilization for Olin's assets and the way in which we can most efficiently use those assets. We are not going to comment on what suppliers might or might not do. We are comfortable that our supply base is secure and that we are in a position where supply is not going to be a consideration that impacts KA Steel's business.

Cooley May - *Macquarie Research Equities - Analyst*

Okay. Lastly, given that bullet volume remains at elevated levels, why are you not pushing out these planned outages set for the third quarter?

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

Because some of the equipment has to be worked on. There's certain pieces of equipment that we have been running extremely hard for a long period of time and there's pieces of equipment that need to be taken care of.

Cooley May - *Macquarie Research Equities - Analyst*

Okay. Thank you.

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

You're welcome.

Operator

Richard O'Reilly, Revere Associates.

Richard O'Reilly - *Revere Associates - Analyst*

Thank you. Good morning, guys. Did I understand, eurothane, your volumes were down 39% year-over-year? Was that right?

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

That was right.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Was that a customer issues or the nature of your plant outages?

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

Some of your major urethane guys took outages.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Fine. Okay. And then the plant maintenance cost, it was $6 million versus a $1 million delta?

John Fischer - *Olin Corp - SVP and CFO*

It was a $7.6 million versus the $1 million.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Fine. Okay. So if you look at the year-over-year segment profits, you got $6 million from segment profits, you got $6 million decline from the hydrochloric acid, the higher power cost of $5 million and then the maintenance of about $6 million delta, right? And then there is something else not in the math that we don't know of, right?

John Fischer - *Olin Corp - SVP and CFO*

We talked about that year-over-year depreciation was up about $6 million. The majority of that is in Chlor Alkali.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Fine. Thank you. And second, on your backlog in the commercial ammunition, how quickly can customers cancel orders?

John Fischer - *Olin Corp - SVP and CFO*

We have experienced in the past, when a surge ends that we find that we have customers who have placed double orders and they will cancel that order -- those -- that duplicate order. So there is a probability here at some point that some element of that backlog will just disappear.

Richard O'Reilly - *Revere Associates - Analyst*

Right. They don't -- there's no penalty on their part for cancelling?

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

Depending upon where you are in the cycle. If it is stuff that's near end that's in manufacture, there is a penalty. If it's stuff that is nine months out, there normally there is not.

Richard O'Reilly - *Revere Associates - Analyst*

Okay. Fine. Thanks a lot, guys.

Operator

Jeff LaPatin from LFP, LP.

Jeff LaPatin - *LFP,LP - Analyst*

Good morning, gentlemen. My question is one of general strategy. Do you guys have any plans to separate the ammo business from the chemicals business? It strikes me they represent two very different potential shareholder groups, especially given the current polarizing issue of firearms and corresponding extreme views adopted by certain institutional investors. Chemical investors are going to be prohibited from investing in Olin because you're an ammo business, defense industry investors have minimal desire to analyze alkali business, and your sales side coverage is exclusively chemical industry analysts who aren't focused on the extremely attractive and iconically branded ammo business. Why not spin off Winchester in the very near term?

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

We've owned it since 1892. It's an outstanding business that consistently generates cash and exceeds its cost to capital. And by the virtuous fact that we have owned it for extreme long time, it has a very low tax basis which represents a pretty big obstacle for value creation in any sale. We said publicly on numerous occasions that if we had a -- the correct chemical opportunity to continue to grow the chemical side, if that was to present itself, then we might look at Winchester differently. And at that point in time, what we've also stated pretty firmly is that we are a chemical company that happens to own a very successful ammunition business.

Jeff LaPatin - *LFP,LP - Analyst*

Right. And you wouldn't have any tax implications to the extent you did a tax-free spinoff though.

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

Assuming that you could get the value that you wanted -- that you are looking in a tax-free spinoff.

Jeff LaPatin - *LFP,LP - Analyst*

All right. I hope you gentlemen give it incremental consideration.

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

Thank you.

Operator

Thayer Wade, Donegal Securities.

Thayer Wade - *Donegal Securities - Analyst*

Thank you. Good morning, gentlemen. I see that in your report you state that one of the reasons for the decrease in core alkali segment earnings is higher electricity costs due to increase in natural gas prices. My impression was that your plants were located in places that had access to hydro-electric power such as Niagara Falls, New York, etcetera.

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

We've stated in the past from an electrical perspective that we have a balanced portfolio of electricity. We have got some plants that are hydro electric, some that are natural gas based, some that are coal based, some that are nuclear based. It doesn't affect our entire portfolio, but in this particular case we have a couple of plants that were affected and that's what happened.

Thayer Wade - *Donegal Securities - Analyst*

Okay. Thank you.

Operator

James Finnerty, Citi.

James Finnerty - *Citigroup - Analyst*

Just on the M&A topic, you mentioned about the one more consolidation being possible and you would be interested in taking part in that. Outside of chlor alkali, are there any other opportunities for you to take what you produce and go downstream, say like in taking some -- you serve into hydrogen for hydrogen peroxide, as an example, would that be a possibility?

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

As we've said, there are many downstream products. One that we have been actively involved in over the past several years has been bleach, which takes both chlorine and caustic and repositions it. And that was really the genesis of the acquisition for KA Steel. Products that use hydrochloric acid, bleach, etcetera, going downstream, we certainly do have an interest in that are more closely related to what we do.

James Finnerty - *Citigroup - Analyst*

Would it be possibilities of going into the other downstream markets that you're not currently involved in?

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

There are possibilities, yes, assuming that we could get the right value.

James Finnerty - *Citigroup - Analyst*

Got you. Okay. That was the one question. Thank you.

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

Thank you.

Operator

Doug Rischbieter, private investor.

Doug Rischbieter - *Private Investor - Analyst*

Good morning from the left coast and thank you for the opportunity. My two questions relate to the Winchester business and one only needs to go into any Wal-Mart or sporting goods store to see evidence of the backlog. I was wondering if you might take the opportunity of that shortage at the consumer end to use some pricing power or raise your margins there? And then my second question was, if you're taking any strategy or taking any action because of California's stated interest in banning lead projectiles?

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

Two things. One is that we did take a price increase in January of this year, 3% to 5%. We also announced a price increase we implemented July 1 of 2%. So we have taken some pricing actions in the marketplace and, secondly, we continue to look at ways to address issues like non-lead. We actually do have projectiles for almost every caliber ammunition we make that are non-lead. One of them in particular for the State of California, as you know several years back, where we had -- we developed a copper bullet because of the issues with the condor in California.

Doug Rischbieter - *Private Investor - Analyst*

Thank you for taking the time for a shareholder question.

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

You're welcome.

Operator

Gentlemen, at this time I'm showing no additional questions and I would like to turn the conference call back over to Mr. Rupp for any closing remarks.

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

We would like to thank everyone for joining us today and look forward to announcing our results in a meeting with you in October we're at the end of our third quarter. Thank you and have a good summer.

Operator

Ladies and Gentlemen, the conference is now concluded. We do thank you for attending today's presentation. You may now disconnect your telephone lines.
