

FINAL TRANSCRIPT

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OLN - Q3 2008 Olin Corporation Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Olin Corp. third quarter 2008 earnings conference call. I will be your coordinator for today. At this time all participants are in a listen-only mode. We will be facilitating a question and answer session towards the end of today's conference. (OPERATOR INSTRUCTIONS) . As a remainder this conference is being recorded for replay purposes.

And I would now like to turn the call over to your host for today, Mr. Joseph Rupp, Chairman, President and CEO.

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

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

During the third quarter of 2008 Olin earned operating income of \$87 million which is a record for the Company and represents a 130% increase from the third quarter of 2007. Both the Chlor Alkali and Winchester business performed well and both are expected to post record full year results in 2008. Sales for the third quarter of 2008 were \$502.9 million compared to \$350.3 million in the third quarter of 2007. Net income from continuing operations in the third quarter of 2008 was \$37.7 million or

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\$0.49 per diluted share. This includes the impact of the previously announced \$26.6 million impairment charge on corporate debt securities. Third quarter 2007 net income from continuing operations was \$32.7 million or \$0.44 per diluted share.

Chlor Alkali earnings improved 47% compared with the third quarter of 2007 which reflects the contributions and synergies of the Pioneer acquisition and improved prices. These factors allowed the business to overcome continued increases in freight and electricity costs. Year-over-year ECU netbacks improved 20%. Winchester's third quarter 2008 earnings of \$9.8 million reflects the positive impact of improved pricing which offset higher costs. Third quarter 2008 earnings benefited from a lower level of stock-based compensation expense due to the decline in the stock price that occurred during the quarter and a \$2.5 million reduction in income tax expense primarily associated with the finalization of the 2007 income tax returns.

Finally, our third quarter results include \$6.4 million of environmental expenses which are 60% lower than the unusually high third quarter of 2007. Fourth quarter 2008 earnings are projected to be in the \$0.65 per diluted share range which represents the highest level of fourth quarter earnings since the spinoff of Arch Chemicals in 1999. In Chlor Alkali, improvement in ECU netbacks is expected to offset the combination of seasonally weaker volumes and a lower level of overall activity. Winchester expects approximately breakeven results in the seasonally weak fourth quarter. And now a more detailed discussion by business to begin with Chlor Alkali.

First, an update on the impact of Hurricanes Gustav and Ike. Hurricane Gustav, which impacted Central Louisiana, forced a shutdown of our St. Gabriel facility on August 31. The storm caused minor damage to our plant, which we were able to repair within one week. Our third quarter results do include approximately \$750,000 of onetime expenses associated with the shutdown, repairs and restart of this facility. On September 10, we issued a force majeure declaration for product shipments from St. Gabriel which lasted for seven days. The restart of the plant was delayed by the inability of some of our pipeline chlorine customers to accept deliveries due to damage to their facilities or disruptions to the transportation system which disrupted the delivery of raw materials. The St. Gabriel facility was restarted without incident on September 13.

One additional impact of Hurricane Gustav was to delay the completion of the St. Gabriel conversion and expansion project scheduled for the first quarter of 2009 by an estimated three to four weeks. This will also delay some of the capital spending associated with this project from 2008 to 2009 and John will provide a capital spending update in just a few minutes.

Hurricane Ike did not directly impact any of Olin's facilities, but did directly impact one of our SunBelt joint venture's primary chlorine customers. As a result of this customer's inability to operate its facility, or to receive or return railcars, SunBelt issued a force majeure declaration for caustic soda on September 17. This declaration was lifted on October 6, and the SunBelt plant was restarted without incident. Continued issues with transportation and other raw material supplies along the Texas Gulf Coast has limited SunBelt to an operating rate, since the restart, of approximately 65%. In addition to the onetime expenses I mentioned earlier, the force majeure declarations reduced total Olin Chlor Alkali production in the third quarter by approximately 3% or approximately 12,000 ECUs. In spite of these challenges, Chlor Alkali Products earned a record \$103.6 million in the third quarter, which included a \$31.7 million contribution from the Pioneer operations. The contribution from Pioneer includes the benefit of the synergies realized. The contribution from these synergies was approximately \$10 million during the quarter.

Chlor Alkali earnings in the third quarter of 2007, which included one month of contribution from Pioneer, were \$70.7 million. Chlorine and caustic soda shipment volumes increased 29% year-over-year due to the inclusion of the Pioneer operations and as I mentioned, volumes were negatively impacted by approximately 3% due to the hurricanes. Our operating rate during the quarter was 89%, which compares to 97% in the third quarter of 2007. Chlorine demand has remained below the levels experienced in 2007. Caustic soda demand has continued to exceed chlorine demand and therefore remained tight in the Olin system throughout the quarter. We expect operating rates to decline in the fourth quarter to the low 80% range, reflecting a combination of a normal seasonal slowdown, the conclusion of the peak bleach season and a lower overall level of activity.

Our ECU netback in the third quarter was \$660, which represents a 20% increase from third quarter 2007, and a 12% increase from the second quarter of 2008. The increase reflects the combined impact of lower chlorine prices and higher freight costs offset by higher caustic soda prices. Chlorine prices have now declined for four consecutive quarters and caustic soda prices

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have increased for eight consecutive quarters. Looking forward, we expect Olin's ECU netbacks in the fourth quarter of 2008 to increase from the third quarter, and to continue to increase into the first half of 2009.

The impact of the two hurricanes, which caused approximately 75% of the North American Chlor Alkali capacity to be shut down for some period of time, makes it likely that a significant portion of the \$130 caustic soda price increase that was announced during the third quarter will be realized in the Olin system.

During the quarter the Chlor Alkali business continued to face higher costs, specifically electricity and freight costs. Freight costs which, as a reminder, are reflected as a reduction in our ECU price, increased 27% in the third quarter of 2008, compared to the third quarter of 2007. Year-to-date, the freight component of our ECU netback has increased 30% compared to the first nine months of 2007. Third quarter 2008 freight costs were negatively impacted by work-arounds made necessary by the disruptions to the transportation system which was caused by the hurricanes.

Third quarter 2008 electricity costs increased approximately 16% compared to the third quarter of 2008 and increased 8% compared to the second quarter of 2008. We expect electricity costs to decline in the fourth quarter of 2008, compared to the third quarter, due to lower seasonal rates at some of our plants, the lower projected operating rates which allow peak electricity prices to be avoided, and the recent decline in natural gas prices.

Our efforts to achieve synergy savings from the Pioneer acquisition continues to be successful. During the third quarter of 2008, we began to realize the full benefit of the shutdown of the Dalhousie, New Brunswick facility that was completed in the second quarter. Year-to-date we have realized approximately \$26 million of synergies and, based on the results achieved through the end of the third quarter, we now believe it is likely we will achieve more than \$45 million of synergies on an annualized basis.

Now let me turn to Winchester. Winchester's third quarter 2008 sales of \$141 million and earnings of \$9.8 million compared to sales of \$129 million and earnings of \$10 million in the third quarter of 2007. This reflects the combined impact of improved product prices, higher costs including commodity metal costs, higher law enforcement sales volumes and lower commercial volumes. The higher level of law enforcement sales reflects a robust order flow and, as a point of reference, during the first nine months of 2008, law enforcement orders received by Winchester have increased 20% compared to the first nine months of 2007 and the backlog of orders has increased 33%.

During the third quarter of 2008, Winchester received law enforcement orders from the Canadian Border Services Agency, the Department of Homeland Security and the Federal Law Enforcement Training Center. These awards covered both training and service ammunition. Winchester has also continued to receive new military orders, which total in excess of \$20 million during the third quarter. The products ordered by the military include shotshells and ejection cartridges and frangible ammunition, as well as more standard 9mm, 5.56mm and 50 caliber military ammunition. These orders provide for deliveries into 2010.

During the third quarter of 2008, law enforcement and military contract sales accounted for approximately 25% of total Winchester sales. While overall demand in the Winchester business during the third quarter was strong, we continued to see weakness in the distributor chain, some softness in the seasonal demand for shotshells. Sales in the distributor trade channel declined 17% from the third quarter of 2007 to the third quarter of 2008. This decline was more than offset by the law enforcement and military contract sales increase of 23% from the third quarter of 2007 to the third quarter of 2008. While we are seeing weakness in some commercial sales areas we are also encouraged by the growth that has been achieved in the law enforcement and military contract area.

The contracts that support law enforcement and military sales tend to be multi-year and they provide a stable base of business for Winchester in 2009 and beyond. In spite of the recent declines in the prices of copper and lead, the cost of commodity metals and other materials continues to be a challenge for the Winchester business. In the first nine months of 2008 the purchase cost for copper, lead, and zinc have all increased compared to the first nine months of 2007. The increase has been especially pronounced in the price of lead which increased 85% year-over-year. The price of lead has been especially volatile over the past

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six months, starting at the period at a price near \$1.30 per pound, falling to approximately \$0.70 per pound and then rebounding to back over \$1, before falling back to the \$0.70 range.

Winchester continues to work towards completing the relocation of its military packing operations from its East Alton facility to Oxford, Mississippi. This relocation, which involves approximately 100 jobs, is now expected to be completed by the end of the year and is expected to generate annual cost savings of approximately \$3.0 million.

Before I turn the call over to John, I'd like to emphasize two points. First, our third quarter results and fourth quarter outlook continue to demonstrate the benefits of our 2007 acquisition of Pioneer. During the third quarter, the benefits allowed us to overcome the negative impacts of two hurricanes and the continued escalation in the costs of electricity and freight. We are continuing to realize the expected synergies, which should enhance our results as we move forward.

Secondly, the Winchester business has successfully offset escalating and volatile commodity costs, and is well positioned to combat lower sales volumes that might occur due to the weakening economic conditions. Winchester has successfully diversified its sales base, which will benefit the business for the next several years.

And now I'd like to turn the call over to our Chief Financial Officer, John Fischer, who is going to review several financial items with you. John?

John Fischer - Olin Corporation - VP, CFO

Thank you, Joe. First I'd like to discuss a few items on the income statement. Selling and administration expenses increased 15% or \$4.6 million during the third quarter of 2008, compared to the third quarter of 2007. The increase is due primarily to the inclusion of the Pioneer operations for the entire quarter in 2008. Legal and legal related settlement costs were \$3.4 million higher in the third quarter of 2008 and were partially offset by lower management incentive costs resulting primarily from lower mark-to-market adjustments on stock-based compensation. The mark-to-market adjustment in the third quarter 2008, which reflects a decline in the stock price from \$25.99 per share to \$19.15, reduced stock-based compensation expense by \$2.9 million. In the third quarter of 2007, mark-to-market adjustments increased stock-based compensation expense by \$1.8 million. As a reminder, every \$1 change in the Olin stock price changes stock-based compensation expense by approximately \$450,000. Corporate and other expenses in the third quarter 2008 increased \$1.3 million, compared to the third quarter 2007. Higher legal and legal-related expenses were partially offset by the lower level of stock-based compensation.

Third quarter 2008 environmental, investigatory and remediation expenses were \$6.4 million, compared to \$16.2 million in the third quarter of 2007. These costs relate primarily to remedial and investigatory activities associated with former waste disposal sites and past operations. The unusually high third quarter 2007 charges included a \$7.8 million increase in costs at a former waste disposal site that was based on revised remediation estimates resulting from negotiations with a government agency. We believe the fourth quarter 2008 charges for environmental investigatory and remedial activities will be lower than the fourth quarter of 2007 level of \$8.6 million, and we continue to believe that charges for environmental expenses for the full year 2008 will be 25% lower than the full year 2007 charges.

Total company defined benefit pension plan income was \$2.9 million during the third quarter of 2008, compared to expense of \$13.0 million in the third quarter of 2007. The expense level in the third quarter of 2007 included a curtailment charge of \$6.6 million associated with the sale of the Metals business. The year-over-year improvement in the defined benefit pension plan expense reflects the impact of the \$100 million voluntary contribution made in May of 2007, the favorable investment returns earned in 2007, a required 25-basis point increase in the discount rate used to value liabilities, an increase in the period used to amortize plan losses, and the impact of the plan freeze for salaried and non-bargain hourly employees that became effective January 1, 2008. The \$15.9 million decline in defined benefit pension plan expense was partially offset by higher defined contribution pension plan expenses of \$2.2 million.

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The employees affected by the pension plan freeze are now participating in a defined contribution plan. Through the end of September, the defined benefit plan's investment portfolio had declined approximately 8%. The decline reflects the weakness in both the domestic and international equity markets and interest rate increases that reduced the value of some of the plan's fixed income investments. During the same period, interest rates on corporate bond, which are used to determine the plants liability discount rate, have increased. This has resulted in an estimated 125basis point increase in the discount rate. The combination of these two factors have preserved the over-funded position that existed in the plan at December 31, 2007.

As we announced earlier, the third quarter 2008 results included in the other expense line a \$26.6 million impairment charge representing the full value of an investment in corporate debt securities. During the second quarter, a temporary unrealized pre-tax loss of \$6.1 million was recorded on these securities against equity. We are currently unable to utilize the capital loss resulting from this impairment and, as a result, no tax benefit has been recognized in the financial statements. However, capital losses may be carried forward to offset future capital gains which may reduce future income tax expense when utilized. The absence of a tax benefit on the impairment resulted in an effective tax rate during the quarter of 46.4%. This rate also includes a \$2.5 million reduction in tax expense associated with the finalization of the 2007 income tax -returns, resulting from a larger than expected benefit from the domestic manufacturing deduction. For the full year, including the impact of the third quarter items I just described, we expect the effective tax rate to be approximately 39%.

Now turning to the balance sheet. Cash and cash equivalents at September 30, 2008, were \$200.2 million, compared to \$42.1 million at September 30, 2007. The September 30, 2007 cash balance did not yet reflect the impact of the sale of the Metals business. Year-to-date, the cash balance has declined by \$105.8 million. This decline reflects the combination of several factors.

First, the normal seasonal growth in working capital, which is most pronounced in the Winchester business, but also occurs in Chlor Alkali. Second, a higher overall level of working capital in the business reflecting both higher selling prices and higher raw material input costs. And third, the high level of capital spending in 2008. Cash and cash equivalents are expected to increase by approximately \$50 million during the fourth quarter as the seasonal growth in working capital that occurs during the first three quarters of each year reverses itself. We continue to forecast that Olin will be a user of cash during 2008. The impact of higher selling prices and higher raw material costs in Winchester and higher selling prices in Chlor Alkali will cause working capital to increase during 2008 by \$30 million to \$40 million.

Capital spending during the third quarter of 2008 was \$51.9 million, of which \$38.6 million was for the St. Gabriel Louisiana facility's conversion and expansion project. Year-to-date, capital spending has totaled \$123.4 million compared to \$40.1 in the first nine months of 2007. The St. Gabriel project has accounted for approximately 60% of the year-to-date capital spending. For the full year 2008, we are now projecting capital spending to be in the \$190 million to \$200 million range, which is \$10 million lower than our prior forecasts.

As Joe mentioned earlier, the hurricane-related outage at our St. Gabriel Louisiana facility delayed the conversion and expansion project by approximately four weeks. This will delay approximately \$10 million in spending on the project from 2008 to 2009. Third quarter 2008 depreciation expense was \$17.3 million and we now project full year depreciation expense to be approximately \$70 million. As a reminder, annual depreciation expense is expected to increase approximately \$10 million with the completion of the St. Gabriel project.

Yesterday, Olin's Board of Directors declared a dividend of 20 cents on each share of Olin common stock. The dividend is payable on December 10, to shareholders of record at the close of business on November 10, 2008. This is the 328th consecutive 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-Q and in our third quarter earnings release. A copy of today's transcript will be available this afternoon on

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our website in the investors section under calendar of events. The earnings press release and other financial data and information is available under Press Releases. Operator, with that we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) And your first question comes from the line of Frank Mitsch of BB&T Capital Markets. Please proceed.

Frank Mitsch - BB&T Capital Markets - Analyst

Good morning, folks.

Joseph Rupp - Olin Corporation - Chairman, President, CEO

Good morning, Frank.

Frank Mitsch - BB&T Capital Markets - Analyst

Hey, during the presentation, Joe, you talked about the trends in ECU pricing third quarter nicely up from the second quarter, expecting the fourth quarter to be up from the third quarter and I think you talked about the first half of '09 being up further still. Can you talk about your confidence in that occurring, particularly given some of the broader economic concerns that are out there?

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

Frank, this is John. Let me make two comments. As of the end of the third quarter, all of the \$120, the latest caustic price increase, and some portion of the combined second quarter announced increases, have yet to be implemented, and so as those are implemented in the fourth quarter, we're comfortable that the impact of those will roll into the first half of next year. Now there are geographies in the U.S., the West Coast being one, where the -- where 100% realization of those price increases will probably not occur just because of the impact of caustic being exported from other parts of the world, especially from China, but we're comfortable in the markets that we serve that we're going to have continued price increase opportunities into the first half of the year.

Frank Mitsch - BB&T Capital Markets - Analyst

All right. And then, John, talking about the pricing side how about on the volume side. Obviously you indicated that the fourth quarter is going to be down due to seasonality as well as economic concerns. What's your expectation for volumes as we start the New Year?

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

Well, the volume side of the equation is the one that we have the least clarity on and it's all going to be driven by, at least in North America, what happens in the vinyls market and what happens in the overall level of economic activity. We would -- we have typically -- our business historically sees fourth and first quarters as being the lowest volume quarters of the year for us, and we don't expect that trend to change. I think the question -- or the question for which I don't have an answer is just how

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much more down side is there for the vinyls market. The last information I had, post-hurricane, was the vinyls market was operating in the mid-70% range. We wouldn't be surprised to see that number drop a little lower. However, if it does, it just adds to the continued supply side complications for the caustic buyers.

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

So in a perverse way, it's beneficial for your caustic pricing into next year?

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

That is correct.

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

And then I need to ask the obligatory question on use of cash. I know you talked about postponing \$10 million of CapEx into '09. Obviously your net debt level is extremely low. You've got solid cash flows in the fourth quarter and into next year. What are your current thoughts on uses of cash, particularly with your shares right now, below \$16?

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

Frank, as we've talked about before, we continue to look at ways to expand our chemical business, but -- and we've often said that as we get into 2009, if we can't come up with something there that we have to figure out a way to reward shareholders. I would also just say that in this volatile situation that we're going to be real careful what we do with the cash at this point in time.

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

All right. So basically stay tuned?

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

Right.

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

Terrific. Thank you.

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

Thank you, Frank.

Operator

Your next question comes from the line of Don Carson of Merrill Lynch. Please proceed.

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Don Carson - Merrill Lynch - Analyst

Thank you. Just want to follow-up on the Chlor Alkali outlook. John, alumina and paper demand is coming down, but I guess the offset to that would be operating rates. I know PVC, well, domestic demand was down I think 11% this year, exports were up sharply and that window looks like it's closed, so are you expecting operating rates to come down even further and hence that supply tightness would offset any demand erosion for caustic? And then just as we look sequentially, I know that, as bleach season goes away that reduces your realization somewhat, but what kind of an increase would you expect sequentially, with the fade in bleach and the implementation of these previously announced price increases?

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

Let me talk about operating rates first, Don. I think it's very likely that fourth quarter operating rates for the industry will be lower than the third quarter. The industry rates for the third quarter were 82. Now that number was impacted significantly by September which had in the 60% operating rate range because of the hurricanes, but as I mentioned, we continue to see weakness in vinyls across North America and we expect fourth quarter operating rates because of that and just overall economic activity to be lower. As we move into the first part of the year, as I said earlier, that's the big unknown for us and whatever down side there is on volume, we expect an opportunity on caustic because if operating rates continue to drop, there are certain segments, especially in our business, where we haven't seen the significant dropoff in caustic demand. Our caustic customers are running strong and we continue to be behind in shipments. So for us, an operating rate reduction, going into the first half of next year, isn't necessarily an overall downer for our business.

Don Carson - Merrill Lynch - Analyst

What exposure do you have to the alumina industry either indirectly or through the alumina contract? As I recall I think the second half contract was 645, so one would expect that to be up even if it doesn't get up to the sort of \$1,000 spot level?

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

We would expect the alumina contract to go up as well. Our exposure to alumina directly is basically zero. We don't export caustic out of our business and consequently, we don't service any part of the alumina market either in South America or in the Australian market.

Don Carson - Merrill Lynch - Analyst

And then just looking at power costs, will the reduction in power costs in Q4 be enough to offset the ever escalating freight costs?

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

Well, we don't know. Let me just talk about them separately. We do expect electricity costs to go down and that's a typical pattern for us in the fourth quarter of the year and as our remarks said, it's driven by lower operating rates and in this case it will be helped by just lower overall fuel costs, natural gas costs. Freight costs we continue to expect to go up. There are two components to freight costs, base freight rates, for which the railroads have no competitive restraint and they will continue to raise those rates. The other part of overall freight is fuel surcharges and those are tied to crude oil prices and diesel prices and with some lag in it. So we would expect to see those trend down, at least based on what's happened in crude oil pricing in the last several weeks.

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Don Carson - Merrill Lynch - Analyst

Okay. Thank you.

Joseph Rupp - Olin Corporation - Chairman, President, CEO

Thank you, Don.

Operator

Your next question comes from the line of Mike Judd of Greenwich Consultants. Please proceed.

Mike Judd - Greenwich Consultants - Analyst

Yes. Good morning. Some tax-related questions. I just want to make sure I understood what you were indicating. Just backing up here from the September quarter, if you were to exclude the special charge, what was the actual underlying tax rate in the September quarter?

John Fischer - Olin Corporation - VP, CFO

It was in the September quarter we'll call it a one time but a discreet \$2.5 million credit associated with the filing of our 2007 tax return. If you exclude that we continue to believe our effective tax rate on a recurring basis is somewhere between 36 and 37%.

Mike Judd - Greenwich Consultants - Analyst

So basically if you had pre-tax income of 97 and you applied a 36% tax rate, essentially the underlying earnings per share was around \$0.81. Is that right?

Joseph Rupp - Olin Corporation - Chairman, President, CEO

In that range, yes, Mike.

Mike Judd - Greenwich Consultants - Analyst

Okay. And then if I understand correctly, the underlying clean tax rate that we should be using for the December quarter is approximately 39%? Is that correct?

John Fischer - Olin Corporation - VP, CFO

No. That would be the reported full year effective rate giving consideration to all the unusual items. The rate that I would suggest you use for the December quarter is the 36 to 37 I just mentioned.

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Mike Judd - Greenwich Consultants - Analyst

Okay. The next thing I wanted to ask was, we've obviously seen a pretty sharp decline in copper prices and other metal prices. I understand that you expect the Winchester to be break even, seasonally weak as it typically is in the December quarter, but as you look to next year, I mean it seems to me that that business should improve, right? Shouldn't the profitability be heading in the right direction for next year?

John Fischer - Olin Corporation - VP, CFO

We have said that historically the most profitable times for the Winchester business are periods of slowly declining raw material costs, because that doesn't typically trigger significant demands for price decreases. I would not say that what we've seen in the copper and lead markets recently qualifies as slow declines. All in, I would say ultimately it should be favorable for the business. I think you, what you will see will all lag out at some point in time. I would also point out that last year at this time copper dropped down to about -- dropped down well over \$1.50 and then ran right back up in the first quarter. So, I don't know what to tell you is really going to happen there, if I could.

Mike Judd - Greenwich Consultants - Analyst

Okay. Then just lastly, on the -- I think you guys typically provide some operating rate information in your press release for the ECUs. I didn't see it this time. Maybe I just missed it, but you did indicate that I thought the industry operating rate was around 82%. Was your operating rate similar to that?

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

Our operating rate for the third quarter was higher than the industry rate. Theirs was 82. Ours was 89.

Mike Judd - Greenwich Consultants - Analyst

Okay. All right. Great.

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

We said in the fourth quarter we would expect operating rates for Olin's system to decline and be in the low 80% range.

Mike Judd - Greenwich Consultants - Analyst

Okay. In terms to pricing for the ECU, are we still on this or you had provided some information about time lag and how there were -- you have contracts that basically limit, on a quarterly basis, the amount of price increase. Has that changed at all since the last time we got an update or is it still pretty much the same?

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

It's still pretty much the same. There's not really been any change in how price increases get translated into realized price changes in our system.

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Mike Judd - Greenwich Consultants - Analyst

Just finally this maybe just a comment but, fortunately, you guys, there are only a few moving parts here and as I model these things out, I come up with a substantially higher earnings estimate for the fourth quarter than \$0.65. Is there something else that I'm missing here?

John Fischer - Olin Corporation - VP, CFO

I think we've said in our outlook those factors that we think are important to be considered.

Mike Judd - Greenwich Consultants - Analyst

Great. Thanks for the help.

Joseph Rupp - Olin Corporation - Chairman, President, CEO

Thank you, Mike.

Operator

Your next question comes from the line of Christopher Butler of Sidoti & Company. Please proceed.

Christopher Butler - Sidoti & Company - Analyst

Hi. Good morning, guys.

Joseph Rupp - Olin Corporation - Chairman, President, CEO

Good morning.

Christopher Butler - Sidoti & Company - Analyst

During the conversation here you touched on imports coming from China. Just wondering if we could get a little bit more color on that in light of the recent strengthening of the US dollar? And also is there a tipping point with the dollar that we can look at or could you help us out in that degree?

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

Chris, this is John. Let me just talk about the import situation. Caustic prices from China have trended up \$100 a ton or so in the last two to three weeks. I think that reflects several things. It reflects that there have been imports of caustic from China into the U.S., predominantly in the West Coast, but it also reflects the demand for vinyls in Asia and overall chlor alkali production rates in Asia are headed downward and so there is a beginning supply side constraint on caustic in that part of the country that would even be available for exporting. And so when we look at net caustic exports from the U.S., we see both phenomenon. We see that net exports will decline by a little over 100,000 dry metric tons from 2008 to 2007 and that's against on a basis of over a million dry metric tons. Chinese shipments comprise an increase. European caustic shipments into the U.S. are expected to remain relatively flat.

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So I think that even though there has been an improving situation, if you're trying to export caustic into the US from a dollar standpoint, that's not offset totally by the supply constraints that both the European producers and the Chinese producers are seeing. I just don't have it available to send.

Christopher Butler - *Sidoti & Company - Analyst*

Thank you for that detail. And digging in here a little bit, you talked about the pension plan and the contribution in the quarter. With everything that's happened here in the market the last few weeks, could you give us an idea of what we're looking at for 2009 as far as the pension plan is concerned and the portfolio allocation and some changes that we might see here for the end of the year?

John Fischer - *Olin Corporation - VP, CFO*

The pension plan allocation right now is about 75% fixed income and has been for most of the year. We do not foresee the scenario where in 2009 we're going to have to make any cash contributions. The last contribution we made was in May of 2007 and we've said we don't expect to have to make additional contributions based on where we were as of September 30, I would say that view has not changed. The last three weeks have been somewhat unusual and I don't know that I can comment on that because I don't have a full view of what's exactly happened.

Christopher Butler - *Sidoti & Company - Analyst*

Thank you. Appreciate the time.

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

Thank you.

Operator

Your next question comes from the line of Barrett Eynon of Brownstone. Please proceed.

Barrett Eynon - *Brownstone - Analyst*

I got in late. I missed the part you talked about Pioneer's contribution to last year's earnings, as well as this year's.

John Fischer - *Olin Corporation - VP, CFO*

We said that Pioneer contributed \$31.7 million during this quarter to the total earnings. That's all we said.

Barrett Eynon - *Brownstone - Analyst*

Okay. To this year, okay. And then I'm trying to get a clarification on caustic. What were caustic prices in the second quarter versus the third quarter this year for you guys?

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

We don't break those out.

Barrett Eynon - *Brownstone - Analyst*

What were they for the industry?

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

You could give him ECU.

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

ECU prices in the third quarter were, in our remarks we said \$660. ECU prices in the second quarter of this year were roughly \$590.

Barrett Eynon - *Brownstone - Analyst*

And what were they last year in third quarter?

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

Last year in the third quarter, \$542.

Barrett Eynon - *Brownstone - Analyst*

542. You see them going higher into the fourth quarter?

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

We said we see the trend improving in fourth quarter.

Barrett Eynon - *Brownstone - Analyst*

Right. Just an understanding on the caustic, you aren't heavily exposed to alumina. I mean in terms of, I understand the idea of reducing capacity rates are going to be higher, so it's going to support prices, but if overall what about demand has declined what do you think supports prices from falling from where they are now? Is there something you're exposed to personally that's going to keep your prices higher?

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

It's all supply and, at least in North America, we feel very comfortable that the impact of alumina will be felt other places before it would conceivably be felt in North America. So as we look forward for the next several quarters, we're comfortable that we see continuing improved ECUs, ECU pricing.

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Barrett Eynon - *Brownstone - Analyst*

Are there certain sectors that use caustic that you guys are more exposed to than the overall industry are, (inaudible) from that or not?

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

Well, we have, our caustic market segment exposure in North America that is probably the largest is pulp and paper and in the geographies where we serve the pulp and paper market, we believe and historically believe, that our customers are more cost competitive than some of the people they compete with. In recent history in terms of pulp and paper mills that have been closed or been forced to reduce size or reconfigure would support that, that our customers tend to be in markets, market geographies, where they remain more competitive than in some other geographies in North America.

Barrett Eynon - *Brownstone - Analyst*

Okay. And then on the EPS side, what was your EPS excluding any sort of one time charges for the quarter?

John Fischer - *Olin Corporation - VP, CFO*

I think the best way to do that is to take \$26.6 million, add it to next income, and divide by the shares outstanding.

Barrett Eynon - *Brownstone - Analyst*

It came around \$0.68?

John Fischer - *Olin Corporation - VP, CFO*

I think that's low. Yes. I think it's something up in the 80s.

Barrett Eynon - *Brownstone - Analyst*

All right. Thank you.

Operator

Your next question comes from the line of Costas Karathanos of Goldman Sachs. Please proceed.

Costas Karathanos - *Goldman Sachs - Analyst*

Good morning. I have a quick question for John, if I may, and it's a follow-up on the previous questions on demand. Have you seen the weaker US GDP start to reduce the domestic gross demand? That's the first question, John, and the second question you mentioned about China, prices are up over there by \$100, if I remember correctly, but again economy is talking about a Chinese slowed down. Do you see again caustic demand decline over there, so the whole import/export situation changing? Thank you.

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

We have not seen in North America any reduction in demand or any signs of weakness in the caustic consuming market segments that we serve. In terms of China, let me reiterate again what's happening in China is based on the information we have is that chlor alkali operating rates are headed down because there's less demand for vinyls and vinyl-related products both for internal consumption and for export purposes out of China. That reduction in operating rates is lowering the amount of caustic that's available and therefore, the lowering amount of caustic that's available for export. So we see that trend, although it won't eliminate imported caustic from China, it will put a supply side constraint on how much of it will show up and so we don't see it being a significant impact at least in the short term.

Costas Karathanos - Goldman Sachs - Analyst

Yes. I mean I understand the supply part of the equation, I was just talking more of the demand equation, John. If the slowdown over there is going to reduce the actual users of caustic?

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

Well, it may but I think you have to remember that most of, the swing for caustic demand in most of those countries is for export. So to the extent that they have less caustic available on the supply side, that's going to have more of an impact on the amount they export than it's going to have on what they consume internally. So, even if there is a reduction in what they consume internally, we still don't expect that to be significant enough to make a big difference in the worldwide trade and flow patterns for caustic soda.

Costas Karathanos - Goldman Sachs - Analyst

Thank you.

Operator

Your next question comes from the line of [Carly Mattson] of Goldman Sachs. Please proceed.

Keith Wiley - Goldman Sachs - Analyst

Hi. It's actually Keith Wiley. Just a quick question. Could you break down your shipment, how much goes into the pulp and paper industry for caustic and what are the other, maybe the top three industries, what percentage goes into each of those industries?

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

We've not done that with Olin's business before. We have provided some information from an industry standpoint and I'd be glad to do that.

Keith Wiley - Goldman Sachs - Analyst

Sure.

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

Caustic for North America, caustic demand -- chlorine demand, I'm sorry, by end use the three largest segments are vinyls, organics which includes cumulatively urethanes, polycarbonates and then several smaller uses, and then a whole host of others, but those two, in and of themselves, are the biggest two and account for nearly 65% of all chlorine consumption in North America. From a caustic standpoint, caustic uses are much more evenly spread out and much more diverse. Pulp and paper is one of the largest. Organics, which again includes urethanes, polycarbonates and other chemicals is another large category. In organics, which is titanium dioxide, (inaudible), is another significant category for caustic consumption in North America.

Keith Wiley - Goldman Sachs - Analyst

If we just single out the pulp and paper industry is that maybe 30% of shipments of total industry caustic or is it 20% or?

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

It's less than that for North America.

Keith Wiley - Goldman Sachs - Analyst

Less than 20?

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

Less than -- I thought you said 30?

Keith Wiley - Goldman Sachs - Analyst

Then I said 20.

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

Oh, well, between those two.

Keith Wiley - Goldman Sachs - Analyst

All right. Thank you.

Operator

Thank you. And as you have no further questions I will now turn it back to Mr. Rupp for closing remarks.

Joseph Rupp - Olin Corporation - Chairman, President, CEO

Thank you for joining us and we'll look forward to reporting our full year results in January. Have a good holiday season. Thank you.

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Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.

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