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## Conference Call Transcript

OLN - Q3 2009 Olin Corporation Earnings Conference Call

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Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

## CORPORATE PARTICIPANTS

**Joseph Rupp**

*Olin Corporation - Chairman, President, CEO*

**John Fischer**

*Olin Corporation - VP, CFO*

**John McIntosh**

*Olin Corporation - VP, President of Chlor Alkali Products Business*

## CONFERENCE CALL PARTICIPANTS

**Sabina Chatterjee**

*BB&T Capital Markets - Analyst*

**Ed Yang**

*Oppenheimer - Analyst*

**Christopher Butler**

*Sidoti & Company - Analyst*

**Don Carson**

*UBS - Analyst*

**Philip Birbara**

*Royal Bank of Scotland - Analyst*

**Kristen McDuffy**

*Goldman Sachs - Analyst*

**Lavon VonReedn**

*Hocky Management Company - Analyst*

**Richard O'Reilly**

*Standard & Poor's - Analyst*

**Arun Viswanathan**

*UBS - Analyst*

## PRESENTATION

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### Operator

Good day, ladies and gentlemen. Welcome to the Q3 2009 Olin Corporation earnings conference call. I will be your operator for today. At this time all participants are in listen-only mode. We will conduct a question and answer session towards the end of this conference. (Operator Instructions)

I will now like to turn the call over to Mr. Joseph Rupp, Chairman, President, and CEO. Please proceed.

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### 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 and Chief Financial Officer; John McIntosh, Vice President and President of Chlor Alkali Products Business; and Larry Kromidas, Assistant Treasurer and Director of Investor Relations.

Last night we announced net income in the third quarter of 2009 was \$39.4 million or \$0.50 per diluted share compared to \$37.7 million or \$0.49 per diluted share in the third quarter of 2008. For the third consecutive quarter Winchester achieved the highest level of earnings in its history reflecting the combination of seasonally strong sales, the continuation of the stronger than normal demand that began in the fourth quarter of



2008, and lower costs. Winchester earnings more than doubled in the third quarter of 2009 compared to the third quarter of 2008 driven by commercial sales which increased 22% year-over-year and improved costs.

Chlor Alkali segment earnings of \$3.9 million exceeded our expectations of a loss in the quarter due to improved pricing and higher volumes. As expected Chlor Alkali earnings were significantly lower than last year due to lower ECU netbacks and lower volumes. Chlor Alkali sales declined 37% in the third quarter of 2009 compared to the third quarter of 2008. This decline reflects both lower shipment volumes and lower prices. Chlorine and caustic soda shipment volumes declined 20% year-over-year while ECU netbacks in the third quarter of 2009 declined 43% compared to the third quarter of 2008.

Third quarter 2009 earnings included \$44.3 million of pretax recoveries from third parties for environmental costs incurred and expensed in prior periods and a \$4.6 million pretax reduction in selling and administration expenses associated with the favorable resolution of a capital tax matter in Canada. Fourth quarter earnings were forecast to be in the \$0.15 per diluted share range which includes an expected \$35 million of additional recoveries of environmental costs incurred and expensed in prior periods. Fourth quarter 2009 chlor alkali earnings are expected to be similar to the third quarter of 2009 as higher ECU netbacks are expected to offset seasonally weaker demand. Earnings in the Winchester segment are expected to decline significantly from the third quarter due to normal seasonally weaker demand but are expected to exceed fourth quarter 2008 earnings. Winchester does expect fourth quarter 2009 demand to be stronger than historic fourth quarter levels. Our third quarter 2009 earnings of \$0.50 per diluted share exceeded our forecast of \$0.20 per diluted share due to better than expected performance across our businesses.

Chlor alkali which we had forecast to lose money in the quarter benefited from better than expected ECU netbacks and better than forecast cost performance. While Winchester benefited from better than expected volumes and favorable cost performance. In addition to the favorable resolution of the capital tax matter in Canada, earnings also benefited from a lower income tax rate that included approximately \$4 million of favorable adjustments. I believe it is especially noteworthy that in spite of the lowest ECU netbacks we have seen since the third quarter of 2004 and continued weak volumes driven by general economic conditions, our Chlor Alkali business was profitable in the third quarter and furthermore we're forecasting that Chlor Alkali business to be profitable in the fourth quarter. Now let me discuss both segments in more detail. First I am going to talk about Chlor Alkali.

During the third quarter of 2009 our Chlor Alkali business continued to experience chlorine and caustic soda demand that is well below historic levels, and these lower demand levels have been a significant driver of the reduced profitability that we have experienced this year. During the first nine months of 2009 Chlor Alkali segment earnings have declined \$121.6 million. 77% of which was attributable to lower volumes. Demand for chlorine and caustic soda remains a major challenge facing the business. While overall demand remained weak, chlorine and caustic soda volumes increased in the third quarter of 2009 compared to the second quarter of 2009 but remained well below historic levels. The third quarter of 2009 improvement volume was 18% compared to the second quarter. But the third quarter 2009 volumes were 20% lower than the third quarter of 2008 volumes. On a nine-month basis 2009 chlorine and caustic volumes were 27% lower than the first nine months of 2008.

Our Chlor Alkali business continued to experience weakness across our customer base. Third quarter 2009 chlorine shipments to vinyls, urethanes, and titanium dioxide customers declined 18%, 43% and 1% respectively compared to the third quarter of 2008 levels. We also experienced 11% decline in shipments of potassium hydroxide and a 39% decline in shipments of hydrochloric acid during the third quarter of 2009 when compared to the third quarter of 2008. One bright spot during the third quarter was bleach shipments which increased 21% compared to the third quarter of 2008 and on an ECU basis these shipments exceeded 35,000 tons during the quarter which was our highest quarterly level ever. It should be noted that bleach is a seasonal business and that the third quarter of the year is typically the strongest quarter for bleach shipments.

We expect fourth quarter 2009 bleach shipments to exceed the fourth quarter of 2008 levels. We have consistently stated that we believe bleach is an attractive business. As you know bleach consumes both chlorine and caustic soda and is a value-added product that typically demands a \$100 to \$200 premium compared to chlorine and caustic soda. We recently initiated capital projects at three of our chlor alkali manufacturing locations to expand our capacity to manufacture and ship more bleach. We expect to spend approximately \$12 million on this effort over the next twelve months.

Our third quarter 2009 operating rate was 74% which assumed that 100% of our demonstrated capacity was available for use. As we discussed throughout this year, the capacity of our St. Gabriel, Louisiana plant has been idled all year and has not been available for use. The old mercury cell plant was made permanently inoperable during the first quarter of this year. In addition, in response to the low levels of demand this year, an additional 5% of our capacity has been idled during 2009 and is not currently available for use. If these capacity reductions are taken into consideration, our effective third quarter operating rate was 86% and the year-to-date 2009 operating rate was 79%.



Our third quarter ECU netback was \$375 per ton which as I mentioned earlier was the lowest level Olin experienced since the third quarter of 2004. The third quarter 2009 netback declined 43% from the third quarter of 2008 and declined 36% from the second quarter of 2009. During the third quarter of 2009 the entire decline in the ECU netback was the result of lower caustic soda prices. Chlorine prices increased during the third quarter compared to the second quarter as we began to see a portion of the benefit from the chlorine price increases that were announced in the second quarter.

We anticipate chlorine prices to increase further in the fourth quarter of 2009 and continue to increase into the first quarter of 2010. We currently expect caustic prices to decline further in the fourth quarter of 2009 before the positive impact of the price increases announced in the third quarter begin to be realized. We expect to begin realizing these caustic soda price increases in the first quarter of 2010 with the expected fourth quarter movements in chlorine and caustic soda prices are currently believe the third quarter 2009 netbacks will be the lowest level we will see in this chlor alkali cycle as our fourth quarter 2009 ECU netbacks will improve compared to the third quarter.

In our second quarter 2009 earnings call we discussed the substantial decline in caustic soda prices that began in the second quarter. One of the factors impacting that decline was imbalance between chlorine and caustic soda demand that caused caustic soda production to exceed demand and resulted in caustic soda inventories held by producers to increase dramatically. At the end of the second quarter the volume of caustic soda inventory in our system was approximately 70% higher than normal. As of the end of the third quarter this inventory situation has been corrected and caustic inventories in our system were actually slightly below normal levels.

Our third quarter chlor alkali results included positive cost performance. Our electricity costs, the largest component of our largest chlor alkali costs declined approximately 20% in the third quarter of 2009 when compared to the third quarter of 2008 and these costs have declined approximately 15% on a year-to-date basis. We continue to aggressively manage our manufacturing schedules to optimize our electricity costs. Freight costs per ECU shipped, on the other hand, increased 8% in the third quarter of 2009 when compared to the third quarter of 2008 and on a nine-month basis freight costs per ECU shipped have increased approximately 9% from 2008 to 2009.

During the third quarter of 2009 we completed the construction of and the commissioning process for the production equipment at our new St. Gabriel, Louisiana facility. The start up process is expected to be completed and the plant is expected to become operational this week. We anticipate the St. Gabriel conversion expansion project will reduce our annual operating costs at the facility by approximately \$30 million due to more efficient electricity usage and the installation of a brine supply system. As a reminder, this facility has been idled since the fourth quarter of 2008.

Finally, during our second quarter earnings call we discussed legislation that had been introduced in the United States House of Representatives which if enacted would ban the production of chlor alkali products using mercury cell technology two years from the date it is enacted into law. In the third quarter the United States Senate introduced a companion bill. On October 21 the House committee on energy and commerce passed a bill that would require chlor alkali using mercury cell technology to make a decision by June 30, 2012 as to whether they're going to shut down or convert the facilities. If the decision is to convert the mercury cell plants would be required to be converted by June 30, 2015. If the decision is not to convert, the plants would be required to be shut down by June 30, 2013. For this bill to become law, it must be passed by the full House of Representatives and the full Senate. No action has yet been taken by the Senate on this bill.

Olin currently operates two facilities that utilize mercury cell technology totaling approximately 350,000 ECUs or 18% of our capacity. Olin has and continues to operate these facilities in full compliance with all rules and regulations. We continue to closely monitor the progress of these bills but it is not yet possible to determine what impact they will have on Olin or the chlor alkali industry.

Now turning to Winchester, during the third quarter of 2009 Winchester achieved record levels of quarterly sales and segment income. As the business continued to experience elevated levels of demand that began in the fourth quarter of 2008. During the quarter Winchester continued to experience strong demand across the majority of its product lines. Winchester's record third quarter 2009 sales of \$168.2 million represents a 19% increase over the third quarter of 2008. Commercial sales increased 22% year-over-year which represented a 31% increase in units shipped. Contract sales which include military and law enforcement customers increased 12% compared to the third quarter of 2008.

Winchester's commercial backlog at the end of the third quarter of 2009 was \$151 million which represents a more than five fold increase from the represents a more than five fold increase from the third quarter of 2008. Third quarter 2009 commercial backlog as expected declined from the second quarter level of \$240 million reflecting the normal seasonally strong second quarter ordering and third quarter shipment patterns. Total backlog including military and law enforcement was \$301 million at the end of the third quarter. Winchester earned a record \$23 million in the third quarter of 2009 compared to segment earnings of 9.8 million in the third quarter of 2008. Improvement reflects the combination of improved volumes and lower commodity and other material costs during the quarter.



Winchester's average copper price in the third quarter declined 16% from the third quarter 2008 and the average lead price declined 34% for the same period. On a year-to-date basis Winchester earned \$59.1 million in 2009 compared to \$29.3 million during the same period in 2008 and you will recall that Winchester's full year 2008 earnings of \$32.6 million were a record. We do expect Winchester's fourth quarter earnings to be significantly lower than the third quarter of 2009 but higher than historic fourth quarter levels and higher than the fourth quarter of 2008. The fourth quarter of every year is typically Winchester's weakest. The hunting season demand typically concludes early in the quarter and the business has two production outages scheduled during the quarter.

Based on September 30, 2009, backlog position we expect the fourth quarter to be stronger than normal and on par with the fourth quarter of 2008. As we said in the past, previous surges in the purchase of commercial ammunition have lasted between four and six quarters. The third quarter of 2009 represented the fourth quarter of unusually high levels of commercial demand in the Winchester business. The intensity of this surge in terms of products impacted and the level of demand has exceeded prior surges. Based on the backlog in the continuation of high levels of economic uncertainty which is a condition that leads to increased commercial sales, we believe that Winchester's demand may remain strong into next year.

Finally in August we successfully completed \$150 million ten-year note offering. We took advantage of a market opportunity to enhance our liquidity while maintaining staggered maturities, maturity amounts that we believe can be refinanced at all points in the chlor alkali cycle. I think that John Fischer and his team did an excellent job in positioning the Company with respect to this.

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

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**John Fischer - Olin Corporation - VP, CFO**

Thanks, Joe. First I would like to discuss a few items on the income statement. Selling and administration expenses decreased \$4.4 million or 12% in the third quarter of 2009 compared to the third quarter of 2008. The decrease was primarily due to a decrease in non-income based tax expense of \$5.4 million, the majority of which related to the favorable resolution of the Canadian tax matter. In addition, recruiting, relocation, and travel costs decreased \$2.3 million as a result of cost reduction efforts and the completion of the Pioneer integration efforts in 2008. These decreases were offset by increased management incentive costs of \$2.7 million primarily related to mark-to-market adjustments on stock-based compensation. During the third quarter Olin's common stock appreciated 47% or \$5.55 per share. As a reminder, every \$1 change in the Olin stock price changes stock-based compensation expenses by approximately \$400,000. Stock-based compensation expense in the third quarter of 2009 was \$4.6 million compared to \$400,000 in the third quarter of 2008.

Third quarter 2009 legal and legal related settlement costs increased \$1.5 million compared to the third quarter of 2008. These legal and legal related settlement costs related to both the recovery actions for environmental costs that were incurred and expensed in prior periods and legal costs for other legacy environmental sites both former manufacturing and waste disposal sites. Third quarter 2009 credits to income for environmental investigatory and remedial activities were \$38.8 million which includes the \$44.3 million of pre-tax recoveries from third parties for costs incurred and expensed in prior periods.

Without these recoveries, charges to income for environmental, investigatory and remedial activities would have been \$5.5 million in the third quarter of 2009 compared to \$6.4 million in the third quarter of 2008. These charges relate primarily to remedial and investigatory activities associated with former waste sites and past operations. As Joe mentioned earlier, we are anticipating additional pretax recoveries of \$39 million -- \$35 million, excuse me, in the fourth quarter for third parties for environmental costs incurred and expensed in prior periods. Without giving consideration to the anticipated \$80 million of recoveries in 2009, we currently expect full year 2009 charges for environmental investigatory and remedial activities to be in the \$25 million range. As a result of these projected fourth quarter 2009 recoveries we do not believe that there will be additional recoveries of material amounts in the foreseeable future.

On a total Company basis, defined benefit pension plan income was \$4.6 million during the third quarter of 2009 compared to \$2.9 million of defined benefit pension plan income in the third quarter of 2008. We are not required to make any cash contributions to our domestic defined benefit pension plan in 2009 and also believe it is unlikely we will be required to make any cash contributions in either 2010 or 2011. Defined contributions pension expense in the third quarter of 2009 was \$3 million compared to \$2.8 million in the third quarter of 2008. The majority of our active employees now participate in the defined contribution pension plan.

The tax rate for the third quarter was 29.5% compared to 46.4% in the third quarter of 2008 and 35% for the year-to-date 2009 period. The third quarter 2009 tax rate included several out of period adjustments that decreased third quarter 2009 tax expense by \$4.3 million. These items are related primarily to the finalization of the 2008 income taxes. Based on these items and our revised outlook for the business, we now forecast the

full year 2009 tax rate to be in the 34 to 35% range. The third quarter 2008 tax rate reflects the impact of a capital loss on the impairment of an investment in corporate debt securities for which no tax benefit was recognized.

Now turning to the balance sheet, cash and cash equivalents at September 30, 2009, were \$376.6 million compared to \$200.2 million at September 30, 2008, and \$192.2 million at June 30, 2009. The increase in the cash balance during the third quarter of 2009 reflects the proceeds from the \$150 million ten-year note offering that was completed during the quarter. September 30, 2009, working capital included the impact of a receivable associated with the environmental recoveries recorded in the third quarter which will be received in the fourth quarter.

Working capital after giving consideration to both the environmental recoveries and the second quarter working capital settlement associated with the metal sales is approximately equal to the year end 2008 level. As a point of comparison during the first nine months of 2008 working capital increased approximately \$162 million. Cash flows during 2009 have also benefited from a \$43.3 million decrease in cash tax payments. During 2009 Olin has reduced its cash tax payments by approximately \$35 million resulting from the accelerated depreciation included in the 2009 American Recovery and Reinvestment Act. Our St. Gabriel, Louisiana, conversion and expansion project is eligible for this accelerated depreciation tax deduction.

Capital spending during the third quarter of 2009 was \$34.7 million compared to \$61 million in the third quarter of 2008. The decline in the third quarter of 2009 capital spending compared to last year's third quarter is consistent with the completion of the St. Gabriel, Louisiana, conversion and expansion project and a multi-year major maintenance project at our McIntosh, Alabama, facility. Year-to-date capital spending totaled \$122.3 million and is comparable to the first nine months of 2008 spending of \$123.4 million. Approximately 60% of the year-to-date spending in 2009 has been for the St. Gabriel, Louisiana, conversion and expansion project.

We anticipate our full year 2009 capital spending to be in the \$150 million range. The spending is higher than our prior forecast due to additional investments in our Winchester and Bleach operations. We expect full year 2009 depreciation expense to be in the \$75 million range. Based on our preliminary outlook, we currently expect 2010 capital spending to be in the \$70 million to \$80 million range and depreciation in 2010 to be approximately \$90 million. On October 22, Olin's Board of Directors declared a dividend of \$0.20 on each share of Olin common stock. The dividend is payable on December 10, 2009, to shareholders of record at the close of business on November 10, 2009. This is the 332nd consecutive quarterly dividend to be paid by the Company.

Before we conclude, let me remind you that throughout this presentation we've 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 third quarter 2009 earnings release. A copy of today's transcript will be available this afternoon on our website in the investors section under calendar of events. The earnings press release and other financial data in the information are available under press releases. Operator, we are now ready to take questions.

## QUESTION AND ANSWER

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### Operator

(Operator Instructions) Our first question is from the line of Frank Mitsch of BB&T Capital Markets.

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### Sabina Chatterjee - BB&T Capital Markets - Analyst

This is Sabina Chatterjee in for Frank Mitsch. Can you hear me?

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

We can. Good morning.

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### Sabina Chatterjee - BB&T Capital Markets - Analyst



Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

Good morning. Great quarter. I was curious about the ECU trend. You had said down 40% sequentially and it was basically in line with what you had originally stated, but chlor alkali results were a lot better than we had expected, and you had mentioned the volumes, but was there anything else that resulted in the big upside?

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**John Fischer - Olin Corporation - VP, CFO**

I think if you look at the ECU netback and you did the math, it was probably between 20 and \$25 per ECU higher than what we had forecasted. I would say volume was slightly favorable and Joe in his remarks emphasized the favorable cost performance, the majority of which came from the management of electricity costs.

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

Correct.

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**Sabina Chatterjee - BB&T Capital Markets - Analyst**

Okay. Will that favorable cost management continue into the fourth quarter?

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**John Fischer - Olin Corporation - VP, CFO**

Yes.

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

Yes, it will.

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**Sabina Chatterjee - BB&T Capital Markets - Analyst**

Okay. And then on Winchester we saw really good results, and it just seemed like you were operating on all cylinders, even in the second quarter and third quarter. Just given the nature of today's times where there doesn't really seem to be any seasonality just driven by the legislative situation, do you really foresee seasonality being a big impact in the fourth quarter? I understand you have the two shutdowns, but it is just hard for me to imagine that we would be down significantly.

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

We do see the seasonality unfortunately, Sabina. That historically happens because of hunting season, so you have all the shot shell that gets purchased and what we call hunting rifle that gets purchased that gets built in the second quarter, first and second quarter, gets purchased in the second and early third quarter, and then we do almost always see that taper so as we stated, we will see a better than historic fourth quarter, but we will see a decline in the fourth quarter.

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**Sabina Chatterjee - BB&T Capital Markets - Analyst**

Okay. Was there a benefit from mix in the third quarter?

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

Was there a benefit from mix in the third quarter?

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**Sabina Chatterjee - BB&T Capital Markets - Analyst**



Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

Yes.

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

Not really.

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**Sabina Chatterjee - BB&T Capital Markets - Analyst**

Okay. All right. Thank you.

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

Thank you.

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**Operator**

Our next question comes from the line of Ed Yang of Oppenheimer. You may proceed.

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**Ed Yang - Oppenheimer - Analyst**

Good morning.

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

Good morning, Ed.

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**Ed Yang - Oppenheimer - Analyst**

First question, the 86% operating rate in the third quarter, what was that based on in terms of annual production volume?

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

Ed, this is John. It was based on our roughly 1.9 million ECUs discounted for manufacturing capacity of our St. Gabe facility that's idled and discounted by an additional 5% that was mentioned in the remarks of capacity that had been idled.

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**Ed Yang - Oppenheimer - Analyst**

Okay. So John, what would that back into in terms of an actual volume number? Is it kind of 1.8 million or on an annual basis?

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**John Fischer - Olin Corporation - VP, CFO**

1.6 and 1.65 million.

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**Ed Yang - Oppenheimer - Analyst**

Great. Thank you. Okay. On the CapEx side question for John Fischer, you mentioned you raised the CapEx for bleach in Winchester. What are you spending on the Winchester side? Is that to increase your production volumes? I know you had been capacity constrained there.





Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

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

It is more cost reduction related, Ed.

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**Ed Yang - Oppenheimer - Analyst**

Okay. And staying on Winchester, there were some price movements on the competitive front. Did you see any market share shifts following your competitors moves and did you see any additional price action in the ammunition business?

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

Normal pricing action occurs in this period at a show that begins in November, and we have not really seen much shift from a marketplace perspective, market share perspective.

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**Ed Yang - Oppenheimer - Analyst**

Okay. Thank you, Joe, and on the \$200 in caustic price increases that were announced late summer, how much of that has been accepted at this point?

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

That price increase was really done in two pieces. The first increase based on what's been published in the industry has really been accepted or reflected in pricing towards the end of the quarter, so we would -- we believe based on what our -- how our system is operating and our backlog, that the second increase will be implemented later this quarter, and we should see the benefits of those into the first quarter of 2010.

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**Ed Yang - Oppenheimer - Analyst**

Okay. That's very helpful. And just lastly, you do sound quite a bit more optimistic on the chlor alkali cycle than you did in the last call. You say that third quarter was the bottom in pricing. How long do you think a new up turn would last? Have any past up turns lasted less than a year? Would this be a multi-year move up if we really have seen the turn? Like to get a better sense of some of the historical precedence and what your expectations are for margins and price and what peak margins and price will look in this cycle?

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

Let me start by answering that it is really dependent upon volume. As we look forward, we really don't have much visibility past this quarter. We are hoping that the macroeconomic trends will be in line with increased demand and increased volume for us to serve across all the market segments that we participate in. We're also all cognizant of the fourth quarter of last year when industry operating rates went from 85% in October to 50% in December. So I guess I would say that we don't expect another low point. We expect the third quarter was the low point in the industry, but for us to see a sustainable multi-year recovery is going to be driven by improvements in demand.

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

I think the key point we want to make, Ed, is that we feel like we have bottomed out. We think we bottomed out where we made a little bit of money. We think we're still in the bottom in the fourth quarter and we're hopeful as we get into next year demand picks up, but as John says we can't see that far out. We're hopeful that it does, and if it does, it will be a great move for our chlor alkali business.

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**Ed Yang - Oppenheimer - Analyst**



Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

Thank you, Joe. Just lastly on balance sheet. Your net debt, you basically have almost no net debt at this point, you're sitting on \$377 million in cash. What are your updated thoughts on some of the potential uses for that cash?

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**John Fischer - Olin Corporation - VP, CFO**

Ed, when we went out and issued the debt, we talked about three primary uses for cash. First of all, we looked at debt maturities that come up in 2011, and we wanted to make sure that we had the ability to service those, so we more or less pre-funded that. The second point that we made was we want to make sure we have the resources necessary to restructure and/or down size the chlor alkali system based on whatever happens long-term with operating rates and whatever happens long-term with regulation. And, third, we're constantly on the lookout for acquisitions. I think at this point in time with the conservative view we would be looking more at small bolt on type things that might enhance our bleach business.

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**Ed Yang - Oppenheimer - Analyst**

Okay. Thank you very much.

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

Thank you.

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**Operator**

Our next question comes from the line of Christopher Butler of Sidoti and Company. You may proceed.

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

Good morning, guys.

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

Good morning.

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

Just wanted to get back to the ECU question a little bit. You mentioned that come in your netbacks -- ECU netbacks came in 20 million, 25 million more than expected.

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

\$25 per ton higher than expected.

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

I am sorry. Right. Are we looking at you said that cost controls are part of that. Is bleach a part of that? How do we -- what happened that you came in stronger than you thought?

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



Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

We saw just a stronger seasonal component to bleach across the country than we had really forecasted previously. In some sense in the household bleach sector it was really driven by some concerns over H1N1 virus and the disinfection capability associated with that, but that's only in the household sector. Industrial bleach sector was a little stronger than we had forecast, and our bleach business is growing, so we continue to bring on new customers and new demand.

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

And similarly help me understand that the cycle here a little bit. We seem to have picked up from the bottom as far as pricing for chlorine and caustic soda. The next leg to the cycle is going to be driven strictly by demand first, and then pricing second. Is that a good way of looking at it?

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**John Fischer** - *Olin Corporation - VP, CFO*

Yes, sir.

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

Yes, it is.

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

And as far as Asia is concerned, sounds like that the issue with imports went away. Any guidance that you can offer as to at what price point Asia starts to look at the U.S. and starts thinking about importing here?

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

Imports of caustic in the third quarter of 2009 were 30% lower than they were in the second level. That's really driven by the fact that pricing in North America had come down off of the first quarter peaks that we saw and also related to planned maintenance outages that were going on especially in the Chinese production sector. What in terms of where the break even point is, a lot of that is determined by what freight costs are, and as crude oil prices go up, freight costs are going to go up as well. We have seen export pricing out of the Far East continue to improve, so I think the only thing I can tell you is that that break even point is getting higher than it was in the first and second quarters when there was significant increases in export volume into the U.S.

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

Thank you for that explanation. I will go back into the queue.

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

Thanks.

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**Operator**

Our next question comes from the line of Don Carson of UBS. You may proceed.

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**Don Carson** - *UBS - Analyst*

Thank you. A few follow-up questions on ECU. John, did you get any of the final \$75 price increase on chlorine and we heard that not all vinyls customers were paying all of the first 225s. Just a comment on the chlorine pricing outlook.

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

Based on our system, I can tell you that we're comfortable that the great majority of the \$225, the first two increases, have been accepted in the marketplace and will ultimately show up across our contracts subject to the limitations and timing associated with the nature of our contracts. We have not seen any benefit and quite honestly don't really expect to see any benefit from the last \$75 at this point in time.

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**Don Carson - UBS - Analyst**

Okay. And speaking of contract timing, you mentioned that you're -- did I hear you right that when you said your fourth quarter caustic price would be down sequentially from Q3 and if so why would that be? Is that just because aren't you getting most of the first price increase now and you'll get a portion of the second in the fourth quarter?

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

Most of the first price increase will not show up until the first quarter of 2010. The caustic price increases were announced in August, I believe, and if you look at the published index pricing that occurred in the third quarter, very little of that was reflected, and it was only reflected in the last month of the quarter, so therefore the quarter lagged which is the way our contracts have been structured consistent for as long as I have been associated with reporting numbers, you know, takes that improvement in caustic pricing into Q1 2010.

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**Don Carson - UBS - Analyst**

Okay. And speaking of contracts, I know you renew a number by year end. The industry has bottomed and recovered somewhat but obviously not what it was a year ago. Are you seeing much pushback from customers on contract terms and related question would be I know you don't sell much into the aluminum market for caustic, but we haven't seen a six-month contract for some time. Do you think we'll get back to that or is the industry more content to buy on a quarterly basis?

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

Your last question first. I think we already understand that negotiations for alumina -- caustic into alumina have already begun for the fourth quarter, so I think the industry is at least in the short-term more comfortable with doing that on a quarter to quarter basis. In terms of our contracts, I think where we have gotten the most pushback quite frankly is not in terms but in price, and that's where we have seen the most significant change. We think in the last -- over the last cycle we have helped ourselves in contract terms and so we feel good going forward that as the industry comes out of these low points the trough for pricing will be well-positioned.

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**Don Carson - UBS - Analyst**

And then two final questions. On operating rates the industry seemed to go a bit too far in August at 85%, it came down to 80 in September. That includes some outages such as part of Freeport. Where do you see the industry operating at in the fourth quarter and would you expect to be below that and then finally I saw an announcement out of IP they're closing paper mills including one in Alabama. Does that negatively affect your volumes at some point?

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

Your first question, I would expect industry operating rates to continue to come down gradually in the fourth quarter because there still is a seasonal component to demand that we see and others see as well. I also would expect that derivatives, chlorine derivatives exported out of the U.S. will probably also come down in the fourth quarter which will also drive operating rates down. The IP announcements which as I read it were cardboard and corrugated plants and there were three of them, we don't see that as impacting us in the short-term even though one of them was in our Alabama orbit, but if that is a sign or a trend of things to come in the pulp and paper market, there will be impact across the industries based on the size of that market segment.



Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

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**Don Carson - UBS - Analyst**

Thank you.

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**Operator**

Our next question comes from the line of Philip Birbara of Royal Bank of Scotland. You may proceed.

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**Philip Birbara - Royal Bank of Scotland - Analyst**

Hi. Good morning.

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

Good morning.

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**Philip Birbara - Royal Bank of Scotland - Analyst**

Can you tell me if there was a change in the inventory LIFO reserve during the third quarter?

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**John Fischer - Olin Corporation - VP, CFO**

No, there was not.

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**Philip Birbara - Royal Bank of Scotland - Analyst**

Okay. And just a timing question with respect to the recoveries on environmental costs. The \$44 million you expect to receive that in cash in the fourth quarter?

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**John Fischer - Olin Corporation - VP, CFO**

That's correct.

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**Philip Birbara - Royal Bank of Scotland - Analyst**

And the \$35 million do you expect to receive that in the fourth quarter or will that fall into 2010?

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**John Fischer - Olin Corporation - VP, CFO**

I don't believe we commented on that.

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**Philip Birbara - Royal Bank of Scotland - Analyst**

Okay. Can you comment on that?

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**John Fischer - Olin Corporation - VP, CFO**

I think we believe it will be received in the fourth quarter.



Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

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**Philip Birbara - Royal Bank of Scotland - Analyst**

Okay. All right. Thank you.

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

Thank you.

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**Operator**

Our next question comes from the line of Kristen McDuffy of Goldman Sachs. You may proceed.

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**Kristen McDuffy - Goldman Sachs - Analyst**

Can you please talk about demand trend in the major caustic end markets in the third quarter?

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

Yes, I can. What we saw in the third quarter from a demand trend was that although demand overall is way below historical patterns for what you would expect in the third quarter, we did see improvement from second quarter '09 to third quarter '09 across most of the caustic segments. For our system we saw reasonable improvement in pulp and paper, we saw reasonable improvement in brominated chemicals, and across a broad spectrum of different metals markets that we sell into. So the caustic market from an overall segment stand point, was favorable in the third quarter relative to what we had seen in the prior two quarters of the year, but everything is relative and when you compare it with what we would normally expect to see in a quarter, it was still well off.

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**Kristen McDuffy - Goldman Sachs - Analyst**

Okay. Thank you. Would you say that chlorine or caustic demand is driving your operating rates at this point?

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

Chlorine demand, our backlog on caustic is a significant number.

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**Kristen McDuffy - Goldman Sachs - Analyst**

Okay. And then just lastly for your Winchester business, I know you forecasted a sequentially seasonal decline on (inaudible) seasonality. When you look into 2010 do you expect to continue to see high demand levels that you benefited from in 2009.

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

What we said pretty much, Kristin is this surge normally lasts four to six quarters. We have completed the fourth quarter, so as far out as we could see where we expect levels higher levels in the -- certainly in the first two quarters of next year.

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**Kristen McDuffy - Goldman Sachs - Analyst**

Great. Thanks.



Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

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

Thank you.

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**Operator**

Our next question comes from Lavon VonReedn of Hocky. You may proceed.

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**Lavon VonReedn - Hocky Management Company - Analyst**

A couple of questions. Gabriel, what's the capacity there?

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

The new capacity of the plant will be roughly 245,000 ECUs a year.

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**Lavon VonReedn - Hocky Management Company - Analyst**

And you mentioned potential legislation. If you were, and I am sure you have probably done a look at the background work there, if you did need to change from the mercury process, what would that cost approximately for the two plants that you have currently?

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

The type of costs that we have if we do that, the costs to convert is in the 800 to \$1,000 per ECU range which is obviously a significant cost, and it is dependent upon the materials, et cetera, that we have to -- the copper, the steel, et cetera, we have to buy to install in the plant.

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**Lavon VonReedn - Hocky Management Company - Analyst**

Okay. So just take the would you say 1 point -- I think.

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

We have 350,000 ECUs.

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**Lavon VonReedn - Hocky Management Company - Analyst**

And you mentioned this 6 to 8 quarter ramp in Winchester. Obviously you have done some work there to kind of give yourself a lower cost perspective. Where do you see the margins returning to once we get through this ramp on the Winchester business?

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

We had an improvement in margins before the run up in the surge, and that was a result of pricing actions that were taken back in 2004 when commodities started to move, so we would continue to see margins that were back reflective of that range which was back in 2008 prior to the surge which began in the fourth quarter.

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**Lavon VonReedn - Hocky Management Company - Analyst**

Look at the 2008 numbers for margins for Winchester to kind of think about where we get return to?



Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

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

Right.

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**Lavon VonReedn - Hocky Management Company - Analyst**

And final question is you kind of mentioned that the chlorine portion is really kind of driving the ship here. I guess the previous caller had asked the question related to what's happening in the caustic markets. I was going to actually ask that question related to the chlorine end markets to get a better feel for what's happening there.

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

Chlorine improvement in the third quarter from the second quarter of '09 has been less robust. We have probably seen the strongest improvements in the TIO2 business. That has been a strong segment for us for the majority of 2009. That trend continued in the third quarter. We have seen some improvement in MDI/TDI, but that's off of very low base looking into the first half of this year. A lot of the other market segments really have been flat in terms of growth and have not exhibited some of the more robust growth numbers we have seen on the caustic side. However, again, when you put it in a relative perspective and you compare chlorine demand year-over-year and historically, our demand continues to lag well behind what we would expect historically.

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**Lavon VonReedn - Hocky Management Company - Analyst**

Thank you.

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**Operator**

Our next question comes from the line of Christopher Butler of Sidoti and Company. You may proceed.

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

Hi, guys, just a quick follow-up on Winchester. You had mentioned four to six quarters is fairly typical for this type of growth pattern. Could you speak to what happens after that historically? Do you find yourself in a trough as everybody has kind of filled their pockets with shells?

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

That's what happened historically, Chris, is there is a trough that occurs as you tail off of that. Our thinking is that the depth of that trough may be a little with bit higher than in the past and that's because of the fact that in this surge there have been a lot more handguns that have been purchased which require the consumable which is the ammunition.

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

I appreciate your time.

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

Thanks.

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**Operator**





Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

Our next question comes from the line of Richard O'Reilly of Stan and Poor's. You may proceed.

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

Good morning, gentlemen, Standard & Poor's. It is a question for John Fischer, and I realized part of the answer to my question. What's that other corporate and allocated cost? What should we be forecasting or using for the fourth quarter for that? There is a lot of moving parts in there.

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**John Fischer - Olin Corporation - VP, CFO**

I think if you looked at that historically over a period of time it is between \$15 million and \$17 million a quarter.

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

Okay. Fine. Okay. And, Joseph, near the end of your prepared comments on Winchester I thought I heard you use the word par and did I mishear you?

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

Par?

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

I might have just misheard you. I didn't know if you were implying the fourth quarter would be on par with a year ago fourth quarter? I must have just missed --

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

Our outlook is that it will be -- we anticipate that the fourth quarter of '09 should be slightly better than the fourth quarter of '08.

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

Okay. Fine. Thank you, then.

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**Operator**

Our next question comes from the line of Arun Viswanathan of UBS. You may proceed.

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**Arun Viswanathan - UBS - Analyst**

Thanks for taking the question. I just want to clarify a couple of things. The 73% operating rate, is that off of -- what is that actually off of as far as capacity number, the complete 1955 or is it--?

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

It is off the 1955.

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**Arun Viswanathan - UBS - Analyst**



Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

Okay. And then can you give us some sense of how I know the bleach shipments were up, but is that actually included in the 376 netback or is it not?

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

No.

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**Arun Viswanathan - UBS - Analyst**

Bleach price?

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

No, sir, it is not.

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**Arun Viswanathan - UBS - Analyst**

And similarly, do you have a level of profitability for some of these products that you can help us understand?

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

We have not given separate profit numbers for the different co-products businesses.

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**Arun Viswanathan - UBS - Analyst**

But that's also not included in your ECU production per per se right?

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**John Fischer - Olin Corporation - VP, CFO**

The ECU price is chlorine and caustic soda sales.

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**Arun Viswanathan - UBS - Analyst**

Right. But then the ECU production of 73% does not include any kind of relationship with the co-products per se?

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

No, it does.

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

It does. The volume that is used to produce bleach and other co-products is part of the volume that the 73% is calculated.

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**Arun Viswanathan - UBS - Analyst**

Okay. All right. Thanks.

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



Oct 27, 2009 / 02:00PM GMT, OLN - Q3 2009 Olin Corporation Earnings Conference Call

Thank you.

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**Operator**

With no further questions in the queue, I would like to turn the call back over to Mr. Joseph Rupp for closing remarks. You may proceed.

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

Thank you for joining us today. We hope you will join us in January when we announce the results for our full year of 2009. Thank you.

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**Operator**

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

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