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PRESENTATION

Operator

My name is Crystal and I will be your operator for today. At this time all participants are in listen only mode. Later, we will conduct a question-and-answer session. (Operator Instructions) As a reminder this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Mr. Joseph Rupp, Chairman, President and CEO. Please proceed.

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

Good morning and thank you for joining us today. With me this morning are John Fischer, Senior Vice President and Chief Financial Officer, John McIntosh, Senior Vice President of Chemicals and Larry Kromidas, our Assistant Treasurer and Director of Investor Relations. Last night we announced that net income in the third quarter of 2010 was $31.8 million or $0.40 per diluted share compared to $39.4 million or $0.50 per diluted share in the third quarter of 2009. Chlor Alkali third quarter 2010 segment earnings of $44 million increased 69% compared to the second quarter of 2010, and represented the fourth consecutive quarter of sequential earnings improvement. The improvement reflects increased product volumes compared to the second quarter of 2010. The third quarter 2010 Chlor Alkali operating rate was 91%, which was the highest level since the third quarter of 2007 and higher than both the second quarter 2010 rate of 83% and the third quarter 2009 rate of 74%. The third quarter 2010 Chlor Alkali results included a record level of bleach sales which were 21% higher than the third quarter of 2009.

Winchester's third quarter earnings of $18.8 million are lower than the record earnings of $23 million achieved in the third quarter of 2009. The decline reflects the combination of lower commercial volumes and higher commodity costs.

Third quarter 2010 charges for environmental investigatory and remedial activities after giving consideration to recoveries of costs incurred and an expense in prior periods were $8.6 million, an increase of $3.1 million compared to the third quarter of 2009. Third quarter 2010 earnings included $200,000 of pre-tax recoveries of environmental costs incurred and expensed in prior periods and that's compared to $44.3 million of recoveries in the third quarter of 2009. Third quarter 2010 results also included approximately $7 million of favorable income tax adjustments. Fourth quarter 2010 net income is forecast to be in the break even to $0.05 per diluted share range. Chlor Alkali expects to see improved pricing in the fourth quarter reflecting the positive impact of several recent price increase announcements.

However, fourth quarter 2010 Chlor Alkali segment earnings are expected to decline compared to the third quarter of 2010 as weaker seasonal demand is expected to more than offset the improved pricing but are expected to be significantly higher than the fourth quarter of 2009 segment earnings. Fourth quarter forecasted Chlor Alkali earnings also reflect the costs associated with planned outages at four manufacturing plants -- at Olin manufacturing plants -- earnings in the Winchester segment are expected to be in the break even range reflecting typical weak fourth quarter demand.

Charges to income for environmental remedial activities in the fourth quarter of 2010 are expected to decline compared to the third quarter of 2010. Fourth quarter earnings are also expected to include approximately $2 million of pre-tax recoveries of environmental costs incurred and expensed in prior periods.

Now let me discuss Chlor Alkali and Winchester segments in more detail. First Chlor Alkali. During the third quarter of 2010, the operating rate for our Chlor Alkali business was 91%, which is the highest rate we've experienced since the third quarter of 2007. The improvement in the operating rate for the second quarter was driven by the bleach business.

Bleach volumes which increased 26% compared to the second quarter of 2010 and 21% from the third quarter of 2009 were a quarterly record. During the quarter, approximately 43,000 tons of chlorine or 10% of our available capacity was sold as bleach. The higher operating rate also reflects a slight improvement demand for chlorine and an improvement in demand for hydrochloric acid. Third quarter chlorine demand in our system was negatively impacted by a full 90 day outage at a major customer. We expect a 30 day outage from this customer in the fourth quarter and a two week outage from another major chlorine customer in the fourth quarter as well.

Hydrochloric acid volumes increased 5% from the second quarter and 32% from the third quarter 2009 levels. Hydrochloric acid sales represented approximately 8% of our available third quarter 2010 capacity.

During the third quarter of 2010 there was one seven day outage at one of our Chlor Alkali facilities and during the fourth quarter there are planned outages at four of our manufacturing locations. We expect these fourth quarter outages to negatively impact Chlor Alkali earnings for the quarter to the tune of $4 million to $6 million. We also experienced a significant increase in the sales of potassium hydroxide during the third quarter of 2010.

Sales of potassium hydroxide increased 25% compared to the third quarter of 2009 and during the third quarter of 2010 the combination of potassium hydroxide, bleach and hydrochloric acid accounted for approximately 25% of the Chlor Alkali division sales. Our ECU netback in the third quarter of 2010 was approximately $465 which is a 1% decrease from the second quarter of 2010. It reflects the combination of a slightly lower chlorine price, higher freight cost per ECU and an improved caustic soda price. The increase in freight cost per ECU was higher than we anticipated and reflects the combination of lower pipeline sales of chlorine due to outage at a major customer for the entire quarter and continued rail rate increases.

Caustic soda prices increased significantly during the third quarter and we anticipate that this trend to continue throughout the fourth quarter of 2010 and into the first quarter of 2011. We expect our fourth quarter of 2010 ECU netback to reflect some benefit of two August caustic soda price increases totaling $85 per ton, with the balance being carried over into the first quarter of 2011.

We also expect that the benefit from the September $50 per ton caustic soda price increase will be realized in the first quarter of 2011. Finally, after the first of the year we should also realize additional improved pricing resulting from the caustic soda contracts in our portfolio that are re-priced on an annual basis.

As reminder, the realization of price increases in our system can lag the market by as much as six months. As result, on a sequential basis, we expect the absolute dollar improvement in our ECU netbacks to be greater from the fourth quarter of 2010 to the first quarter of 2011 and from this year's third quarter to fourth quarter. Electricity costs in the third quarter of 2010 were approximately 6% higher than both the second quarter of 2010 and the third quarter of 2009. This reflects the combination of the significantly higher operating rate that we experienced in the third quarter of 2010 and the higher seasonal electric rates that we typically experience in the third quarter especially in our southeastern plants. We do expect electricity costs per ECU produced to decline in the fourth quarter of 2010 compared to the third quarter.

I mentioned earlier that third quarter freight costs per ECU were higher than we had expected. These costs which we expect to decline in the fourth quarter were 4% higher than the third quarter of 2009 levels and 13% higher than what we experienced in the second quarter of 2010. Freight costs per ECU in our system have doubled since 2006 and have averaged in excess of $100 per ECU since the beginning of 2008. Freight costs are and will continue to be a significant challenge facing the business.

One of our strategies to address rising freight costs is to increase the percentage of our chlorine that is either shipped by pipeline or barge and to increase the percentage that is shipped as downstream products. Growth in our bleach business is a component of our freight avoidance strategy, but its biggest contribution is in the value it adds above what the sale of chlorine and caustic individually creates. During the third quarter of 2010, the premium realized in bleach sales exceeded the chlorine and caustic soda netback in excess of $200 per ton.

Since fourth quarter of 2007, we've experienced on a year-over-year basis, eight consecutive quarters of volume growth and bleach shipments at a rate in excess of 10%. Third quarter 2010 bleach sales by volume, when compared to the third quarter of 2008 bleach sales by volume, have increased 47% and the three year compounded growth rate has been 45%. We continue to see bleach as a value added growth opportunity for Olin and in the prior quarters we've discussed a low salt and high strength bleach investment at our McIntosh, Alabama facility. This project, which has an estimated cost of between $17 million and $20 million, is expected to be completed by the third quarter of 2011.

We are also evaluating two additional low salt, high strength bleach investments. We would expect subsequent low salt, high strength bleach investments to be less expensive than the McIntosh project. We also continue to increase our fleet of rail cars that are dedicated to the shipment of bleach and as I said earlier, during the third quarter, 11% of our Chlor Alkali production capacity was utilized in the manufacture of bleach. Over the next two to three years it's our objective to have during peak seasonal periods 20% of our ECU capacity utilized making bleach and continue to investigate additional opportunities to expand our bleach business.

Over the past several quarters we've discussed legislation that's been introduced in both the United States Senate and 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 the bill was enacted into law. Over the past 90 days there have not been any new developments regarding the legislation. At this point, we believe the bill will not be addressed in a lame duck session and will need to be re-introduced in the next Congress. We also believe there will be an attempt to eliminate the production of Chlor Alkali products using mercury cell technology by the issuance of rules by the Environmental Protection Agency. Either way, Olin believes there is a reasonable likelihood that mercury cell technology used in the production of chlor alkali products will be phased out at some point in the future.

And as a reminder, Olin currently operates two mercury cell plants with a combined capacity of 350,000 tons or 18% of our total capacity. Our decision to convert or shut down these facilities is a function of each facility's individual attributes which includes their customer base, their sustainability and the proximity of customers, the cost inputs at the facility and the co-products that the facility manufactures such as potassium hydroxide, bleach and hydrochloric acid. We expect to begin making decisions regarding our mercury cell facilities no later than the first quarter of next year.

During the third quarter of 2010 -- let me talk about Winchester. During the third quarter of 2010, the Winchester business started to experience a slowdown in demand from the surge levels that began in the fourth quarter of 2008. Third quarter 2010 sales of $157.5 million were 6.4% lower than third quarter of 2009 as commercial volumes declined approximately 6%. Winchester also experienced a 61% decrease in its end of the quarter commercial backlog compared to a year ago and has now seen its commercial backlog decline for five consecutive months.

The third quarter decline in commercial sales was partially offset by military, law enforcement and industrial sales which increased 3% in the third quarter of 2010 compared to the third quarter of 2009. And these sales have increased 10% during the first nine months of 2010 compared to the first nine months of 2009. The military and law enforcement backlog has remained strong and was 4% higher at the end of the third quarter of 2010 than it was at the end of the third quarter of 2009. Because of the strength and growth of military and law enforcement business, we believe that the overall financial performance of the Winchester business, once the surge in commercial sales is finished, will exceed the financial performance that was experienced prior to the start of the surge.

Winchester earned $18.8 million in the third quarter of 2010 compared to the record $23 million earned in the third quarter of 2009. In spite of the year-over-year decline, the third quarter 2010 earnings represents the second best third quarter ever for Winchester. And as a point of comparison, Winchester earnings in the third quarter of 2008 and 2007 were approximately $10 million each.

The third quarter 2010 year-over-year decline in Winchester earnings reflects the combination of the lower level of commercial sales and higher commodity and other material costs partially offset by improved pricing. On a year-over-year basis Winchester's acquired cost of commodity metals increased across the board. The price of copper increased approximately 4%. The price of zinc increased approximately 30%. And the price of lead increased approximately 14%. And as a reminder, Winchester utilizes approximately three times as much lead as we do copper and approximately three times as much copper as we do zinc. Lead and copper have a big impact on our commodity costs. As we look forward in the Winchester business we expect that the cost of commodity metals, especially copper, which has increased approximately 25% over the last 90 days, will be a challenge.

Finally, in the early August Winchester announced that it was evaluating the possibility of relocating approximately 1,000 jobs from its East Alton, Illinois location to its Oxford, Mississippi location. Under the terms of our East Alton labor contract, we've entered into decisional bargaining with our units -- Unions. We expect that the process -- that process to conclude in the near future.

As we look forward to the fourth quarter of 2010 and into 2011, I continue to believe that both our Chlor Alkali and Winchester businesses, as well as the entire Company are well positioned. The Chlor Alkali business has positive pricing momentum, is continuing to realize growing benefits from bleach, potassium hydroxide and hydrochloric initiatives and investments. Our Chlor Alkali business will complete 2010 having been solidly profitable and has now gone through the trough period of the cycle without losing money in any quarter. This is a significant improvement from our experience in prior troughs in 1999 and 2002.

2010 for Winchester will be the second most profitable year in its history and has proven to be a solid complementary business to Chlor Alkali. And finally, we have a strong balance sheet that provides us with the resources to pursue investments and to capitalize on opportunities that will enhance value. I would like to turn the call over to Chief Financial Officer, John Fischer who will review several financial matters with you.

John Fischer - *Olin Corporation - Sr. VP & CFO*

Thank you, Joe. First, I would like to discuss a few items on the income statement. Selling and administration expense increased $2.1 million or 7% in the third quarter of 2010 compared to the third quarter of 2009. The increase was primarily due to the inclusion in the third quarter of 2009 of a $4.6 million favorable impact from the resolution of the Canadian capital tax matter. This increase was partially offset by a decrease of $2.2 million in mark to market adjustments associated with stock based compensation.

Third quarter 2010 charges to income for environmental, investigatory and remedial activities were $8.4 million which includes the $200,000 of recoveries from third parties for environmental costs incurred and expensed in prior periods that Joe mentioned earlier. These expenses were approximately $3 million greater than we had forecast and reflect an acceleration of expense from the fourth quarter.

During the third quarter of 2009, there were $38.8 million of credits related to environmental investigatory and remedial activities which includes $44.3 million of recoveries of environmental costs incurred and expensed in prior periods. After giving consideration to the recoveries in both periods, year-over-year charges related to environmental, remedial and investigatory activities increased $3.1 million. For the full year 2010, we expect charges for environmental and remedial activities after giving consideration to recoveries to be in the $20 million range which is less than the 2009 charges of $24.1 million.

During the fourth quarter of 2010, we expect to realize approximately $2 million of additional recoveries of environmental costs incurred and expensed in prior periods. Over the longer term we believe the opportunity exists for $15 million to $20 million of additional recoveries to be realized. The timing of any additional recoveries is uncertain. On a total company basis, defined benefit pension plan income was $5.3 million in the third quarter of 2010, compared to $4.4 million of income in the third quarter of 2009. We are not required to make any cash contributions to our domestic defined benefit pension plan in 2010 and believe the earliest we may be required to make any cash contributions to that plan is 2012.

As a reminder, we do have a small Canadian defined benefit pension plan to which we have made approximately $7 million of voluntary contributions in 2010. Defined contribution pension expense was $3.3 million in the third quarter of 2010 compared to $3 million in the third quarter of 2009. As a reminder, our defined benefit pension plan is frozen to new entrants, all salaried, all non-union hourly and most union employees. As a result, the majority of our active employees participate in the defined contribution pension plan.

Included in our third quarter 2010 results was approximately $7 million of favorable adjustments associated with the expiration of statutes of limitation and the finalization of our 2009 federal and state income tax returns. The tax rate during the third quarter of 2010, after giving consideration to the approximately $7 million of favorable adjustments, was 36.9%. The fourth quarter 2010 forecast includes an approximately $1 million reduction in tax expense associated with the reduction of a valuation allowance recorded against a foreign tax credit carry forward generated by our Canadian operations.

Now turning to the balance sheet. During the third quarter of 2010, we redeemed $18.9 million of industrial revenue bonds with maturities in 2016. The third quarter results include an early redemption premium of approximately $400,000 which was offset in part by the recognition of an approximately $300,000 gain on interest rate swaps applicable to these bonds. Early in the fourth quarter of 2010, an additional $1.8 million of industrial revenue bonds with maturities in 2016 were also redeemed. The favorable impact of these redemptions on annual interest expense will be approximately $1.3 million.

Earlier this month we completed a tax exempt variable rate bond financing totaling $70 million which matures in 2024. We have options to borrow up to the entire $70 million in a series of draws through the end of 2011. During October, $15 million was drawn. The proceeds from these bonds are required to be used to fund various capital projects at our McIntosh, Alabama facility. Earlier, Joe mentioned one of these projects, the $17 to $20 million investment in a low salt, high strength bleach facility which will be financed by these bonds.

Cash and cash equivalents at September 30, 2010, were $393.4 million compared to $388.4 million at June 30, 2010, and $376.6 million at September 30, 2009. During the first nine months of 2010, working capital increased approximately $64 million. In the Chlor Alkali business the increase in working capital reflects the increased sales volumes and improved pricing that were experienced in the third quarter while in the Winchester business the increase in working capital reflects the normal seasonal increase in accounts receivable, increased inventories due to higher commodity costs and replenishment of inventories to pre-surge levels. We expect working capital in both businesses to decline in the fourth quarter.

Based on our third quarter cash balance, the expected liquidation of working capital in the fourth quarter and the recent financing activities we now believe that Olin will finish 2010 with a cash balance in the $450 million to $475 million range. Capital spending during the third quarter of 2010 was $21.7 million compared to $34.7 million in the third quarter of 2009. For the first nine months of 2010, capital spending has been $63.4 million compared to $122.3 million during the first nine months of 2009.

The year-over-year decline in capital spending reflects the completion of the St. Gabriel, Louisiana conversion and expansion project which was ongoing during 2009. Full year 2010 capital spending continues to be forecast in the $70 million to $80 million range. And 2010 depreciation expense is forecast to be in the $85 million to $90 million range. 2011 capital spending is highly dependent on decisions regarding our plants using mercury cell technology. On October 21, 2010, Olin's Board of Director declared a dividend of $0.20 on each share of Olin common stock. The dividend is payable on December 10, 2010, to shareholders of record at the close of business on November 10, 2010. This is the 336th consecutive quarterly dividend to be paid by the Company.

Before we conclude, let me remind you that throughout this presentation we had made statements regarding our estimates of future performance. Clearly these are forward-looking statements and results could differ materially from those projected. Some of the factors that could cause actual results to differ are described without limitations in the risk factor sections of our most recent 10-K and in our second -- third quarter earnings release. A copy of today's transcript will be available on our website in the investor section under calendar of events. The earnings press release and other financial data and information are available under press releases. And, operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Frank Mitsch with BB&T. Please proceed.

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

Good morning, gentlemen.

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

Good morning.

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

Joe, you started out by saying that you had your highest operating rates in Chlor Alkali in three years. And obviously there has been significant price momentum on the caustic side, yet sequentially your ECU netbacks ticked down. I was just trying to reconcile that. I know that your freight costs went up. Was there consideration given the strength of the industry and given the tightness on the caustic side of freight surcharges to try and offset that? I mean, obviously your freight situation is different from other folks in the industry who might be a bit more pipeline based and more concentrated than you guys, have plants all over the place. But can you talk a little bit about trying to offset those added costs in what appears to be a tight market?

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

We have been attempting, Frank, over the past couple of years to try to get surcharges into our freight with some success. I think the biggest issue here for us in this quarter was the fact that, one, is that the rail costs have gone up more than what we anticipated and we had a major outage with a customer who is a pipeline customer which really changed our mix dramatically and got us from a cost perspective higher than what we had anticipated. We did, as you know, have as I think I stated in the comments, we did reflect higher caustic soda prices and slightly -- a little bit slightly lower chlorine prices. So it was really the freight surprise and a little bit of down on the chlorine and the loss of this customer for this long period of time that affected the quarter.

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

Any thoughts on what -- you mentioned it was 90 days on the chlorine -- the pipeline customer and it is going to be another 30 for the fourth quarter and then you said another customer two weeks. Can you quantify what that negative impact was in Q3 and what you would anticipate the negative impact in Q4 would be given that situation?

John Fischer - *Olin Corporation - Sr. VP & CFO*

Frank, it was enough that if the customer had not had an outage we were reporting a sequential improvement in netbacks.

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

All right. So it was enough to bring your netbacks lower. And as you look at the -- well, you are looking for a higher netback in Q4. But it's just that volumes are going to be -- volumes will be off sequentially.

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

Yes. We have two major customers taking major outages in Q4 and then in addition to that as we pointed out we're taking outages as well. Those are big hits to us in the fourth quarter.

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

And then you're resetting some contracts -- annual contracts in the first quarter of 2011. Is that correct?

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

We are.

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

About 20% of our contracts will reset.

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

All right. And that's going to be obviously materially higher than what you went through in 2010. And then, Joe, I was just -- I was struck by the assertion that you guys want to make a decision on your mercury cell plants in the first quarter. It seems to me that the, gun to the head, from congress, trying to push a bill through last year and then having it do nothing this year. As you said, we will have a new Congress at the beginning of next year. It would appear that that trigger has been pushed out. As you know, Europe there doesn't appear to be anything anywhere near term coming out of Europe. What is behind some of the thinking on making a decision that soon when apparently you don't need to for a few years, I guess?

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

Well, one of the points, Frank, is we're going to start -- we already are feeling pressure from on the regulatory side as has happened on many other things. There is a tremendous pressure from the EPA which will be impactful for us. And our thinking is that we need to clarify what we are going to do if there is going to be any conversion we need some lead time to be able to do that. So what we do is we just need to make that decision.

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

All right. Thank you so much.

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

Thank you.

Operator

Our next question comes from the line of Ed Yang with Oppenheimer. Please proceed.

Ed Yang - *Oppenheimer - Analyst*

Good morning.

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

Good morning.

Ed Yang - *Oppenheimer - Analyst*

A couple of issues to go through. I think the most important focus seems to be on pricing and maybe pricing going forward. You mentioned that you will see some benefit. You will see the biggest benefit from some of the announced industry price increases in the first quarter of next year and the biggest increase sequentially from the fourth quarter to the first quarter. If you add in the -- all of the benefit from the $85 ton price increases from August and the $50 ton increase slated for the first quarter and assume that your pipelines are operating normal, the mix is normal and you don't see another step up in freight costs, what will your ECU netback be by the first quarter of 2011? I know there is a lot of numbers in that there but--?

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

You always make such good questions. It will be higher. I'm being facetious. Normally we don't forecast out in the first quarter there, Ed. But what we would say is that what has happened a little bit is that some of the pricing that has reflected itself in our indices really didn't start to take into the indices until the latter part of this year like right now to the end of the fourth quarter in the fourth quarter. And that will have an impact on our pricing in the first quarter to a much greater degree than what we had originally.

Ed Yang - *Oppenheimer - Analyst*

So your third quarter ECU netback of $465 doesn't really include much of the benefit from the $85 increases in August and the $50 that's on the table now?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Ed, this is John. It doesn't really include any impact for that. When you think about our pricing system we have to continue to focus on the fact that we lag and we lag sometimes up to six months. So the price increases announced in the third quarter which in total reflects $135 will -- we will see how much of that gets reflected in industry price indexes in the fourth quarter. So we will wait through the fourth quarter to see what gets reflected and then and only then in the first quarter of next year will we be able to apply those reflected numbers into our portfolio of customers. So that lag component is very important to remember when you are trying to forecast our pricing and we've consistently said and can empirically demonstrate that we lag prices going up and then likewise when prices are coming down we lag prices coming down as well.

Ed Yang - *Oppenheimer - Analyst*

And John, the simple math would be then this $465 ECU netback that you had for the third quarter if you add in $135 that gets you a $600 ECU netback. That's 29% higher from what you reported in the third quarter. How much of that would be if you do get it after the lag, how much of that would be margin accretive and would there be any sort of incremental cost associated with that?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Well, I think you have to recognize that price increases are never 100% realized. So there is always a discount from what gets announced to what gets reflected in the indexes. And for us, at the operating rates that we're running, there's -- there is a significant opportunity for -- for that to add significantly to our margins.

Ed Yang - *Oppenheimer - Analyst*

Okay. Fair enough. And one positive surprise in the third quarter was, your capacity utilization rate was quite high and the volumes were much stronger than expected. I'm surprised that that was the case given the outage that you had on the chlorine side. If that customer had not been out, what would your utilization rates had been in the quarter?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

It would have been another couple percent, 2% to 3% higher.

Ed Yang - *Oppenheimer - Analyst*

Okay. And I don't know if you mentioned this but in the past you have given utilization rate and ECU netback guidance for the quarter out given all the puts and takes, I mean, what is your expectation for utilization rate for the fourth quarter and ECU netback?

John Fischer - *Olin Corporation - Sr. VP & CFO*

We've never given a specific netback number going forward, Ed. I would say that with the outages we talked about on the customer side and our side we are looking at mid- to high 70% range for an operating rate.

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

And increasing price.

John Fischer - *Olin Corporation - Sr. VP & CFO*

And increasing price, yes.

Ed Yang - *Oppenheimer - Analyst*

Okay. And just on the higher rail rates again. You mentioned that it was up 13% sequentially. That is a pretty sizable step up. Do you expect, is that more of a one time -- well, not a one time but is it a one time step up or do you expect another increase sequentially from those -- from that higher rail rate?

John Fischer - *Olin Corporation - Sr. VP & CFO*

We would expect that we will not see a rate -- a quarter to quarter increase of that magnitude again going from Q3 to Q4. We actually said I think in the remarks we expected freight costs to go down.

Ed Yang - *Oppenheimer - Analyst*

Is that a function of mix?

John Fischer - *Olin Corporation - Sr. VP & CFO*

Yes, a function of mix.

Ed Yang - *Oppenheimer - Analyst*

Okay. All right. Thank you very much.

Operator

Our next question comes from the line of Christopher Butler with Sidoti and Company. Plead proceed.

Christopher Butler - *Sidoti and Company - Analyst*

Good morning, guys.

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

Good morning.

Christopher Butler - *Sidoti and Company - Analyst*

I wanted to go into a little bit more detail on the maintenance outages. I'm sorry, you said $4 million to $6 million is the expected impact for the fourth quarter; is that correct?

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

That is correct.

Christopher Butler - *Sidoti and Company - Analyst*

Is that pre-tax or after tax?

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

Pre-tax.

Christopher Butler - *Sidoti and Company - Analyst*

All right. I just wanted to be sure. Now does that include the anticipated 30 days from the outage from your customer and the 14 from the second customer or is that two distinct things?

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

Two distinct things.

Christopher Butler - *Sidoti and Company - Analyst*

And if we are looking at the first 30 day customer that's a pipeline customer. The second customer, is that a pipeline customer as well?

John Fischer - *Olin Corporation - Sr. VP & CFO*

No.

Christopher Butler - *Sidoti and Company - Analyst*

And as far as where you stand on maintenance, how much of this decision was based on the fact that you were going to have customers that were out versus trying to get ahead of maintenance before next year? Could you just walk us through the thought process on maintenance? It seems to me that there was -- you did some of this last year. You did some in the second quarter and aren't these normally 18 month cycles?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

We have outage cycles at our plants that vary from location to location. Some of the -- some of our newer facilities have extended outage periods in the 12 to 18 months duration between outages. But some of the older facilities just by nature of the equipment typically require 6 months to 12 months kind of maintenance outages to take care of critical equipment. In terms of when we schedule outages, it's a function of many things including demand, including time of year, including contractor availability but as a rule we tend to schedule our outages in what we call the nonpeak quarters, the first quarter and the fourth quarter. And we tend to -- we take into account things like weather. We obviously don't schedule outages, especially in northern plants in December, January, February, March. So when we factor all of that in and overlay that on our expected, demands for product in a given quarter, that gives us some flexibility and we are taking advantage of that in the fourth quarter because we do have some significant customer outages to do some outage work in preparation for 2011.

Christopher Butler - *Sidoti and Company - Analyst*

And looking at your utilization for the third quarter, you had mentioned that bleach was a big part of that story. The seasonality for bleach, isn't that a little bit more skewed toward the second quarter?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

It's really second and third quarter. A lot depends upon whether you are talking about industrial bleach or bleach for household use. And depending upon which part of the country you are talking about. But we see our peak bleach seasons or peak bleach quarters as the second and third quarters. And this year we are bringing on really significant new customers almost on a quarterly basis. So that's been partially behind the drive, the growth in bleach volumes.

Christopher Butler - *Sidoti and Company - Analyst*

I appreciate your time.

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

Thank you.

Operator

Our next question comes from the line of Don Carson with Susquehanna. Please go ahead.

Don Carson - *Susquehanna - Analyst*

Thank you. Joe, a question on Winchester. So I guess with the backlog decline with results down is this -- forget how many quarters it is but I know last time you had a six quarter boom as kind of gun owners respond to a gun unfriendly administration in Congress. So you think that's over particularly with the prospects of a change at least in control of the House this fall?

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

We do, Don. The surge lasted really eight quarters. Started two years ago in November. And we feel the surge is over as we speak. We still feel that the backlogs are very good backlogs when we compare back to like 2008 pre-surge so -- which was a reasonable business level for us. And so our outlook for Winchester is still very, very good outlook for Winchester. Just not a surge outlook.

Don Carson - *Susquehanna - Analyst*

Okay. And then just to go back to Chlor Alkali, a couple questions, on bleach, are you still able to get roughly $100, $120 premium to the underlying ECU or do you have contracts on bleach as well that prevent full realization of those ECU price increases?

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

We still can get the premium on the bleach, Don.

John Fischer - *Olin Corporation - Sr. VP & CFO*

We said in the third quarter that the premium actually, Don, exceeded $200 ECU.

Don Carson - *Susquehanna - Analyst*

But presumably -- but again, that is exceeding your realized ECU price right now, not a benchmark and your ECU's are limited themselves?

John Fischer - *Olin Corporation - Sr. VP & CFO*

That's in excess of our ECU netback for chlorine and caustic. That's correct.

Don Carson - *Susquehanna - Analyst*

And then a question for John McIntosh, on the -- that six month lag, how much of it is due to contract price caps versus how much it is just the speed at which the various trade publications actually reflect the list price increases in their indexes?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Generally speaking, Don, there is not any influence at all that's cap driven. What is at play is what I mentioned earlier. It's all a function of the timing between when a price increase is announced and the subsequent quarter when if it's going to be recognized in price indexes it gets recognized. And those events that have to occur before we can apply that increase into our indexed contracts.

Don Carson - *Susquehanna - Analyst*

So the absolute price caps or the caps on how much you'd increase the contract buy that you had several years ago you were able to eliminate all of those in the recent cyclical improvement in Chlor Alkali?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Generally we don't have an issue in those any more. We have hundreds of contracts that are all different but for the most part we don't have an issue with limitation on caps that is consistent with the kind of issues we faced in past cycles.

Don Carson - *Susquehanna - Analyst*

And then one final question. Of the price increases announced in the first half of the year, how much of those did you realize on the caustic side, so how much of that would still be yet to come?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

There was roughly $150 of price increases announced in the fourth quarter of last year, in the first quarter of this year. And then there was a $35 price increase that was announced in the second quarter of this year. I would say for the most part we've gotten all we are going to get out of the fourth quarter and first quarter price increases. There is still potential opportunity for the price increase announced in the second quarter but it was by far the smallest of all of them. It was only a $35 increase in the caustic pricing. The big opportunity for us is the $135 of price increases that were announced in the third quarter that will be reflected in one way, shape or form in fourth quarter index pricing.

Don Carson - *Susquehanna - Analyst*

And how much better is your netback on a pipeline sale versus your netback on a sale that has to be shipped by rail?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Well, I will just say as a rule pipeline netbacks for us, because of the freight related issues, are a positive. And to the extent we can try to maximize that is an opportunity we do.

Don Carson - *Susquehanna - Analyst*

Okay. And then finally just on power costs, I know about a quarter of your power is openly indexed to gas. Is that higher now with St. Gabriel on and have you fully realized those lower gas costs for your utility suppliers?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

It's not much different now, Don, with St. Gabriel on. We were using numbers that were forecasted and prior to the conversion of St. Gabriel we still bought electricity for the plant that we shut down. So that hasn't changed much. And for the most part, current natural gas prices are being reflected in our electricity costs.

Don Carson - *Susquehanna - Analyst*

Okay. And then one final question. I know that about 18% of your Chlor Alkali capacity is mercury cell. I think the industry is about 4% or 5%. John, would you think that if other people are doing the same thing as you are that clearly that's going to tighten Chlor Alkali operating rates? So to what extent do you think you get a pricing offset to the lower volumes you might have post such a move?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Well, I think the bias around the mercury cell capacity will be that at the end of the day there will be capacity taken out associated with the conversion process. That's the way it's happened in Europe. I believe it will happen with the same bias here in the States. Whether or not some of that's already being reflected in pricing, I really have no way of knowing. I think there is a lot of uncertainty over how much of the capacity will be ultimately shut down and I think until that gets clarified further it's hard to answer the impact question.

Don Carson - *Susquehanna - Analyst*

Okay. Thank you.

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

Thank you, Don.

Operator

Our next question comes from the line of Herb Hardt with Monness. Please go ahead.

Herb Hardt - *Monness - Analyst*

Good morning. A couple of questions. What is your operating rate right now?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Right now we are operating in the low 80% operating rates.

Herb Hardt - *Monness - Analyst*

And is it fair to assume that margins on the bleach business are better than the corporate average?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

I think that's -- because of the premium I think that's a fair assumption.

Herb Hardt - *Monness - Analyst*

And finally, have you any indications from the PVC producers that things are firming at all?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

I think there are two parts to that -- two answers to that question and they are concurrent answers. We have not heard from anybody that domestic vinyl demand is improving in any way, shape or form. What we are seeing is because of low energy prices in the Gulf Coast, North American vinyls producers have an opportunity to export derivatives from the Gulf Coast into other parts of the world and they are taking advantage of that opportunity and so that piece of demand is much better. But domestic vinyl demand has not improved.

Herb Hardt - *Monness - Analyst*

Okay. Thank you.

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

Thank you.

Operator

Our next question comes from the line of Eugene Fedotoff with Longbow Research. Please proceed.

Eugene Fedotoff - *Longbow Research - Analyst*

Good morning, guys.

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

Good morning.

Eugene Fedotoff - *Longbow Research - Analyst*

Follow-up on the previous question, you mentioned that export demand for PVCs is still strong. Can you comment on the outlook for chlorine prices in the next couple of quarters where you think prices will continue to decline or stabilize or maybe there is potential for price increases?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

I don't -- I really don't see a scenario at least in the next quarter or two because of the fact that we are in the quarters where we typically see the lowest demand and we don't see any indication of improvement in demand for vinyls where there is a scenario that would lead to a price increase. I think it's going to be quite honestly the other way, operating rates are going to continue to be reduced. And that's going to continue to put pressure on the caustic supply side and pressure on caustic pricing. Upward pressure on caustic pricing and potentially some downward pressure on the chlorine side which is mitigated by some in some way by the fact that they can't export derivatives overseas.

Eugene Fedotoff - *Longbow Research - Analyst*

Thank you. And how much of the expected decline in Winchester earnings in the fourth quarter will be due to raw material, higher raw material costs and how much of that will be due to lower volumes?

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

It's mainly volume.

Eugene Fedotoff - *Longbow Research - Analyst*

So there was no impact on the -- from--?

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

There's some impact. But what happens in the fourth quarter, this is really a seasonal business where inventory is built and then sold in the second and third quarter and then that really tapers off in the fourth quarter and that's the historical pattern that got offset in the surge. We didn't have quite that. But now we are back to the historical pattern.

Eugene Fedotoff - *Longbow Research - Analyst*

Can I talk about your pricing initiatives for Winchester products and when do you think the prices will catch up with higher raw material costs?

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

What happens with that is we did take pricing action I think it was April of last year was when our prices of 2010 and then we will take a look at our pricing for this year, normally pricing activity occurs in the fourth quarter and producers begin to announce that in the fourth quarter. We're aware of one producer who is out there as we speak right now who has announced a price increase.

Eugene Fedotoff - *Longbow Research - Analyst*

So do you expect higher prices in the next year?

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

We really don't forecast that. What we would like to think is that the industry takes into account the cost of the commodities and from the 2000 previous cycle as commodities went up, prices went up.

Eugene Fedotoff - *Longbow Research - Analyst*

And how much -- what kind of savings are you expecting to realize from moving that production facility for Winchester?

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

We really haven't publicized that because we are in confidential decisional bargaining with our unions. What we have stated in the past is that the manufacturing costs down in Oxford, Mississippi, are roughly 60% of what they are in East Alton.

Eugene Fedotoff - *Longbow Research - Analyst*

And just the last question on tax rate, what are your expectations for fourth quarter?

John Fischer - *Olin Corporation - Sr. VP & CFO*

From an ongoing perspective we would say that the tax rate excluding adjustments from out of period is somewhere in the 36% to 38% range.

Eugene Fedotoff - *Longbow Research - Analyst*

All right. Thank you.

Operator

Our next question comes from the line of Scott Blumenthal with Emerald Advisers. Please proceed.

Scott Blumenthal - *Emerald Advisors - Analyst*

Good morning. Thanks for taking my question.

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

Good morning.

Scott Blumenthal - *Emerald Advisors - Analyst*

Joe, the outages that you're planning on taking in the Chlor Alkali segment Q4, those are directly related to the fact that you're going to be having a couple of significant customers that are taking their own outages or are those completely independent decisions from what's going on?

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

They are independent. We would have taken these outages and then we basically have two distinct activities going on. We are taking an outage -- outages at four plants and we have got two major customers that are taking outages. We would have taken our outage anyway.

Scott Blumenthal - *Emerald Advisors - Analyst*

And those plants are servicing those major customers, I guess. A couple of the plants that are being taken down?

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

I think one is.

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

One is and one really is not connected with the normal supply chain.

Scott Blumenthal - *Emerald Advisors - Analyst*

Okay. And how long, I guess on average, I understand that this varies, but how long does an outage last and how much capacity gets taken down for the quarter?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Well, it depends upon the duration of the outages and which plants they occur at because we have different capacities at every one of our locations. I mean, this quarter we have one plant with a seven day outage and smaller outages at other locations.

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

It can range from three to four days to as long as seven to ten days. It just varies.

Scott Blumenthal - *Emerald Advisors - Analyst*

Okay. That's helpful. Thank you. And notwithstanding I guess maintenance needs in Q4, can you talk about how much demand seasonally tends to drop Q3 to Q4, independent of obviously what you're going to be doing with maintenance? Just speak to demand.

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Well, again, demand across all segments is not -- all things are not created equal. And coming off of the lows that we have come off with -- come off from looking at year versus year comparisons it's a little difficult to figure that out. I mean we know the segments that we have seen significant improvement in volumes. But just in a general sense, over a cycle there is a seasonality to several of the segments that we serve and that seasonality is at its -- is off in the first and fourth quarters. And then that volume is stronger in the second and third.

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

I think historically it's not unusual to see that the capacity dropped into the mid-70's in the fourth quarter, fair?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Fair.

Scott Blumenthal - *Emerald Advisors - Analyst*

Okay. That's helpful. And can you tell us or could you share with us again if you have in the past what the percentage of the sales volumes that you are shipping at this point you're shipping via I guess carrier versus pipe and barge.

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

I don't think we've disclosed that. I don't think we've disclosed that in the past.

Scott Blumenthal - *Emerald Advisors - Analyst*

Okay. And I guess moving on to re-pricing, you're going to be re-pricing I think you mentioned 20% of the contract. These are going to be both pipeline and freight customers and also I guess regular chlor alkali and bleach customers, a combination thereof?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

That 20% was really in reference to our portfolio of caustic customers because that's the molecule that has the positive pricing momentum at this point in time.

Scott Blumenthal - *Emerald Advisors - Analyst*

Okay. That's really helpful. And I guess my last question is, I guess harking back to what Don had asked previously about mercury cell, if I recall you have -- there are certain high quality products that require, at this point mercury cell technology, and I was wondering if you're going to be able to continue to produce those, if there is another technology and what kind of impact that would have on the overall sales of those types of products and your relationship with those customers?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

There were historically a few customers that required a purity level that could only be met by caustic from a mercury cell plant. However, over the years as customers have become more sophisticated in their processes and as improvements have made in membrane technology, yielding a higher purity membrane caustic there really isn't a customer base now that has to have mercury cell produced caustic. Everyone can -- everyone that needs high purity caustic is able to substitute for membrane grade product.

Scott Blumenthal - *Emerald Advisors - Analyst*

Okay. And I guess one more if I may. Have you been privy to any of the discussions regarding the regulation and if it does as we all expect at some point pass has there been discussion about any compensation for those operating mercury cell technology plants or are you just expected to eat that and kind of shut it down?

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

I think we would be expected to eat it and shut it down. There has been a lot of discussion about the timing, et cetera, and working with lobbyists and with our trade groups, et cetera, to try to delay this. But ultimately the -- if there is a decision the cost will be on our watch.

Scott Blumenthal - *Emerald Advisors - Analyst*

Well, that's a heck of a job creation program from the government.

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

I would agree.

Scott Blumenthal - *Emerald Advisors - Analyst*

Thank you.

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

Thank you.

Operator

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

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

Thank you. Good morning, gentlemen. Thanks. Did you give us the absolute backlog for Winchester for commercial and military segments?

John Fischer - *Olin Corporation - Sr. VP & CFO*

We did not, no.

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

Okay. Dollarwise or percentagewise?

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

No. I think what we have stated, Richard, is that it's now back to what we would consider a normal backlog pre-surge.

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

Fine. Great. And a follow-up question on the annual re-pricing discussions. Are these normal contract changes in re-pricing? Or are you renegotiating the contracts to get better terms.

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

These are just the normal part of the methodology that is present in some of the contracts we have that allows re-pricing, renegotiation.

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

Okay. My memory from a few years ago, it's hazy, is that the last upturn you were able to achieve some success in changing the terms of your contracts. Are you at that level now? Do you think you are at that level now you can try that again?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Well, obviously, pricing price of caustic as a commodity has gone up in the last 12 months. So it's our intent to make our contracts represent market pricing to the extent we can.

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

Fine. Thanks a lot.

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

Thank you.

Operator

And our final question comes from the line of Roman Rjanikov with Gates Capital. Please go ahead.

Jeff Gates - *Gates Capital - Analyst*

Hi. It's actually Jeff Gates. A couple quick questions. The mercury conversion are you still expecting it to be about $300 million and what kind of cost or revenue synergies would you expect with that kind of an investment? And secondly, what do you think the long term sustainable operating margin is for Winchester?

John Fischer - *Olin Corporation - Sr. VP & CFO*

Jeff, what we've said is the cost is between $800 and $1000 per ECU, but it's per ECU converted. And we haven't made any decision or announcement regarding what we are going to do. So it could -- one outcome is that we could shut down all of our capacity and we wouldn't spend anything and we wouldn't get any savings. Typically there is some small level of savings when you convert from mercury to membrane in the form of lower electricity costs. But it's not a level of savings that would necessarily justify the investment. If you look at Winchester historically, Winchester has earned $20 to $30 million in good periods of time and that takes you back to the 2005 and prior periods. And we've said that we expect Winchester's earnings on a recurring basis to be meaningfully higher than that going forward.

Jeff Gates - *Gates Capital - Analyst*

Then last if I could, could you comment on your mix of electricity between derived from natural gas, coal, nuclear and hydro, what the mix of that is?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

We really have a pretty balanced portfolio. Natural gas, coal, nuclear and hydro make up in that decreasing order our mix of fuels and there is good balance across each of those components so we have the opportunity in some sense to not be impacted negatively by an overexposure to one fuel versus another.

Jeff Gates - *Gates Capital - Analyst*

So you expect that mix to stay the same?

John McIntosh - *Olin Corporation - Sr. VP, Chemicals*

Yes, sir.

Jeff Gates - *Gates Capital - Analyst*

Okay. Thank you.

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

Thank you.

Operator

This concludes today's question and answer session, I would like to turn the call back to Mr. Joseph Rupp for closing comments.

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

I'd like to thank you for joining us today. And we will look forward to reporting our year end to you in January. Thank you.

Operator

Ladies and gentlemen that concludes today's conference. Thank you for your participation. You may now disconnect and have a great day.