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PRESENTATION

Operator

Good morning and welcome to Olin's third quarter 2011 earnings conference call. All participants will be in listen-only mode.

(Operator Instructions)

After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded. I would now like to turn the conference over to Joseph Rupp, Chairman, President and CEO. Please go ahead.

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

With me this morning are John Fischer, Senior Vice President and Chief Financial Officer, John McIntosh, Senior Vice President of Operations, and Larry Kromidas, our Assistant Treasurer and Director of Investor Relations. Last night we announced that net income in the third quarter of 2011 was $47.2 million, or $0.58 per diluted share, compared to $31.8 million, or $0.40 per diluted share in the third quarter of 2010. Sales in the third quarter of 2011 were $550 million compared to $432.8 million in the third quarter of 2010. Third quarter 2011 sales were the highest for Olin since the sale of the metals business that occurred in 2007. The Chlor Alkali business' third quarter segment earnings of $76.7 million, was the third highest quarterly earnings in history and were realized despite an approximately $3 million negative impact due to a 10-day unplanned outage at our Charleston, Tennessee facility due to flooding caused by Tropical Storm Lee, and also due to weaker than expected chlorine demand that occurred late in the quarter.

The Chlor Alkali business continued to experience positive pricing with ECU netbacks increasing sequentially for the eighth consecutive quarter. Also during the third quarter, bleach shipments were a record. Winchester's third record results were in line with expectations but continue to be impacted by higher commodity metal costs. Also included in our third quarter results were pretax environmental recoveries of $1.5 million, a $3.7 million pretax gain on the sale of a former manufacturing site, and a pretax restructuring charge of $4.1 million associated with the Chlor Alkali mercury cell technology conversion in Charleston, Tennessee and the Winchester centerfire relocation project. Fourth quarter 2011 net income is forecast to be in the $0.15 to $0.20 per diluted share range reflecting normal seasonal weakness in both Chlor Alkali and Winchester and an approximately $2.5 million restructuring charge primarily associated with the ongoing Winchester centerfire ammunition relocation project.

Chlor Alkali earnings are forecast to improve compared to the fourth quarter of 2010. Chlorine and caustic soda shipments are forecast to be lower than the fourth quarter of 2010 levels, but will be more than offset by higher selling prices. In the fourth quarter of 2011, Winchester results are forecast to be near breakeven and lower than the fourth quarter of 2010 as lower commercial volumes and higher commodity metal costs more than offset our improved pricing.

Now I am going to discuss the segments, first with Chlor Alkali. The Chlor Alkali operating rate during the quarter was 85% and consistent with the outlook we provided during our second quarter earnings call. It declined as we moved through the quarter. Rate in July was 90%, and the rate in September was 81%. We expect this rate to decline further as we move through the fourth quarter. This reflects the normal seasonal slowdown in our bleach business, and by many of our large chlorine customers. We also have seen a softening in demand from customers producing chlorine derivatives for export.

The third quarter operating rate included the impact of several planned and unplanned outages. The largest of these outages was the 10-day unplanned outage at the Charleston, Tennessee facility and this was caused by approximately 15-inch rain event associated with Tropical Storm Lee. We also had outages during the quarter at the Becancour, Canada plant, our Henderson, Nevada plant and our St. Gabriel, Louisiana plant. To take advantage of the weaker level of chlorine demand, we have scheduled additional maintenance and capital outages in the fourth quarter. Two of the outages are associated with electrical tie-ins of new capabilities. At the McIntosh, Alabama facility, tie-ins will be done on the new HyPure bleach facility which is approaching startup, and at the Charleston, Tennessee facility, initial tie-ins of the new membrane facility will be accomplished.

Our operating rate during the fourth quarter is projected to be in the mid 70% range. As a result of the weaker level of chlorine demand, we expect to see chlorine prices decline in the fourth quarter of 2011 when compared to the third quarter. Chlorine price declines in the fourth quarter of the year driven by weaker seasonal demand are not unusual because of the weak outlook for the chlorine demand. As a consequence of lower operating rates, we expect caustic soda supply to remain tight. Therefore we expect a $65 per ton caustic soda price increase announced in late August, to be implemented consistent with our contract structure. We expect to realize some of this increase in the fourth quarter and the largest amount will be realized in the first quarter of 2012.

Third quarter 2011 chlorine and caustic soda volumes declined 1% compared to the third quarter of 2010 and we are 6% lower than the second quarter of 2011 levels. In addition to the outages, our chlorine production was negatively impacted by two large chlorine customers who began multi-month outages during the second half of the quarter. On the positive side, we continue to experience growth in our bleach business. The third quarter 2011 volumes increased 7% compared to the third quarter of 2010, and during the first three quarters of 2011 bleach volumes have increased 19% compared to 2010 volumes.

We expect our bleach business to continue to grow, driven by the investments we are making in HyPure bleach. During the third quarter we began construction of two additional HyPure bleach plants, one to be located at our Henderson, Nevada and the other at our Niagara Falls, New York chlor alkali plants. We expect these bleach plants which represent capital spending commitments totaling approximately $40 million be operational by the fourth quarter of 2012. As I said earlier, we expect our HyPure plant at McIntosh, Alabama to start production during the fourth quarter of this year. The HyPure bleach process produces bleach that is twice the concentration of bleach produced by the processes we currently employ. It creates a higher value product that is less expensive to ship than either chlorine or conventional bleach.

Chlor Alkali has also experienced increased sales of hydrochloric acid during the third quarter. These shipments increased 6% compared to the third quarter of 2010 and 10% compared to the second quarter of 2011. Currently we have the capability produce this value-added product at six of our seven chlor alkali manufacturing facilities and we are in the process of modernizing and expanding that capability in Henderson, Nevada. In addition to being value added products, both bleach and hydrochloric, because they are not classified as TIH chemicals, are less expensive to ship than chlorine and it is an important consideration for the business as our freight costs continue to be a major challenge. Freight costs per ECU shipped in the third quarter of 2011 increased approximately 15% when compared to the third quarter 2010. For the first nine months of 2011, freight costs per ECU produced have increased 21% compared to the first nine months of 2010. These cost increases continue to be driven by the cost of shipping chlorine by rail.

The Chlor Alkali business earned $76.7 million in the third quarter of 2011, which represents the third highest level of quarterly earnings ever and a significant improvement over the $44 million we earned in the third quarter of 2010. The year over year improvement reflect the combination of improved ECU pricing and the additional contribution from the acquisition of PolyOne's 50% ownership in SunBelt. The third quarter of 2011 ECU netback excluding SunBelt was approximately $590 compared to approximately for $465 in the third quarter of 2010. This represents the eighth consecutive quarter of improved ECU netbacks in our system.

The acquisition of SunBelt contributed approximately $12 million of incremental profits in the third quarter of 2011. The Sunbelt ECU netback in the third quarter of 2011 was approximately $610. Chlor Alkali fourth quarter 2011 segment earnings are expected to decline from the third quarter of 2011 but will exceed the fourth quarter of 2010 earnings. ECU netbacks in the fourth quarter are forecasted to decline slightly from the third-quarter levels as chlorine price declines and less favorable customer mix more than offsets increases in caustic soda prices. Based on the lag we experience in the realization of price increase, expect that this ECU netback decline will be reversed in the first quarter of 2012.

In spite of the weaker forecasts for the fourth quarter, the Chlor Alkali business in 2011 has experienced a significant improvement in earnings, above the levels that we achieved in 2009 and 2010. The business is also well-positioned for further improvements in 2012. The business will begin 2012 in a strong pricing position and continued positive momentum on the caustic soda side. We will also have the benefit of the 100% ownership of SunBelt for the full year and we expect the bleach business to grow an additional 10% to 15%.

Now let me discuss Winchester. In early August we announced that Winchester had been awarded a 5-year contract by the United States Army for the supply of 5.56-millimeter, 7.62-millimeter and 50 caliber ammunition. This contract, which is a follow on to Second Source contract awarded to General Dynamics in 2006 in which Winchester participated, the contract has the potential to generate total revenues of $300 million over the next 5 years. It is a significant accomplishment for our business and it solidifies the outlook for Winchester's non-commercial sales for the next several years.

Winchester's third quarter 2011 commercial sales volumes continue to be stronger than we would have expected at the end of a surge period. This unexpected strength in commercial sales has been matched by continued strength in gun sales. Background checks, which are a strong indicator of future gun sales, remain well above the pre-surge levels. The benefits from the better-than-expected levels of commercial sales have been more than offset by higher commodity metal costs. Third quarter 2011 purchase costs for copper have increased approximately 24% compared to the third quarter of 2010 and third-quarter 2011 lead costs have increased approximately 16%. These levels of increase represent approximately $5 million in quarterly cost increases and on a year-to-date basis in 2011 purchase copper costs have increased approximately 27% and lead costs approximately 14%, representing $16 million in annual cost increases. Commodity metal costs have been a major challenge for the business in 2011.

During the third-quarter initial relocation of production equipment from East Alton, Illinois, to the new Oxford, Mississippi facility was successfully completed. There will be additional equipment relocations in the fourth quarter. During 2011 the Winchester financial results are forecast to include $4 million to $5 million of costs associated with the overlap of support costs between East Alton, Illinois, and Oxford, Mississippi facilities and other relocation related costs. These costs, which negatively impacted the third quarter of 2011 will also have a negative impact on the fourth quarter of 2011 and into 2012. As a reminder, we expect the relocation to Oxford, Mississippi to begin to generate meaningful cost savings in the second half of 2013 and we remain on target to realize the full $30 million of annual savings by 2016.

Winchester earned $13.1 million in the third quarter of 2011 which compares unfavorably to the third quarter of 2010 in which the earnings were $18.8 million. The decline reflects the negative impact of higher commodity metal costs and the additional costs associated with the centerfire relocation project, which more than offset favorable product pricing. Fourth quarter 2011 Winchester earnings, which are expected to reflect normal seasonal weakness, are forecast to decline slightly from the fourth quarter of 2010 levels. The combination of year-to-date Winchester earnings and fourth quarter outlook are projected to result in 2011 earnings that will be the third highest in the history of the business and more than double the average annual earnings in the ten years prior to the 2009 peak year.

Strong earnings are consistent with our view that after the completion of the surge Winchester's earnings will be higher than prior to the start of the surge. With the confirmation of this view, and with the longer-term benefits to be realized from the centerfire relocation project we are optimistic about the future of Winchester and the contributions it will continue to make to Olin. In spite of the weaker fourth quarter outlook I remain optimistic about the prospects for the business. 2011 segment earnings in Chlor Alkali will likely more than double from 2010 levels and Winchester's 2011 segment earnings continue to be well above historic levels. In addition, there's positive pricing momentum for caustic soda and we are well-positioned to continue the strong growth that we have experienced in the bleach business. I would like to turn the call over to John Fischer, who will review several financial matters with you. John?

John Fischer - *Olin - SVP and CFO*

Thanks, Joe. First I would like to discuss a few items on the income statement. Selling and administration expenses increased $6.5 million, or 20% in the third quarter of 2011 compared to the third quarter of 2010. The year over year increase reflects the inclusion of approximately $3 million of SunBelt selling and administration expenses as consolidated Olin expenses, higher salary and benefit costs, higher employee relocation expense and higher bad debt expense, partially offset by lower management incentive costs which included mark-to-market adjustments that reduced stock-based compensation and lower legal and legal-related settlement costs.

The inclusion of the SunBelt expenses of approximately $6 million have caused absolute year over year selling and administration expenses to be unfavorable on a year-to-date basis in 2011. This will continue for the balance of the year. Third-quarter 2011 charges to income for environmental investigatory and remedial activities were $2.5 million, which included $1.5 million of recoveries from third parties for environmental costs incurred and expensed in prior periods. During the third quarter of 2010, there were $8.4 million of charges related to environmental investigatory and remedial activities which included $200,000 of recoveries for environmental costs incurred and expensed in prior periods. After giving consideration to the recoveries in both periods, year over year expense related to environmental remedial and investigatory activities decreased by $4.6 million. These charges related primarily to expected future investigatory and remedial activities associated with past manufacturing operations and former waste disposal sites. We forecasted full year 2011 expenses for environmental investigatory and remedial activities prior to any recoveries will increase as much as 25% from 2010 levels. We currently do not expect additional recoveries in 2011 of environmental costs incurred and expensed in prior periods.

On a total company basis, defined benefit pension plan income was $6 million in the third quarter of 2011 compared to $5.3 million in the third quarter of 2010. We are not required to make any cash contributions to our domestic defined benefit pension plan in 2011 and continue to believe the earliest we may be required to make any cash contributions to that plan is 2013. In

2011, we do expect to make a cash contribution to our Canadian defined benefit pension plan of less than $5 million. Under Canadian pension rules, service costs are required to be funded annually. Defined contribution pension plan expense was $3.5 million in the third quarter of 2011 compared to $3.3 million in the third quarter of 2010. The vast majority of our employees now participate in the defined contribution pension plan. Our defined benefit pension plan is frozen to new entrants, all salaried, all non-union hourly and most union employees.

The third quarter 2011 effective tax rate was 32%. We continue to believe the full year effective tax rate will be in the 36% to 37% range with the fourth quarter rate similar to the third quarter. During 2011 Olin will continue to benefit from the accelerated depreciation provided for in the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010 and we forecast a cash tax rate, excluding the taxes recorded as part of the remeasurement of Olin's 50% ownership interest in the SunBelt partnership that took place in the first quarter of approximately 23%.

Earlier Joe mentioned the $4.1 million restructuring charge included in the third quarter 2011 results. This charge is associated with exiting the use of mercury cell technology in the chlor alkali manufacturing process by the end of 2012 and the ongoing relocation of our Winchester centerfire ammunition manufacturing operations from East Alton, Illinois, to Oxford, Mississippi. Over the next three years we anticipate that additional restructuring charges will be recognized associated with these actions. During the fourth quarter of last year, an initial $34.2 million charge was recorded associated with the Winchester relocation, the chlor alkali Charleston, Tennessee mercury cell conversion and the Augusta, Georgia plant reconfiguration. Under the current accounting rules, which were changed several years ago, certain types of costs including employee relocation, building demolition and certain other employee costs are required to be expensed as incurred. As a result, we expect to incur approximately $8 million of additional restructuring charges associated with the chlor alkali projects between now and the end of 2012 and approximately $18 million of additional restructuring charges associated with the Winchester relocation between now and the end of 2016. Finally, during the third quarter of 2011, we recorded a pretax gain of $3.7 million on the sale of a former manufacturing site.

Now turning to the balance sheet. Cash and cash equivalents at September 30, 2011 including the restricted cash associated with the Go Zone and Recovery Zone financings that were completed in 2010, and are classified as a long-term asset on the balance sheet totaled $389.9 million. At the end of the third quarter of 2011, $36 million of the $153 million of Go Zone and Recovery Zone bonds issued were undrawn. We expect that this undrawn balance will be fully drawn by the end of 2011. We also expect that at the end of 2011 there will be approximately $40 million of cash that will remain restricted and will be available to fund 2012 capital spending.

During the first nine months of 2011, there's been approximately $71 million of working capital growth. This reflects the normal seasonal pattern in both businesses amplified by the improved volumes of bleach sales in Chlor Alkali and higher commodity metal prices in Winchester. Consistent with the normal annual pattern, we expect the majority of this working capital growth to be liquidated by the end of the year. In December of 2011, we have $75 million of bonds that were issued in 2001 that mature. It is currently our intention to redeem these bonds using our cash. Also in December, $12.2 million of the SunBelt notes will be repaid. The SunBelt notes require $12.2 million of repayments annually through the end of 2017.

Full year 2011 capital spending is projected to be approximately $255 million compared to $85.3 million in 2010. Approximately 65% of this spending is related to the Charleston, Tennessee, mercury cell conversion project and the Winchester relocation project. Year-to-date these projects have accounted for approximately 57% of total capital spending. The capital spending for the Winchester relocation project will be partially financed by approximately $31 million of grants provided by the state of Mississippi and other local governments. We expect depreciation expense to be in the $100 million range for 2011.

During the third quarter, we initiated actions under the 5 million share repurchase program that was approved in July. In the third quarter approximately 125,000 shares were repurchased at a cost of approximately $2.2 million. Yesterday, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. The dividend is payable on December 9, 2011 to shareholders of record at the close of business on November 10, 2011. This is the 340th consecutive quarterly dividend to be paid by the company.

Before we conclude, let me remind you that throughout this presentation, we have made statements regarding our estimates of future performance. Clearly these are forward-looking statements and results could differ materially from those projected. Some of the factors that could cause actual results to differ are described without limitations in the Risk Factor sections of our most recent form 10K and in our third quarter earnings release. A copy of today's transcript will be available this afternoon 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. Now, operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session.

(Operator Instructions).

Frank Mitsch, Wells Fargo. Please go ahead.

Frank Mitsch - *Wells Fargo Securities - Analyst*

Good morning.

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

Good morning.

Frank Mitsch - *Wells Fargo Securities - Analyst*

Very exciting time to be in St. Louis. So good luck tonight.

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

Thank you.

Frank Mitsch - *Wells Fargo Securities - Analyst*

I wanted to try and size the Chlor Alkali outages that you're planning in the fourth quarter and also talk a little bit about operating rates. In the third quarter, your operating rates on average were 85% which was in line with the industry even though you had planned and unplanned outages, et cetera, but obviously business started to slow down. You're forecasting mid 70% in the fourth quarter, do you expect the industry to also be dropping that far down or is it mainly related to some of the outages that you - the unplanned downtime that you -- or planned downtime that you have?

John McIntosh - *Olin - SVP Operations*

Frank, I expect the industry to be in roughly the same operating rate range in the fourth quarter. We have seen pretty significant falloff in demand for chlorine, chlorine derivatives and I expect that to translate across the industry. I would add that if you look at our outages, total outages in the fourth quarter it represents in our system about 5% of capacity. Our expected operating rate for the fourth quarter, mid-70s is about the midrange of our fourth quarter operating rate for the last three years. So what we are seeing is not out of the ordinary for a fourth quarter for Olin's system.

Frank Mitsch - *Wells Fargo Securities - Analyst*

All right. Terrific. John, you mentioned that -- or the comment was that the two large chlorine customers multi-month outages, when do you anticipate that they will be backup?

John McIntosh - *Olin - SVP Operations*

We have one customer that should down at the end of July that should be starting up or is scheduled to start up next week. Another customer that started shut down the end of August that is supposed to start up the end of November.

Frank Mitsch - *Wells Fargo Securities - Analyst*

All right. Great.

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

Frank, one of the customers -- likely their shutdown is combined with a capital investment that they are doing that is why it is pretty lengthy.

Frank Mitsch - *Wells Fargo Securities - Analyst*

All right. Terrific. And just if you guys could offer a comment with respect to the share buyback $2.2 million in the third quarter. Any comments on the pace that you're planning to execute on that 5 million share buyback?

John Fischer - *Olin - SVP and CFO*

I think, Frank, we intend to be an opportunistic buyer of Olin shares and with a goal to offset dilution over time. And that is what we are targeting.

Frank Mitsch - *Wells Fargo Securities - Analyst*

All right. Terrific. Thank you.

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

Thanks.

Operator

Edward Yang, Oppenheimer. Please, go ahead.

Edward Yang - *Oppenheimer & Co. - Analyst*

Hi, good morning. Joe mentioned that you still expect the Chlor Alkali business to improve in 2012 year-over-year. So how much can we extrapolate the operating rate that you expect in the fourth quarter in the mid-70s out into 2012, what would your expectations be for example for first quarter of next year?

John McIntosh - *Olin - SVP Operations*

We have historically seen operating rates from fourth quarter of one year to first quarter of another of a subsequent year increase in the 5% to 8% range. And for us, peak quarters from an operating rate standpoint tend to be the second and third quarter when we have the full benefit of all of the seasonal business that we serve especially our bleach business.

Edward Yang - *Oppenheimer & Co. - Analyst*

And John, counting for that seasonality then, would you expect your operating rate to be down year-over-year in the second quarter of next year versus today under, given your current assumptions?

John McIntosh - *Olin - SVP Operations*

No.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay. And you mentioned that the mid-70s range that you see for the fourth quarter is kind of the average of what you have seen in the last three years, but that included a pretty severe recession. I would think that an operating rate this low -- sorry, go ahead.

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

If you take that recession year out and just take the last three years, we are right in the midpoint of that, to be quite frank about it. Forget '08 when everything collapsed. That was when we had the 67% operating rate.

John Fischer - *Olin - SVP and CFO*

'07, '09, and '10 average out to 75%.

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

75%.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay, I thought that fourth quarter kind of a typical year would be more in the 80s or the mid 80s or so? But the mid-70s you believe is --okay, all right. It is in the midpoint then. Okay, got you. Are there any cost-cutting actions that you could take as you have seen this drop off in chlorine demand?

John McIntosh - *Olin - SVP Operations*

Well, for the kind of one quarter demand that we see, it's pretty hard to make major changes on the cost side. What we do do is, it does afford us the opportunity to take opportunistic shutdowns in a period of time in which we can do that in the most cost-effective manner. It also allows us to manage the logistics sides of our business in a manner in which we can limit out of -- out of order book shipments and take full advantage of our multi-plant network and really lower the supply-chain costs that we have.

Edward Yang - *Oppenheimer & Co. - Analyst*

Maybe following up on that line of thinking then, John, when you made the SunBelt acquisition, I believe it was the final payment was going to be contingent on earn outs, but that is probably one of your most profitable plants. Would the demand, the diminished demand you're seeing on the chlorine side, would you see any benefit from that from let's say, paying out less of the SunBelt earn outs or reversing any accruals that you might have had for that?

John Fischer - *Olin - SVP and CFO*

We haven't really talked about the amount of the earn out. It is a three year earn out and I think we will run the business in the manner that generates the best financial return for Olin shareholders.

Edward Yang - *Oppenheimer & Co. - Analyst*

All right, thank you.

Operator

Christopher Butler, Sidoti and Company. Please, go ahead.

Christopher Butler - *Sidoti & Company - Analyst*

Hi, good morning guys.

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

Good morning.

Christopher Butler - *Sidoti & Company - Analyst*

Just wanted to shift gears over to Winchester here a bit. Now that we have some visibility into the full year of kind of post peak demand Winchester. How do you guys see this working out here over the next year, the next two years, is this going to be a slow decline back to normal, have we kind of found a stabilization here above where we expected, what do you think?

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

Chris, we think we have troughed out is where we are. We'll stay stable, with the ability to increase as time marches on.

Christopher Butler - *Sidoti & Company - Analyst*

And the pull out from Iraq and things of that nature not a concern to you at this point?

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

Not in the immediate future. Longer-term, it will be, but not as we look forward here in the next year or two.

John Fischer - *Olin - SVP and CFO*

Chris, one point I think we should make about the recent Second Source award, we were a participant in the prior second source award, but we only performed between 40% and 50% of that total contract value. The new contract provides us the opportunity to perform 100%, which if volumes are equal, that would double that component of our sales. We are not thinking that because we do believe there will be budget reductions and stuff, as we move through time. That is actually an opportunity for us to actually have better military sales than we've had historically. And at worst, if the volumes purchased in the new Second Source are only half of what they were in the prior second search we would still be even. So I think that is really good news for us in terms of the business space.

Christopher Butler - *Sidoti & Company - Analyst*

And looking at the profitability side of the equation, could you talk to the pricing environment and your ability to offset some of these higher metal costs that you have been dealing with?

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

We actually have pricing action that took effect the first of July, Chris, that's working its way in. And you know how we buy our metal. We are hedged out a couple of quarters. That's all got to work its way through the system. We would anticipate that as we get out further that our pricing will start to offset the commodity cost increase.

Christopher Butler - *Sidoti & Company - Analyst*

And just looking at the balance sheet really quick, you had mentioned that working capital normally increases during the year and falls by the end. But if we are looking at working capital sequentially here into the third quarter, it looks like you reduced it when normally it is fairly flat, with demand weakening in chlor alkali at the very end of the quarter, I am surprised that there wasn't an uptick in inventory as a result. Have you done anything differently there?

John Fischer - *Olin - SVP and CFO*

The bigger driver of the third quarter and most of the working capital growth during the year is Winchester. And we saw a very robust third-quarter sales for Winchester. That is really the bigger driver than the chlor alkali piece.

Christopher Butler - *Sidoti & Company - Analyst*

Thank you for the clarification. Thanks for your time.

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

You're welcome.

Operator

Herb Hardt, of Monness, Crespi, Hardt. Please go ahead.

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

Good morning. Question is potential for overseas ammunition contracts. Is there anything in the wings on that?

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

Not much, Herb. There periodically are opportunities there but not many. Most of our sales are pretty much domestic.

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

Thank you.

Operator

Don Carson, Susquehanna. Please, go ahead. Just one moment, please. Just one moment. Please, go ahead with your question.

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you. Question on ECU pricing, you were $590 the quarter, that was only up $7, just wondering what the dynamics were of how much of the caustic increase rolled through and what the offset was on chlorine? Just remind me, your bleach realizations are not in that ECU number, is that correct?

John Fischer - *Olin - SVP and CFO*

I think, Don, the quarter-over-quarter increase was $40. We were at $550. Now we are at $590, and you're right. The bleach realizations are not in that number.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay. What was the dynamics? How much was chlorine down versus caustic up?

John Fischer - *Olin - SVP and CFO*

Chlorine was roughly flat. It was all caustic up.

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

Offset by higher -- then you get the higher transportation costs as you know, Don.

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Don Carson - *Susquehanna Financial Group - Analyst*

Now as we look into the fourth quarter, you said you were hoping to get a portion of that 65, maybe 20 to 25, but I assume that chlorine is going to offset much of that, so you're looking at relatively flat ECUs here in Q4?

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

That's correct.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay. And then as you go forward with your bleach expansions, ultimately, say if you look out a year, what proportion of your overall ECUs will be going into bleach and is that -- are you still able to realize about $100, $150 ECU premium on bleach?

John Fischer - *Olin - SVP and CFO*

In 2011, Don, a little over 10% of our overall capacity will be sold as bleach, and to date, we have continued to realize at the high end of the $100 to $200 per ton premium that we have talked about.

John McIntosh - *Olin - SVP Operations*

Don, when you look at the addition of the HyPure bleach capacity that Joe alluded to in his remarks, which will occur within the next two years, that will basically add a third of our current system capacity so we will have the opportunity to grow that 10% correspondingly.

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

We stated we are trying to get it 15 to 20% is what we are trying to get to.

Don Carson - *Susquehanna Financial Group - Analyst*

Just a question on ECU pricing as we get into 2012, obviously caustic is being held up here because there's not much of an outlet for chlorine. How would you see that unfolding, and I am just wondering how much -- clearly end market demand has weakened for chlorine derivatives, not just vinyls, but isocyanates as well. But I'm wondering what impact this new capacity we've seen this year for chlor alkali has also contributed to the weakness in operating rates?

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

We don't think it is contributing at this point, Don, the new capacity. And what we think is going to happen is that caustic is going to be tight and it's going to be tight into the first quarter. And I think everybody's crystal ball will be what happens to the economy, normally what would start to happen as chlorine starts to pick up in the late February, early March period. It will for us because we will be heading into the bleach season.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay. What is your outlook for freight rates next year, Joe, I know that is a subject of interest.

THOMSON REUTERS

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

I think they are going to continue to go up.

Don Carson - *Susquehanna Financial Group - Analyst*

Okay, all right. Thanks for the help.

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

Thank you, Don.

Operator

Alex Yefremov, BofA Merrill Lynch. Please, go ahead.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Good morning. I just wanted to ask a question on ECU. Your expectation of higher ECU realizations in Q1, 2012, does this assumption include improvement or flattening in chlorine prices or continued decreases there?

John McIntosh - *Olin - SVP Operations*

It assumes chlorine prices will stay relatively where they are. Just to comment on caustic, if you look at 2011 and you add up all the price increases in the year there were a total of $240 of price increases announced. If you look at the benchmark indexes through the third quarter of this year, only $100 of that $240 has been realized in the marketplace. We feel like there's still a lot of room to go and we have actually seen improvement in caustic pricing in the fourth quarter, so far in the fourth quarter. We believe as has been said in earlier comments that we have opportunity for caustic pricing to continue into the first part of 2012.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Okay thank you. And the question on the high strength bleach facility, can you help us size potential impact on sales and EBIT after the startup sort of based on a steady state run rate in 2012?

John Fischer - *Olin - SVP and CFO*

John just said that we are expanding our bleach capacity by roughly a third and we said today it's about 200,000 tons so it would be roughly 60,000 tons and we've said the margin -- favorable margin impact is between $100 and $200 per ton.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Okay. Thank you.

John Fischer - *Olin - SVP and CFO*

I would just caution you that that is a seasonal business where about 70% of what we sell, we sell in quarters 2 and 3.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

I guess a follow-up to that, do you think as you ramp your bleach volumes, your seasonality would increase and that is part of what is happening this year already because your bleach volumes are higher?

John Fischer - *Olin - SVP and CFO*

That is absolutely one of the factors that is contributing to the move from Q3 to Q4. I would also add that we have seen a much more normal move in Winchester seasonally than we have seen in the last couple of years because the surge sort of overcame some of that.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

I see. Do you see any other end markets where sort of there's more pronounced seasonality this year, I guess other than maybe -- within chlorine derivatives, which markets are doing worse than others?

John McIntosh - *Olin - SVP Operations*

I don't know that you can attribute it as much to seasonality as just kind of attribute it to worldwide demand patterns. But the derivative product, the derivative exports, chlorine-based derivative exports have really dropped off the end of the third quarter and at least so far in the fourth quarter. I don't think that is seasonality as much as it's just worldwide economic -- worldwide demand driven by what the economies are doing.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Okay. Great. Thank you.

Operator

Dmitry Silversteyn, Longbow Research. Please, go ahead.

Dmitry Silversteyn - *Longbow Research - Analyst*

Good morning. I am still struggling a little bit with fourth quarter guidance. I understand the seasonal decline from the third quarter to the fourth quarter from the point of view of bleach and lower chlorine demand and volumes. But if you just compare it to the fourth quarter of 2010, you've got more than $50 more in ECU netback if not greater. Volumes actually including SunBelt are going to be up. I am just trying to understand how do I get my number down below $50 million in profits I guess is my question?

John Fischer - *Olin - SVP and CFO*

I think Dmitry, if you look at last year's fourth quarter and you look at the segment results and you look at the corporate and other line, there's about a $10 million to $12 million year-over-year change. Last year's fourth quarter essentially included no environmental expenses because of the absence of discreet events and some recoveries. There was some good news in terms of a reimbursement from the government on retiree medical that went with the healthcare law and there were some adjustments to asset retirement obligations that ran through as a result of the restructuring charge. Those three alone on a year-over-year basis 2011 is $10 million higher than it was in 2010. I think that is probably the piece that you're missing.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. So, basically you are talking about a higher corporate expense then in your chlor alkali production or profitability is going to be, I don't want to say 50% higher, but significantly higher than it was in December of 2010 quarter, right?

John Fischer - *Olin - SVP and CFO*

That's correct.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. That explains or helps to explain that a little bit. Secondly, on your tax rate it has been fluctuating a little bit here, so what should we think about, not just for the fourth quarter, but as we look longer-term at your tax rate?

John Fischer - *Olin - SVP and CFO*

I think absent adjustments, it is a 36% to 37% rate. Which is what we've said in full year 2011.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, so, even for the full year 2011 it will be that high?

John Fischer - *Olin - SVP and CFO*

Yes, I think it was quite a bit higher than that in Q1.

Dmitry Silversteyn - *Longbow Research - Analyst*

Right it was 35% in Q1, it was 32% in Q3. For us to get to 37% or 36% we have to assume almost a 40% Q4 tax rate, is that the right way to think about that?

John Fischer - *Olin - SVP and CFO*

No. I think if you go back and look at Q1 and Q2, I think we are above that 36% to 37% rate.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. I'll have to --.

John Fischer - *Olin - SVP and CFO*

To answer your question on future guidance, I would guide you to a 36% to 37% rate on a consistent basis going forward.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, all right. That's all the questions I had. Thank you.

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

Thank you.

Operator

Gregg Goodnight, UBS. Please, go ahead.

Gregg Goodnight - *UBS - Analyst*

Good morning, gentlemen.

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

Good morning.

Gregg Goodnight - *UBS - Analyst*

You mentioned that you're going to take some opportunistic shutdowns and do some tie-ins in the fourth quarter related to projects and others. My question is, is that work going to be expensed or capitalized? If it is going to be expensed, how much of an incremental cost of that is in the fourth quarter?

John McIntosh - *Olin - SVP Operations*

There really isn't a significant incremental expense cost associated with it. The opportunistic stuff we are doing is really capital related.

Gregg Goodnight - *UBS - Analyst*

Okay. It doesn't have an EPS impact then in the fourth quarter?

John McIntosh - *Olin - SVP Operations*

No, sir.

Gregg Goodnight - *UBS - Analyst*

Okay. The second question I had was, the --are there going to be any other environmental expenses or unusual charges in the fourth quarter that is included in your guidance for your corporate area?

John Fischer - *Olin - SVP and CFO*

I would not call it unusual. There is variability in environmental expenses, we do not see any recoveries in Q4 of '11. Whereas in Q4 of '10, we did. So there's a year-over-year unfavorable comparison, but I think if you look at environmental across 2011, as we said, it would be about 25% higher than 2010, but well within historic range.

Gregg Goodnight - *UBS - Analyst*

Okay. The last question I have is, your guidance that you are giving is a GAAP basis I assume, it's not an adjusted basis?

John Fischer - *Olin - SVP and CFO*

That's correct.

Gregg Goodnight - *UBS - Analyst*

Okay. Oh, I'm sorry, I do have one more question. Energy costs, could you typify your energy costs in third quarter versus second and then fourth quarter versus third, is it fairly flat? Are we seeing any trends at all?

John McIntosh - *Olin - SVP Operations*

We typically, energy costs although the difference isn't significant, energy costs during the peak times of the year, which are typically second quarter or third quarter do tend to be a little bit higher. A lot of that is driven by operating rate but it's also driven by just the fact that overall demand is higher in those quarters and we buy a little bit higher-priced mix of electricity because of that.

Gregg Goodnight - *UBS - Analyst*

Okay.

John McIntosh - *Olin - SVP Operations*

But it is not a significant delta from those quarter-to-quarter.

Gregg Goodnight - *UBS - Analyst*

Okay. Thank you very much, gentlemen

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

Thank you, Greg.

Operator

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

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

We would like to thank you for joining us today as we reported our third quarter results and we look forward to speaking with you in January of 2012 when we will report on the results of our full year and our fourth quarter. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation, you may now disconnect.