FINAL TRANSCRIPT

Thomson StreetEvents℠

OLN - Q4 2010 Olin Corporation Earnings Conference Call

Event Date/Time: Feb. 01. 2011 / 3:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

John McIntosh
Olin - Sr. VP, Operations

John Fischer
Olin - Sr. VP and CFO

Joseph Rupp
Olin - Chairman, President and CEO

CONFERENCE CALL PARTICIPANTS

Sabina Chatterjee
BB&T Capital Markets - Analyst

Edward Yang
Oppenheimer & Co. - Analyst

Christopher Butler
Sidoti & Company - Analyst

Don Carson
Susquehanna Financial Group - Analyst

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

Alex Yefremov
BofA Merrill Lynch - Analyst

Dmitry Silversteyn
Longbow Research - Analyst

Gregg Goodnight
UBS - Analyst

Kristin McDuffy
Goldman Sachs - Analyst

Gautam Khanna
Cowen and Company - Analyst

PRESENTATION

Operator

Good morning and welcome to the Olin Corporation fourth quarter 2010 earnings conference call. All participants will be in listen-only mode. (Operator Instructions)Please note this event is being recorded. I would now like to turn the conference over to Mr. Joseph Rupp. Mr. Rupp, please go ahead.

Joseph Rupp - *Olin - 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 Operations, and Larry Kromidas, our Assistant Treasurer and Director of Investor Relations. Last night, we announced net income in fourth quarter 2010 was $2 million, or $0.02 per diluted share, compared to $21.8 million, or $0.28 per diluted share in the fourth quarter of 2009. Fourth quarter 2010 results included a previously announced pre-tax restructuring charge of $34.2 million, and the fourth quarter of 2009 results included $37 million of pre-tax recoveries of environmental costs incurred and expensed in prior periods.

Sales in the fourth quarter of 2010 were $385 million, compared to $351 million in the fourth quarter of 2009. Fourth quarter 2010 results from both our chlor alkali and Winchester businesses exceeded our expectations. Our chlor alkali business earned $36.5 million in the quarter, reflecting better than expected volumes and pricing. Year-over-year chlorine and caustic soda volumes improved 12%. The impact of the normal seasonal slowdown was less pronounced than we expected. ECU net-backs improved 11% from the third quarter of 2010 level and were 21% higher than the fourth quarter of 2009 level. The operating rate in the fourth quarter of 2010 was 80%, compared to 70% in the fourth quarter of 2009.

Winchester's fourth quarter-earnings were $3.6 million, and full-year 2010 earnings were $63 million, which represented the second-most profitable year in its history. The fourth quarter pre-tax restructuring charge of $34.2 million, approximately 60% of which is non-cash, reflects the plans we announced in December to exit the use of mercury cell technology in the chlor alkali manufacturing process by the end of 2012, and the relocation of the Winchester center for our ammunition manufacturing operations from East Alton, Illinois, to Oxford, Mississippi. Fourth quarter 2010 results included a $1.6 million of pre-tax recoveries, environmental costs incurred and expensed in prior periods, and a $1.4 million pre-tax recovery of a previously written-off investment.

Fourth quarter 2010 results also included a $2.5 million of favorable income tax adjustments. Net income in 2010 was $64.8 million, or $0.81 per diluted share, compared to $135.7 million, or $1.73 per diluted share in 2009. In addition to the fourth quarter pre-tax restructuring charge and the investment recovery, the 2010 full-year results also included $7.2 million of pre-tax recoveries for environmental costs incurred and expensed in prior periods. 2009 full-year results included $82.1 million of pre-tax recoveries for environmental costs incurred and expensed in prior periods, and a $4.6 million pre-tax reduction in expense associated with the favorable resolution of a capital tax matter in Canada.

First quarter 2011 net income is forecast to be in the $0.20 to $0.25 per diluted share range. chlor alkali expects to see continued improvement in the first quarter segment; their earnings compared to fourth quarter 2010 reflecting the positive impact of the 2010 price increase announcements. Earnings in the Winchester segment, which is facing pressure from higher commodity costs, are expected to improve compared to the fourth quarter, but be lower than the first quarter 2010 levels. The first quarter 2011 net income forecast does not include any favorable income tax adjustments.

Before I talk about the businesses in more detail, I would like to spend a few minutes and discuss the restructuring charges that we took in both businesses and announced on December 10th. Let me begin with the mercury cell technology exit strategy. The timing of this decision was driven by several factors. First, over the past 18 months, we've experienced a steady increase in the number of customers unwilling to accept our products manufactured using mercury cell technology. This was becoming especially critical for the potassium hydroxide product, where the two primary competitors have already completed conversions away from mercury cell technology.

Second, there's federal legislation that was passed in 2008 governing the treatment of mercury that significantly limits our recycling options after December 31st, 2012. We concluded that exiting mercury cell technology production after 2012 represented an unacceptable future cost risk. Further, the conversion of the Charleston, Tennessee, plant to membrane technology will reduce electricity usage per ECU by approximately 25% and the configuration of the new plant will result in the increase in our capacity to produce potassium hydroxide. Potassium hydroxide is a value-enhancing product in our system that is proven to have a more stable demand and pricing profile than caustic soda.

The decision to reconfigure the Augusta facility to manufacture bleach and to distribute caustic soda removes the highest cost production capacity from our system. As a result, we believe that the long-term impact of these actions will be an enhancement in the earnings power of our chlor alkali business. We expect these actions to be completed by the end of 2012.

With regards to Winchester, in November we announced our decision to relocate the Winchester centerfire operations from East Alton, Illinois, to Oxford, Mississippi. With -- this move is anticipated to take approximately 60 months to complete. Upon completion, this relocation is forecast to reduce Winchester's annual operating costs by approximately $30 million. We also expect this relocation project to reduce Winchester's 2011 earnings before meaningful savings are realized, which will begin in 2013. The 2011 pre-tax impact of this project is estimated to be $4 million to $5 million. That said, once completed, Winchester will have the most modern center for ammunition production facility in North America and will be well-positioned for long-term success.

Now let me discuss the chlor alkali and Winchester segments in more detail. First, chlor alkali. Fourth quarter 2010 chlor alkali volumes for all products improved compared to the fourth quarter of 2009. Chlorine and caustic soda volumes increased 12% compared to the fourth quarter of 2009, but were 4% lower than the third quarter 2010 levels, reflecting normal seasonal weakness. Potassium hydroxide volumes increased 17% year-over-year, and increased 21% compared to third quarter levels.

Fourth quarter 2010 shipments of hydrochloric acid, which increased 17% year-over-year, also increased compared to the third quarter of 2010. Hydrochloric acid shipments usually experience some seasonal weakness during the fourth quarter. Shipments of bleach, which I will discuss in more detail later, increased 16% year-over-year, but declined 25% compared to the third quarter, reflecting a normal seasonal pattern. The fourth quarter volumes for these products all contributed to the better-than-expected volumes that were experienced in the fourth quarter 2010 and contributed to the better-than-expected financial performance.

While year-over-year volumes in the fourth quarter of 2010 improved compared to the fourth quarter 2009, they do remain well below fourth quarter 2007 levels. 2007 was a period of robust demand for the industry. Fourth quarter 2007 combined chlorine and caustic soda volumes were approximately 18% higher than fourth quarter 2010 levels.

For the year, full-year 20 10, chlor alkali volumes improved for all products compared to 2009. Combined chlorine and caustic soda volumes increased 15% while hydrochloric acid volumes increased 10%. Potassium hydroxide volumes which were negatively impacted in 2009 by raw material availability increased 58%, and bleach volumes increased approximately 18%.

The other element of the better-than-expected fourth quarter 2010 chlor alkali performance was chlorine and caustic soda pricing, which increased 11% sequentially and 21% from the fourth quarter of 2009 levels, reflecting an ECU net-back of approximately $515. The improvements in third quarter reflects the combination of a favorable customer mix and the favorable impact of the third quarter 2010 caustic soda price increases. We currently believe that approximately 70% of the $135 per ton caustic soda price increases announced during the quarter will be realized in the market. Olin anticipates additional benefits from these price increases and from contracts that reset on an annual basis realized in the first and second quarters of 2011.

The $35 per ton caustic soda increase that was announced in December has now been followed by other producers, including Olin's announcement last week at the $40 per ton level. We now believe at least a portion of this increase will be accepted in the market. This will likely favorably impact the Olin system in the second quarter. Over the past month we've seen some downward pressure on chlorine prices as reflected by a decline in the published spot prices. Downward pressure on chlorine prices is not unusual during the winter months and is expected to offset some of the positive momentum from caustic pricing during the first quarter of 2011.

Freight costs per ECU declined in the fourth quarter of 2010 compared to the fourth quarter of 2009 and the third quarter of 2010 levels. The year-over-year decline reflects the increased level of pipeline sales in our system. The year-over-year average increase of pipeline sales reflects the restart of our St. Gabriel, Louisiana, plant which did not operate until late in 2009. The full-year operation of the St. Gabriel plant in 2010 was responsible for approximately 2% decline in full-year 2010 freight rate costs per ECU when we compare to the 2009 levels. And as a point of reference, freight costs per ECU, which continue to be a challenge for chlor alkali business, have increased approximately 75% over the past five years.

Bleach volumes in 2010 increased approximately 18% compared to 2009 levels, as we began to see the benefits of our initiatives to ship bleach by rail. We've now experienced nine consecutive quarters on a year-over-year basis of volume growth in bleach shipments, at a rate in excess of 10%. We're currently forecasting additional 15% to 20% growth in bleach shipments in 2011 compared to 2010. During 2009, approximately 9% of our effective chlor alkali capacity was consumed making bleach. The continuation of these initiatives, and the start-up of our first low-salt, high-strength bleach facility in McIntosh, Alabama, during the third quarter of 2011 will drive future growth. As we have said before, bleach is a value-added product in our system that helps provide a base load for our facilities and is a product that, while seasonal, is less cyclical than our core chlorine and caustic soda business.

In addition to the low-salt, high-strength facility in McIntosh, Alabama, we're also evaluating two additional facilities to be co-located with two of our other chlor alkali plants. The two primary advantages of low-salt, high-strength bleach are that they -- is that it is produced in approximately twice the concentration of standard bleach, which reduces shipping costs; and because of the low-salt characteristics, it's a more stable product. Needless to say, bleach continues to be a strategic focus for the company.

Now let me talk about Winchester. The reversal in the surge levels of demand we began to experience in the third quarter of 2010 continued in the fourth quarter. Fourth quarter 2010 sales declined 11% compared to the fourth quarter 2009 levels, but our commercial sales declined by 18%. Commercial volumes excluding the rim fire product declined 21% in the fourth quarter of 2010 compared to the fourth quarter of 2009. On a full-year basis, commercial sales declined 10%, and volumes, excluding Rimfire, declined 12%.As further evidence of the reversal of the demand pattern, the commercial backlog declined 62% from the end of 2009 to the end of 2010.

On the positive side, contract sales and volumes, which includes both law enforcement and military customers, were comparable in the fourth quarter of 2010 when compared to the fourth quarter of 2009, but increased 9% compared to the full year of 2009 levels. We continue to believe that the growth of the military and law enforcement business will result in a more profitable Winchester segment after the end of the surge. Winchester earned $3.6 million in the fourth quarter compared to $9.5 million in the fourth quarter of 2009. In spite of this decline, Winchester earned $63 million in 2010, the second-most profitable year in its history. As a point of reference and evidence of the quality of Winchester's 2010 results, the previous second-most profitable year for Winchester -- in that year we earned $32.6 million.

The fourth quarter 2010 year-over-year decline in earnings reflects the combination of the lower commercial sales and higher commodity and other material costs, partially offset by improved pricing. In the fourth quarter 2010, Winchester acquired costs of all commodity metals increased compared to 2009 levels. The price of copper increased 21%, the price of lead 7%, and the price of zinc increased 18%. Winchester utilizes approximately three times as much lead as copper and three times as much copper as zinc.

As we look forward into 2011 the price of copper will likely present a significant challenge. During the second half of 2010 there's been a steady rise in the average monthly price of copper from $2.94 per pound in June, to $4.17 per pound in December, and with daily spot prices in December approaching $4.50. During January copper prices have continued at the recent elevated levels. As a result, commodity costs may prove to be a significant challenge for the Winchester business in 2011. The volatility in the prices of commodity metals has increased substantially over the past several years and reinforces the need and the value for cost reductions associated with our planned Oxford, Mississippi relocation.

Finally, the combination of the better-than-expected fourth quarter results from both the businesses, the strategic actions we announced in December, and the strength of our balance sheet, which includes a fully funded pension plan, positions the company for a successful 2011 and beyond. The steps we are taking are the ones that in the long term are both necessary and value-enhancing. In addition to the actions we've announced, we continue to look for acquisitions that can enhance and grow both our bleach business and our overall chlor alkali business.

Now I'm going turn the call over to our CFO, John Fischer, and John is going to review several financial matters with you. John.

John Fischer - *Olin - Sr. VP and CFO*

Thank you, Joe. First I'd like to discuss a few items on the balance sheet.

Cash and cash-equivalents at December 31st, 2010, including the restricted cash associated with the Go Zone and Recovery Zone financings that were completed in 2010, and which are classified as a long-term asset on the balance sheet, was $560.6 million. As of December 31st, $117 million of the $153 million of Go Zone and Recovery Zone bonds issued had been drawn. We expect both the undrawn balance of $36 million and the restricted cash of $102 million to be fully utilized during 2011 for the Winchester relocation, the Charleston, Tennessee conversion project, as well as the low-salt, high-strength bleach plant and other capital projects at our McIntosh, Alabama, facility.

Capital spending and depreciation in 2010 were $85.3 million and $85.4 million, respectively, compared to $137.9 million and $70.2 million in 2009. The decline in capital spending in 2010 compared to 2009 reflects the completion of the chlor alkali conversion and expansion project in St. Gabriel, Louisiana during 2009. In 2010 there were no individual projects with spending over $10 million.

In 2011, we expect capital spending to be in the $230 million to $250 million range, approximately 55% of which will reflect the chlor alkali mercury cell conversion project in Charleston, Tennessee, and the Winchester centerfire relocation project. We also expect spending to continue on the low-salt, high-strength bleach initiative. 2011 depreciation is forecast to be approximately $90 million. In December 2011, we have $75 million of bonds that were issued in 2001 that will mature. It is currently our intention to redeem these bonds using our cash.

During 2010 Olin benefited from the bonus depreciation provisions that were contained in the American Recovery and Reinvestment Act of 2009. As a result of these provisions, Olin's cash taxes paid in 2010 were less than $10 million. These bonus depreciation provisions were recently renewed for 2011, and will likely result in Olin paying minimal cash taxes in 2011.

Now turning to the income statement, selling and administration expense increased $4.3 million, or 15%, in the fourth quarter of 2010, compared to the fourth quarter 2009. The increase was primarily due to higher legal and legal-related settlement costs of $3.1 million in the fourth quarter of 2010 compared to the fourth quarter of 2009, and increased fourth quarter 2010 incentive compensation costs of $1.2 million, primarily associated with mark-to-market adjustments on stock-based compensation.

Fourth quarter 2010 charges to income for environmental, investigatory and remedial activities were less than $100,000, and include the $1.6 million of recoveries from third parties for environmental costs incurred and expensed in prior periods. The low level of fourth-quarter expense reflects the timing of recognition of these expenses. During the fourth quarter of 2009 there were $31.2 million of credits related to environmental investigatory and remedial activities, which includes $37 million of recoveries of environmental costs incurred and expensed in prior periods. After giving consideration to the recoveries in both periods, year-over-year expenses related to environmental remedial and investigatory activities decreased $4.2 million.

For the full year 2010, after giving consideration to the $7.2 million of environmental recoveries, charges to income for environmental, investigatory, and remedial activities were $16.3 million, which is 32% less than the full-year 2009 charges of $24.1 million after giving consideration to the $82.1 million of full-year recoveries. The full-year 2010 expense for environmental, investigatory and remedial activities was approximately 35% lower than has been experienced in recent years. In 2011 we anticipate these expenses to return to more normal levels.

On a total company basis, defined benefit pension plan income was $5.5 million in the fourth quarter of 2010, compared to $4 million of income in the fourth quarter of 2009. The fourth quarter 2010 restructuring charge included a pension curtailment charge of $3.2 million associated with the relocation of our Winchester centerfire ammunition manufacturing operations. We expect 2011 defined benefit pension plan income to be similar to 2010 levels. We were 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 $10 million of voluntary contributions in 2010. We expect 2011 cash contributions to this plan to be less than $5 million.

Defined contribution pension expense was $3 .2 million in the fourth quarter of 2010, compared to $2.7 million in the fourth quarter of 2009. As a reminder, our defined benefit pension plan is frozen to all 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.

During the fourth quarter of 2010 we recorded a pre-tax restructuring charge of $34.2 million, related to the plans we announced in December to exit the mercury cell technology in our chlor alkali manufacturing process by the end of 2012, and the relocation of the Winchester Centerfire ammunition manufacturing operations. The major elements of this restructuring charge are equipment and facility write-offs of $17.5 million, the accelerated recognition of asset retirement obligations of $6.7 million, employee severance and related benefit costs of $6 million, a non-cash pension and other post-retirement benefit curtailment charge of $3 million, and contract termination costs of $1 million.

The effective tax rate in 2010 was 15.7%, which reflects the positive benefits of favorable adjustments primarily related to the expiration of statutes of limitations, and the release of the valuation allowance recorded against a foreign tax loss carry-forward deferred tax asset. In 2011, we believe the effective tax rate will be in the 36% to 37% range. On January 31st, 2011, Olin's Board of Directors declared a dividend of $0.20 on each share of Olin common stock. The dividend is payable on March 10th, 2011, to shareholders of record at the close of business on February 10th, 2011. This is the 337th consecutive quarterly dividend to be paid by the Company.

Before we conclude let me remind you that throughout this presentation we have made statements regarding our estimates of future performance. Clearly these are forward-looking statements, and results could differ materially from those projected. Some of the factors that could cause actual results to differ are described without limitations in the Risk Factors section of our most recent 10-K, and in our third quarter earnings release. A copy of today's transcript will be available this afternoon on our web site in the Investor section under Calendar of Events. The earnings press release and other financial data and information are available under Press Releases.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

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

(Operator Instructions)

And at this time we will pause momentarily to assemble our roster.

Our first question is from Sabina Chatterjee from BB&T. Please go ahead.

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

Hey, good morning.

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

Good morning.

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

Just in terms of guidance, you're forecasting about $0.20 to $0.25 per share in Q1. But as I look at the results here, they were nicely above that in the fourth quarter, and you expect improving conditions in both businesses. So I'm not clear as to why you wouldn't expect something north of $0.25 at a minimum.

And you had also talked about some planned outages at four chlor alkali sites for Q4. Did those occur, or have some spilled over into the first quarter?

John Fischer - *Olin - Sr. VP and CFO*

This is John, Sabina. I think when you look at the fourth quarter and you compare to the first, you have to take into account the positive events in the fourth quarter that won't occur in the first. We had the $1.6 million pre-tax environmental recovery. We had a $1.4 million after-tax investment recovery. We talked about baseline environmental expense, which -- as you know -- is highly variable, was abnormally low in the fourth quarter, will be much higher in the first quarter. And finally, we had the favorable tax adjustments in the fourth quarter, and we don't expect any of those in the first quarter.

And I think if you factor those out of your calculation in Q4, you'll actually find that our Q1 guidance is higher.

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

Okay.

John McIntosh - *Olin - Sr. VP, Operations*

In terms of the outage schedule, we did have outages scheduled in the fourth quarter, and we did meet those outages, and so they were in our operating results for the quarter. We do have outages scheduled in the first quarter as well, and those are also taken into account in our guidance.

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

Okay, great. And then just a few questions related to the mercury cell phase-out. It sounds like you're still looking at a 2012 year-end completion date. And I'm assuming the $160 million cost to convert hasn't changed. Can you just size that market opp -- the market share opportunity that you're alluding to with the conversion, and what sort of impact you think that the conversion will have on Olin's operating rates?

John McIntosh - *Olin - Sr. VP, Operations*

Well, let me talk about just the capacity considerations. Part of our fourth-quarter announcement was that these actions were going to reduce overall our capacity in the Charleston site. It's one of the sites in which that capacity will be reduced as part of the 150,000 tons of capacity that will be taken out in total, by all the actions we're going to take.

At Charleston, the new facility as -- when finally constructed will afford us an opportunity to increase our manufacturing capability for KOH. I don't believe we've specified how much of an increase that is, but in the market it's significant, and our ability to improve our financial results -- it will be noticeable.

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

And the capital cost is right, what you talk - what you quoted, Sabina.

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

Okay, so you haven't lost any KOH customers, is that correct? Or just --

---

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

No, we have not.

John McIntosh - *Olin - Sr. VP, Operations*

Our KOH volumes are actually improving year-over-year in fourth-quarter over fourth-quarter.

John Fischer - *Olin - Sr. VP and CFO*

Yes. We were reacting in describing a threat to that business that we're trying to avoid.

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

Okay, great. Thank you, guys.

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

Thank you.

Operator

Our next question is from Edward Yang with Oppenheimer. Please go ahead.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay, thank you, and congrats on the quarter.

It looks like you're expecting to get higher pricing. What kind of incremental margins could you get from that on the chlor alkali side? Are there any offsetting costs, or will these price increases be largely margin accretive?

John McIntosh - *Olin - Sr. VP, Operations*

They will largely be accretive, because we're not really talking about operating in any significantly different way in the quarter. So we would expect, to the extent we have increases, that we would be able to realize those.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay, terrific. And now that we're -- a question for John again. Now that we're two years into the up cycle, are you in a better position to assess how this cycle is playing out prior to prior cycles?

And I share your optimism on the chlor alkali side, but there are some skepticisms out there that maybe prices or margins have already peaked. How would you assess the progress that you're seeing in this business?

John McIntosh - *Olin - Sr. VP, Operations*

Well, I -- from the perspective of the cycle, it is still different than it was. I mean, we have never seen so far the strength of the chlorine molecule lead us to where we are today, because of weakness in the domestic housing and domestic vinyls market, which is not anticipated to come back in the near future.

What we have seen as an offset to that is the energy position of the United States and our ability as a chemical industry to export successfully many derivatives of the chlorine molecule, and some end uses for caustic, and that has been a tremendous offset to what started out as a different cycle for this chlor alkali cycle than we've seen before.

Edward Yang - *Oppenheimer & Co. - Analyst*

Maybe just a final long-term question. What's your industry supply expectation? You're taking out about 8% net capacity related to that December announcement. Do you expect the industry to continue gradually taking out capacity as it has done so in the last decade or so, or do you expect industry supply to start expanding?

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

We would expect that capacity -- old capacity -- will continue to be taken out.

Edward Yang - *Oppenheimer & Co. - Analyst*

And industry capacity as well?

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

Yes.

Edward Yang - *Oppenheimer & Co. - Analyst*

Okay, thank you very much.

Operator

Our next question is from Christopher Butler with Sidoti & 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*

That last question brings some additional questions here. The -- your operating rate for the fourth quarter which is a seasonally weak quarter was 80%. You had mentioned that vinyls were still pretty much washed out because of residential construction. Do we hit a point here a few years down the road where the industry, which has been very slow to add capacity over the last cycle, is in a situation where that becomes part of the story again?

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

It's hard to speculate with regard to that. I think Chris, there's two things that are going on. One is that the industry -- the vinyls producers are exporting a significant amount outside the United States. So I think that your question is, if they can continue to do that and demand in the United States increases, you're going to be tight on capacity. But I would think that people would be prudent as they add capacity -- if they add it.

Christopher Butler - *Sidoti & Company - Analyst*

And just shifting gears here a little bit, you had given us, I think, a full-year CapEx of $230 million to $250 million, if I'm not mistaken. Could you give us a sense of what that number is going to look like in 2012, as all of these projects kind of do their full two-year cycle?

John Fischer - *Olin - Sr. VP and CFO*

We expect 2012's CapEx to be lower than that $230 million to $250 million, but probably still well above the depreciation level, because there's still a significant amount of the capital associated with the Charleston conversion would be in 2012.

Christopher Butler - *Sidoti & Company - Analyst*

And as this takes place is there anything that we need to be aware of as far as capacity being shut down at certain times? Added costs, like freight, due to production and other facilities, things of that nature that are going to take place during this project?

John McIntosh - *Olin - Sr. VP, Operations*

Our project plan is such that we will continue to operate in our facilities at Charleston while we build and start up the new facility. So we don't anticipate any project related impact on our operating results.

Christopher Butler - *Sidoti & Company - Analyst*

I appreciate your time.

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

Thank you.

Operator

Our next question is from Don Carson with Susquehanna. Please go ahead.

Don Carson - *Susquehanna Financial Group - Analyst*

Yes, thank you. A couple questions on chlor alkali pricing. So, John, how much of the $50 increase did you get in the quarter, about $15 or so?

And then could you comment on the new contract roll-overs for 2011, what changes in terms you were able to get, and, I guess, looking out, what impact, if any, do you see from some of these second-half start-ups by Shintech and others?

John McIntosh - *Olin - Sr. VP, Operations*

In terms of the $50 price increase, I can't really tell you, because there were so many third-quarter/fourth-quarter caustic price increases in 2010. We can't separate them out by what happened, which increase was evident in which specific quarter. We have said consistently that as price increases move into the marketplace that we have a one- to two-quarter lag, depending upon the magnitude and the timing of price increases, and how close they fall, if there are multiple increases.

So we did get some of that, and we anticipate that there's price increases that are still out there that we will see positive benefits from in our system over the next two quarters.

In terms of capacity that is coming on later in the year, or later, there is announced capacity coming on late this year into 2012, in some cases into 2013. We can't speak for anybody else. We've made our announcement that we are actually reducing capacity across our system, most of which will occur in 2012, and we believe, as Joe mentioned earlier, that there is a bias in the industry towards capacity rationalization. It's been that way in recent history.

We believe it will continue to occur, and that the net effect of capacity additions will be for the most part offset by this -- by what the industry has done historically, and we believe will continue to do in the future.

Don Carson - *Susquehanna Financial Group - Analyst*

John, can you comment -- two follow-ons. One, most of the industry publications only seem to have put through about $15 of that last $50. So, again, are your contracts tied to those industry benchmarks?

And then, two, just on your new contracts that you signed, were you able to get better terms and remove, or at least reduce, the impact of, say, annual caps on how much you can raise prices?

John McIntosh - *Olin - Sr. VP, Operations*

To your first question, you're right, the industry indexes did reflect only about $15, and up until the most recent price increases that were announced for caustic, the market appeared not to put much stock in getting much more of that $50 increase than had been recognized earlier. But what we think and what our system reflects, because as recent as the early part of this week, we were late in shipments across our system of plants. We believe that there is more traction in caustic pricing that we'll see in the first and second quarter of the year.

In terms of our contracts, we have, for the most part, almost completely -- and I say almost completely -- moved away from caps and limits in our contracts, as we've continued to negotiate new contracts as old ones roll over. And so we're going to be more closely tied to the market with less restrictions on pricing. We will still have the lag that's inherent and has been in our historical contract base but without the caps and limitations that we would have otherwise seen in other periods.

Don Carson - *Susquehanna Financial Group - Analyst*

Thank you.

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

Thank you, Don.

Operator

Our next question is from Herb Hardt with Monness. Please go ahead.

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

Good morning. Two questions. One is what part of your ammunition business has a pass-through on raw materials, like the military? And secondly, when will you actually begin the mercury cell conversion?

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

The mercury cell conversion actually will begin in 2012. We'll be doing the engineering and pre-construction in 2011. The conversion will occur in 2012 and be completed in the third quarter of 2012, Herb, from a mercury-conversion perspective.

And from an ammunition perspective, there really is no pass-through, not like -- not how the old metals business works. So, basically, what happens is, there's a price for the ammunition, and ultimately what is required, as commodities go up, you need to announce price increases. There are price increases that are announced in the ammunition industry to take effect in April, which addresses some of the commodities.

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

Okay, thank you.

Operator

Our next question is from Alex Yefremov, Bank of America/Merrill Lynch.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Thank you, good morning. I have a follow-up on price increases in Winchester. You mentioned that there are some increases slated for April. Could you comment how -- what's the magnitude, and whether any of your competitors have announced similar increases?

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

Magnitude is in the 5% to 7% range, and everyone has announced.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

And do you think this would be enough to preserve margin, given increasing metal prices?

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

I think it depends upon what happens with metals as we get out to the middle of the year. If the metals stay where they are, it's going to require further price increases.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

And so the second question on chlor alkali side, it seemed like Dow's increase of nomination of $35 a ton didn't receive any support, and suddenly in mid-January, you guys and two other players nominated $40 a ton. Has something changed in terms of supply/demand balance in mid-January for the better?

John McIntosh - *Olin - Sr. VP, Operations*

We have seen continued demand, even in what is typically in the first quarter of a year, a period of time in which we might see some seasonal drop-off. And as I said earlier, across our system, we are actually out of caustic, and we're late in shipments, as early as the first part of this week. So the dynamics for us indicate that caustic pricing should be moving upwards.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

And, finally, are you expecting any major turnarounds in the first quarter in chlor alkali?

John McIntosh - *Olin - Sr. VP, Operations*

We do have some turnarounds in the first quarter. We have an outage at our Henderson, Nevada, facility in March. This will prepare for the seasonal bleach season in that part -- in the west. We have -- at St. Gabriel we're in the middle of our extended chlorine pipeline outage, and at the end of that we have a five-day planned outage scheduled, after which we'll resume pipeline operations. And those are the two biggest ones. We have a three-day outage at Augusta at the end of the quarter. The rest of them are relatively small in comparison.

Alex Yefremov - *BofA Merrill Lynch - Analyst*

Great, thank you.

Operator

Our next question is from Dmitry Silversteyn with Longbow Research. Please go ahead.

Dmitry Silversteyn - *Longbow Research - Analyst*

Good morning, gentlemen. And congratulations on ending the year on a strong note.

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

Thank you.

Dmitry Silversteyn - *Longbow Research - Analyst*

A couple of questions. First of all, given all the cumulative price increases that you have seen in the chlor alkali market including this latest $35 a ton, which I guess it's open to speculation how much you would actually get, but as you head into the first quarter of 2011, what was the cumulative year-over-year increase in chlor alkali pricing?

John Fischer - *Olin - Sr. VP and CFO*

The ECU netback in the fourth quarter 2010 was about $425, and it was $515 in the fourth quarter of 2010, so that's $90. And we would point out that in that you've also got changes in freight costs, and you've got changes in the chlorine price also.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. And if you look at the chlorine demand and you talked about chlorine pricing softening a little bit sequentially in the fourth quarter, probably because of seasonality, when would you expect the inflection point in chlorine prices to take place? Would that be in the first quarter or the second quarter as the weather improves and construction hopefully gets underway at some level?

John McIntosh - *Olin - Sr. VP, Operations*

Well, to the extent -- the normal seasonal pattern is we start to see demands for chlorine that are tied to seasons, start to show up at the end of the first quarter in our system.

Dmitry Silversteyn - *Longbow Research - Analyst*

At the end of the first quarter. So probably by middle of the year is when you would expect to see some positive pricing in chlorine, which should diminish the drag on the caustic price increases in terms of profitability?

John McIntosh - *Olin - Sr. VP, Operations*

That's entirely possible. If exports across the industry of chlorine derivatives continue and we get a normal seasonal increase in requirements for chlorine, it's not unlikely that we won't be in a position where we will be short of capacity on the chlorine molecule and we'll be looking to move pricing.

Dmitry Silversteyn - *Longbow Research - Analyst*

Very helpful, thank you.

On the Winchester side, besides the consolidation of the manufacturing plant that you're reserved for during this quarter, are there other opportunities to lower costs internally through manufacturing efficiencies, or maybe on the SG&A line somewhere, to help you offset the raw material pressures? Or is it just a matter of taking your time to pass through pricing as needed to hopefully restore the profitability in that business?

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

I think two things. We'll have to pass through pricing and make sure that we cost-effectively move to Mississippi, where we'll really be able to get the efficiencies and the full-fledged cost reductions.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay. Are there pricing pressures coming from unusual sources in Winchester, or is it just a matter of passing through the raw material squeeze that you're seeing on the metal side? I'm just trying to understand the fundamentals of the business a little better in terms of -- is there competition that's preventing you getting pricing? Is there resistance in the market? Are there contractual obligations that are slowing down price increases?

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

There's been volume that has dropped off in the business that we've talked about last year, and as I have mentioned, the commodities really didn't start running until toward the end of last year, and in many cases people hedge their positions a little bit. But what's happened is the commodities have run longer, and as I mentioned, we've announced a price increase, and the other producers have announced a price increase, as well.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, so hopefully if everybody is on the same page-frame, we should start seeing margin improve. Would you say that the Winchester margins that you've been able to deliver in 2010, as you look out at 2011, will probably be lower in 2011 than in 2010, even if you get these price increases?

John Fischer - *Olin - Sr. VP and CFO*

Yes. We're just going to have significantly less volume in 2011 than we had, especially in the first half of 2010. I mean, we were running essentially at surge levels in the Q1 and Q2 of 2010.

Dmitry Silversteyn - *Longbow Research - Analyst*

So you expect volume decline somewhere in the mid- to high-single digits as well?

John Fischer - *Olin - Sr. VP and CFO*

We typically see volume declines of 10% to 15% of the commercial sales per year for a couple of years at the conclusion of the surge.

Dmitry Silversteyn - *Longbow Research - Analyst*

Okay, got it. Okay, thank you very much. That's helpful.

Operator

Our next question is from Gregg Goodnight with UBS. Go ahead.

Gregg Goodnight - *UBS - Analyst*

Good morning, gentlemen.

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

Good morning.

Gregg Goodnight - *UBS - Analyst*

A follow-up to a previous question for John McIntosh. You mentioned that your system for caustic is fairly tied to your running pretty tight on orders. Would you comment on the industry inventories in general? How tight is the industry? Could you comment on downstream demand -- what seems to be driving caustic demand right now?

John McIntosh - *Olin - Sr. VP, Operations*

We believe that industry inventories are relatively low. The latter part of 2010, the caustic imports into the US were off significantly. Europe was down because of their operating issues and low inventories, and there was -- operating rates in China and far eastern countries were off, and so there wasn't caustic to export to the U.S.

We also believe that aluminum production has ramped up over the last several months, which has also affected import/export world trade movements of the product. And pulp and paper domestically has continued strong.

So we believe, overall, that inventory levels are lower than you would expect for the seasonal time of year.

Gregg Goodnight - *UBS - Analyst*

Okay, excellent. I believe you had mentioned that about 70% of the $135 price increase for caustic has been actualized, and that would put you at about $95 to $100 a ton of increases. Were you specifically addressing the first three increases, which I believe were $40, $40, and $50?

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

That's correct.

Gregg Goodnight - *UBS - Analyst*

Okay, and none of that 70% is in the last $35 to $40 a ton, correct?

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

That is correct.

Gregg Goodnight - *UBS - Analyst*

Okay, excellent.

On your guidance of $0.20 to $0.25 per share for the first quarter, I assume that's on an adjusted basis, not a GAAP basis?

John Fischer - *Olin - Sr. VP and CFO*

It's on a GAAP basis.

Gregg Goodnight - *UBS - Analyst*

Okay, it's on a GAAP basis. So, do you expect any unusual charge or write-downs that would make GAAP differ for adjusted EPS in 2011?

John Fischer - *Olin - Sr. VP and CFO*

We have not forecasted any, no.

Gregg Goodnight - *UBS - Analyst*

Okay, my last question, if I could. In the past you guys have been pretty good in terms of hitting your EPS guidance, and you were significantly above that in the fourth quarter. If I'm interpreting your guidance as an adjusted basis, would you comment on -- was your guidance on an adjusted basis, a GAAP basis? And if it was on adjusted basis, what was the big components of the up-side surprise?

John Fischer - *Olin - Sr. VP and CFO*

The fourth quarter guidance that we gave was on a GAAP basis. We were had -- we were surprised operationally by higher than expected volumes in chlor alkali and Winchester, and the pricing realization of the caustic price increases occurred more rapidly in our system than we had expected, so we saw better pricing in chlor alkali in the fourth quarter, and that's --

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

Lower environmental costs.

John Fischer - *Olin - Sr. VP and CFO*

But there was no adjusted there. It was all GAAP.

Gregg Goodnight - *UBS - Analyst*

Okay, so that did include an anticipated charge in the fourth quarter?

John Fischer - *Olin - Sr. VP and CFO*

Yes, it did.

Gregg Goodnight - *UBS - Analyst*

Okay.

John Fischer - *Olin - Sr. VP and CFO*

Excuse me, the guidance that we gave out at the end of the third quarter, for the fourth quarter, did not contemplate the restructuring charge.

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

Correct.

John Fischer - *Olin - Sr. VP and CFO*

It was a subsequent press release in December where we identified the restructuring charge.

Gregg Goodnight - *UBS - Analyst*

So your guidance is always on an adjusted basis then.

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

We don't really normally have too many adjustments, Gregg.

Gregg Goodnight - *UBS - Analyst*

I understand.

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

Normally our adjustment -- our GAAP guidance -- was zero, to break-even, to a nickel, is what it was. And then ultimately what happened, we chose to take this write-off in December, and that's what kind of gets you into the adjusted basis. But we're not anticipating any further write-offs at this point in time, as we look forward to 2011.

Gregg Goodnight - *UBS - Analyst*

Okay. Thank you for that.

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

Thanks.

Operator

Our next question is from Kristin McDuffy with Goldman Sachs. Please go ahead.

Kristin McDuffy - *Goldman Sachs - Analyst*

Yes, I just wanted to ask, I think you had guided to $160 million expense for the mercury cell conversion. Can you divide that expense, or give some guidance for cash outlays in 2011 versus 2012?

John Fischer - *Olin - Sr. VP and CFO*

Well, what we've said is, that's a component of our capital spending forecast for 2011, of $230 million to $250 million. And it's obviously a big component of it.

Kristin McDuffy - *Goldman Sachs - Analyst*

Got it. And the same question for Winchester. Will there be severance that will be above and beyond what's flowing through the CapEx line in 2011?

John Fischer - *Olin - Sr. VP and CFO*

We -- there was severance that was included as part of the restructuring charge. That will flow through to -- over the next several years in terms of a cash outlay, but it has been provided for in the $34.2 million.

Kristin McDuffy - *Goldman Sachs - Analyst*

Okay, got it. And then, I think you had mentioned potential M&A activity in the chlor alkali space. Can you talk about whether we've seen more of a normalization of bid/ask spreads out there, and what your ultimate objective is in terms of the M&A in the chlor alkali space?

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

The area that we have most interest in is in the bleach business, and that's where we've talked about, I think, many times in the past. And the perceptions of value have been, where they were widely apart, it seems that they're starting to become more in alignment, so there may be some further opportunities there.

Kristin McDuffy - *Goldman Sachs - Analyst*

So it seems less likely that you'd be doing something in chlorine caustic, like outside of the bleach space?

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

I think our first preference is in the bleach space. We've also stated that if there was chlorine and caustic that made sense that we clearly would have an interest in that as well.

Kristin McDuffy - *Goldman Sachs - Analyst*

Okay, and then just lastly, could you comment on what the year-over-year volume decline was in your Winchester business?

John Fischer - *Olin - Sr. VP and CFO*

I think on the commercial side, it was something in the neighborhood of 12%.

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

Right.

John Fischer - *Olin - Sr. VP and CFO*

That's unit volume, and that's commercial.

Kristin McDuffy - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Our next question is from Gautam Khanna with Cowen and Company. Please go ahead.

Gautam Khanna - *Cowen and Company - Analyst*

Yes, thanks for taking my question.

I just had two on the Winchester segment. Specifically, if you could comment on the sequential trend in backlog. I know you gave the year-over-year. And also, if you've seen any change in share as volumes declined, or are any of your distributors and/or dealers kind of moving share around that favors you, or doesn't favor you?

John Fischer - *Olin - Sr. VP and CFO*

I don't know that giving you a sequential backlog number in Winchester means anything because of the significant seasonal component of the business. The backlog typically builds from the end of the year through the middle part of Q3 and then drops off substantially. So the backlog at the end of the fourth quarter is always at its lowest.

Gautam Khanna - *Cowen and Company - Analyst*

Okay. Can you comment on the hunting season specifically? And was it stronger or weaker than you kind of anticipated heading into the quarter?

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

I would say that it was maybe just a little bit stronger than what we had anticipated.

Gautam Khanna - *Cowen and Company - Analyst*

Okay, and with respect to share, I know -- the reason I ask is, two of your competitors always claim they have number one position. I know you guys are a great brand. And so are you seeing any change in share with respect to the Winchester shelf space at dealers or with distributors?

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

We don't really normally talk a whole lot about share, but I think we all feel that we have number one positions in a variety of the symbols.

Gautam Khanna - *Cowen and Company - Analyst*

And there's no change there. Okay. Thank you, guys, appreciate it.

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

Thank you.

Operator

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

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

We thank you for joining us, and we look forward to speaking with you in April when we report on our first quarter results. Thank you.

Operator

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