OLIN CORP
Form 10-Q
July 28, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-1070

Olin Corporation
(Exact name of registrant as specified in its charter)

Virginia	13-1872319
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

190 Carondelet Plaza, Suite 1530, Clayton, MO	63105-3443
(Address of principal executive offices)	(Zip Code)

(314) 480-1400
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company)

Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 30, 2009, 78,233,857 shares of the registrant's common stock were outstanding.

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Part I — Financial Information

Item 1. Financial Statements.

OLIN CORPORATION AND CONSOLIDATED SUBSIDIARIES
Condensed Balance Sheets
(In millions, except per share data)
(Unaudited)

	June 30, 2009	December 31, 2008	June 30, 2008
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 192.2	$ 246.5	$ 186.4
Short-Term Investments	—	—	20.5
Receivables, Net	212.5	213.0	251.0
Inventories	162.7	131.4	150.8
Current Deferred Income Taxes	68.5	68.5	69.8
Other Current Assets	10.3	10.9	16.2
Total Current Assets	646.2	670.3	694.7
Property, Plant and Equipment (less Accumulated Depreciation of $975.8, $956.0 and $938.9)	683.5	629.9	541.4
Prepaid Pension Costs	—	—	154.1
Deferred Income Taxes	0.5	46.8	—
Other Assets	77.4	70.8	69.2
Goodwill	301.9	301.9	301.9
Total Assets	$ 1,709.5	$ 1,719.7	$ 1,761.3
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts Payable	$ 115.6	$ 145.6	$ 159.3
Income Taxes Payable	—	0.6	—
Accrued Liabilities	197.0	253.6	218.6
Total Current Liabilities	312.6	399.8	377.9
Long-Term Debt	251.4	252.4	248.7
Accrued Pension Liability	35.0	51.5	50.1
Deferred Income Taxes	7.1	6.5	22.4
Other Liabilities	311.2	304.5	338.0
Total Liabilities	917.3	1,014.7	1,037.1
Commitments and Contingencies			
Shareholders' Equity:			
Common Stock, Par Value $1 Per Share: Authorized, 120.0 Shares;			
Issued and Outstanding 78.2, 77.3 and 75.4 Shares	78.2	77.3	75.4
Additional Paid-In Capital	814.5	801.6	761.6
Accumulated Other Comprehensive Loss	(239.4)	(269.4)	(154.1)
Retained Earnings	138.9	95.5	41.3
Total Shareholders' Equity	792.2	705.0	724.2
Total Liabilities and Shareholders' Equity	$ 1,709.5	$ 1,719.7	$ 1,761.3

The accompanying Notes to Condensed Financial Statements are an integral part of the condensed financial statements.

OLIN CORPORATION AND CONSOLIDATED SUBSIDIARIES
Condensed Statements of Income
(In millions, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Sales	$ 383.0	$ 428.3	$ 783.6	$ 827.4
Operating Expenses:				
Cost of Goods Sold	312.0	347.2	618.2	661.2
Selling and Administration	36.1	35.6	75.3	68.9
Other Operating Income	0.2	0.4	5.7	1.0
Operating Income	35.1	45.9	95.8	98.3
Earnings of Non-consolidated Affiliates	11.0	11.0	25.8	19.1
Interest Expense	1.7	3.7	3.3	8.2
Interest Income	0.3	1.4	0.8	4.2
Other Income	0.1	0.2	0.1	0.3
Income before Taxes	44.8	54.8	119.2	113.7
Income Tax Provision	17.0	19.3	44.7	40.9
Net Income	$ 27.8	$ 35.5	$ 74.5	$ 72.8
Net Income per Common Share:				
Basic	$ 0.36	$ 0.47	$ 0.96	$ 0.97
Diluted	$ 0.36	$ 0.47	$ 0.96	$ 0.97
Dividends per Common Share	$ 0.20	$ 0.20	$ 0.40	$ 0.40
Average Common Shares Outstanding:				
Basic	78.1	75.0	77.8	74.8
Diluted	78.1	75.4	77.8	75.2

The accompanying Notes to Condensed Financial Statements are an integral part of the condensed financial statements.

OLIN CORPORATION AND CONSOLIDATED SUBSIDIARIES
Condensed Statements of Shareholders' Equity
(In millions, except per share data)
(Unaudited)

	Common Stock Shares Issued	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity
Balance at January 1, 2008	74.5	$ 74.5	$ 742.0	$ (151.2)	$ (1.6)	$ 663.7
Comprehensive Income:						
Net Income	—	—	—	—	72.8	72.8
Translation Adjustment	—	—	—	1.2	—	1.2
Net Unrealized Loss	—	—	—	(9.0)	—	(9.0)
Amortization of Prior Service Costs and Actuarial Losses, Net	—	—	—	4.9	—	4.9
Comprehensive Income						69.9
Dividends Paid:						
Common Stock ($0.40 per share)	—	—	—	—	(29.9)	(29.9)
Common Stock Issued for:						
Stock Options Exercised	0.6	0.6	10.2	—	—	10.8
Employee Benefit Plans	0.3	0.3	6.2	—	—	6.5
Other Transactions	—	—	0.4	—	—	0.4
Stock-Based Compensation	—	—	2.8	—	—	2.8
Balance at June 30, 2008	75.4	$ 75.4	$ 761.6	$ (154.1)	$ 41.3	$ 724.2
Balance at January 1, 2009	77.3	$ 77.3	$ 801.6	$ (269.4)	$ 95.5	$ 705.0
Comprehensive Income:						
Net Income	—	—	—	—	74.5	74.5
Translation Adjustment	—	—	—	2.5	—	2.5
Net Unrealized Gain	—	—	—	23.7	—	23.7
Amortization of Prior Service Costs and Actuarial Losses, Net	—	—	—	3.8	—	3.8
Comprehensive Income						104.5
Dividends Paid:						
Common Stock ($0.40 per share)	—	—	—	—	(31.1)	(31.1)
Common Stock Issued for:						
Employee Benefit Plans	0.9	0.9	10.1	—	—	11.0
Other Transactions	—	—	0.6	—	—	0.6
Stock-Based Compensation	—	—	2.2	—	—	2.2
Balance at June 30, 2009	78.2	$ 78.2	$ 814.5	$ (239.4)	$ 138.9	$ 792.2

The accompanying Notes to Condensed Financial Statements are an integral part of the condensed financial statements.

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OLIN CORPORATION AND CONSOLIDATED SUBSIDIARIES

Condensed Statements of Cash Flows
(In millions)
(Unaudited)

	Six Months Ended June 30,	
	2009	2008
Operating Activities		
Net Income	$ 74.5	$ 72.8
Adjustments to Reconcile Net Income to Net Cash and Cash Equivalents Provided by (Used for) Operating Activities:		
Earnings of Non-consolidated Affiliates	(25.8)	(19.1)
Other Operating Income – Gains on Disposition of Property, Plant and Equipment	(4.6)	—
Stock-Based Compensation	2.8	3.0
Depreciation and Amortization	33.4	34.9
Deferred Income Taxes	36.4	(3.4)
Qualified Pension Plan Contributions	(1.5)	—
Qualified Pension Plan Income	(10.9)	(7.1)
Common Stock Issued under Employee Benefit Plans	1.2	1.7
Change in:		
Receivables	0.5	(49.0)
Inventories	(31.3)	(44.1)
Other Current Assets	0.6	(1.5)
Accounts Payable and Accrued Liabilities	(47.0)	(38.2)
Income Taxes Payable	(7.5)	(0.6)
Other Assets	1.9	1.5
Other Noncurrent Liabilities	8.8	9.9
Other Operating Activities	(0.7)	(0.3)
Net Operating Activities	30.8	(39.5)
Investing Activities		
Capital Expenditures	(87.6)	(62.4)
Proceeds from Disposition of Property, Plant and Equipment	5.7	0.3
Distributions from Affiliated Companies, Net	14.1	4.9
Other Investing Activities	2.5	1.2
Net Investing Activities	(65.3)	(56.0)
Financing Activities		
Long-Term Debt:		
Borrowings	1.5	—
Repayments	—	(9.8)
Issuance of Common Stock	9.8	4.8
Stock Options Exercised	—	9.3
Excess Tax Benefits from Stock Options Exercised	—	1.5
Dividends Paid	(31.1)	(29.9)
Net Financing Activities	(19.8)	(24.1)
Net Decrease in Cash and Cash Equivalents	(54.3)	(119.6)
Cash and Cash Equivalents, Beginning of Period	246.5	306.0
Cash and Cash Equivalents, End of Period	$ 192.2	$ 186.4
Cash Paid for Interest and Income Taxes:		
Interest	$ 7.1	$ 8.5

Income Taxes, Net of Refunds	$	16.4	$	33.9
Non-Cash Investing Activities:				
Capital Expenditures included in Accounts Payable and Accrued Liabilities	$	15.3	$	9.1

The accompanying Notes to Condensed Financial Statements are an integral part of the condensed financial statements.

OLIN CORPORATION AND CONSOLIDATED SUBSIDIARIES
Notes to Condensed Financial Statements
(Unaudited)

DESCRIPTION OF BUSINESS

Olin Corporation is a Virginia corporation, incorporated in 1892. We are a manufacturer concentrated in two business segments: Chlor Alkali Products and Winchester. Chlor Alkali Products, with nine U.S. manufacturing facilities and one Canadian manufacturing facility, produces chlorine and caustic soda, sodium hydrosulfite, hydrochloric acid, hydrogen, bleach products and potassium hydroxide. Winchester, with its principal manufacturing facility in East Alton, IL, produces and distributes sporting ammunition, reloading components, small caliber military ammunition and components, and industrial cartridges.

We have prepared the condensed financial statements included herein, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The preparation of the consolidated financial statements requires estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. In our opinion, these financial statements reflect all adjustments (consisting only of normal accruals), which are necessary to present fairly the results for interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations; however, we believe that the disclosures are appropriate. We recommend that you read these condensed financial statements in conjunction with the financial statements, accounting policies, and the notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2008. Certain reclassifications were made to prior year amounts to conform to the 2009 presentation, including the reclassification of certain deferred tax amounts.

We have evaluated all subsequent events through July 28, 2009, which represents the filing date of this Form 10-Q with the SEC, to ensure that this Form 10-Q includes subsequent events that should be recognized in the financial statements as of June 30, 2009, and appropriate disclosure of subsequent events, which were not recognized in the financial statements.

ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLES

We evaluate the collectibility of accounts receivable based on a combination of factors. We estimate an allowance for doubtful accounts as a percentage of net sales based on historical bad debt experience. This estimate is periodically adjusted when we become aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filing) or as a result of changes in the overall aging of accounts receivable. While we have a large number of customers that operate in diverse businesses and are geographically dispersed, a general economic downturn in any of the industry segments in which we operate could result in higher than expected defaults, and, therefore, the need to revise estimates for the provision for doubtful accounts could occur.

Allowance for doubtful accounts receivable consisted of the following:

	Six Months Ended June 30,	
	2009	2008
	($ in millions)	
Balance at beginning of year	$ 5.0	$ 3.0
Provisions charged	6.3	1.2
Write-offs, net of recoveries	(6.1)	0.1
Balance at end of period	$ 5.2	$ 4.3

Provisions charged to operations were $1.6 million and $1.4 million for the three months ended June 30, 2009 and 2008, respectively.

INVENTORIES

Inventories consisted of the following:

	June 30, 2009	December 31, 2008	June 30, 2008
		($ in millions)	
Supplies	$ 27.9	$ 27.2	$ 25.5
Raw materials	61.7	56.4	46.0
Work in process	28.4	26.6	30.2
Finished goods	100.6	90.7	116.3
	218.6	200.9	218.0
LIFO reserve	(55.9)	(69.5)	(67.2)
Inventories, net	$ 162.7	$ 131.4	$ 150.8

Inventories are valued at the lower of cost or market, with cost being determined principally by the dollar value last-in, first-out (LIFO) method of inventory accounting. Cost for other inventories has been determined principally by the average cost method, primarily operating supplies, spare parts, and maintenance parts. Elements of costs in inventories included raw materials, direct labor, and manufacturing overhead. Inventories under the LIFO method are based on annual estimates of quantities and costs as of year-end; therefore, the condensed financial statements at June 30, 2009, reflect certain estimates relating to inventory quantities and costs at December 31, 2009. If the first-in, first-out (FIFO) method of inventory accounting had been used, inventories would have been approximately $55.9 million, $69.5 million and $67.2 million higher than reported at June 30, 2009, December 31, 2008, and June 30, 2008, respectively.

EARNINGS PER SHARE

Basic and diluted net income per share are computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per share reflects the dilutive effect of stock-based compensation.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Computation of Basic Income per Share	($ and shares in millions, except per share data)			
Net income	$ 27.8	$ 35.5	$ 74.5	$ 72.8
Basic shares	78.1	75.0	77.8	74.8
Basic net income per share	$ 0.36	$ 0.47	$ 0.96	$ 0.97
Computation of Diluted Income per Share				
Diluted shares:				
Basic shares	78.1	75.0	77.8	74.8
Stock-based compensation	—	0.4	—	0.4
Diluted shares	78.1	75.4	77.8	75.2
Diluted net income per share	$ 0.36	$ 0.47	$ 0.96	$ 0.97

ENVIRONMENTAL

We are party to various government and private environmental actions associated with past manufacturing facilities and former waste disposal sites. Environmental provisions charged to income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	($ in millions)			
Charges to income	$ 8.0	$ 9.7	$ 12.8	$ 14.8
Recoveries from third parties of costs incurred and expensed in prior periods	(0.8)	—	(0.8)	—
Total provision	$ 7.2	$ 9.7	$ 12.0	$ 14.8

Charges to income for investigatory and remedial efforts were material to operating results in 2008 and are expected to be material to operating results in 2009. The condensed balance sheets included reserves for future environmental expenditures to investigate and remediate known sites amounting to $165.7 million, $158.9 million, and $158.5 million at June 30, 2009, December 31, 2008, and June 30, 2008, respectively, of which $130.7 million, $123.9 million, and $123.5 million, respectively, were classified as other noncurrent liabilities.

Environmental exposures are difficult to assess for numerous reasons, including the identification of new sites, developments at sites resulting from investigatory studies, advances in technology, changes in environmental laws and regulations and their application, changes in regulatory authorities, the scarcity of reliable data pertaining to identified sites, the difficulty in assessing the involvement and financial capability of other potentially responsible parties (PRPs), our ability to obtain contributions from other parties, and the lengthy time periods over which site remediation occurs. It is possible that some of these matters (the outcomes of which are subject to various uncertainties) may be resolved unfavorably to us, which could materially adversely affect our financial position or results of operations.

During the ordinary course of our business, contingencies arise resulting from an existing condition, situation, or set of circumstances involving an uncertainty as to the realization of a possible gain contingency. In certain instances such as environmental projects, we are responsible for managing the cleanup and remediation of an environmental site. There exists the possibility of recovering a portion of these costs from other parties. We account for gain contingencies in accordance with the provisions of SFAS No. 5, “Accounting for Contingencies,” (SFAS No. 5), and therefore do not record gain contingencies and recognize income until it is earned and realizable. During the third quarter of 2009, we are anticipating a $44 million pretax recovery of environmental costs incurred and expensed in prior periods.

SHAREHOLDERS’ EQUITY

Our board of directors, in April 1998, authorized a share repurchase program of up to 5 million shares of our common stock. We have repurchased 4,845,924 shares under the April 1998 program. There were no share repurchases during the six month periods ended June 30, 2009 and 2008. At June 30, 2009, 154,076 shares remained authorized to be purchased.

We issued less than 0.1 million shares and 0.6 million shares with a total value of less than $0.1 million and $10.8 million, representing stock options exercised for the six months ended June 30, 2009 and 2008, respectively. In addition, we issued 0.9 million and 0.3 million shares with a total value of $11.0 million and $6.5 million for the six months ended June 30, 2009 and 2008, respectively, in connection with our Contributing Employee Ownership Plan (CEOP).

The following table represents the activity included in Accumulated Other Comprehensive Loss:

	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Derivative Contracts (net of taxes)	Unrealized Losses on Marketable Securities (net of taxes)	Amortization of Prior Service Costs and Actuarial Losses (net of taxes)	Accumulated Other Comprehensive Loss
			($ in millions)		
Balance at January 1, 2008	$ (1.2)	$ 1.0	$ —	$ (151.0)	$ (151.2)
Unrealized gains (losses)	1.2	(3.4)	(3.7)	4.9	(1.0)
Gains reclassified into income	—	(1.9)	—	—	(1.9)
Balance at June 30, 2008	$ —	$ (4.3)	$ (3.7)	$ (146.1)	$ (154.1)
Balance at January 1, 2009	$ (5.1)	$ (25.0)	$ —	$ (239.3)	$ (269.4)
Unrealized gains	2.5	9.0	—	3.8	15.3
Losses reclassified into income	—	14.7	—	—	14.7
Balance at June 30, 2009	$ (2.6)	$ (1.3)	$ —	$ (235.5)	$ (239.4)

SEGMENT INFORMATION

We define segment results as income before interest expense, interest income, other income, and income taxes, and include the operating results of non-consolidated affiliates.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Sales:	($ in millions)			
Chlor Alkali Products	$ 242.4	$ 312.2	$ 510.1	$ 600.5
Winchester	140.6	116.1	273.5	226.9
Total sales	$ 383.0	$ 428.3	$ 783.6	$ 827.4
Income before taxes:				
Chlor Alkali Products(1)	$ 47.6	$ 70.5	$ 116.3	$ 137.5
Winchester	19.1	9.5	36.1	19.5
Corporate/Other:				
Pension income(2)	5.7	3.6	10.5	8.1
Environmental provision	(7.2)	(9.7)	(12.0)	(14.8)
Other corporate and unallocated costs	(19.3)	(17.4)	(35.0)	(33.9)
Other operating income(3)	0.2	0.4	5.7	1.0
Interest expense(4)	(1.7)	(3.7)	(3.3)	(8.2)
Interest income	0.3	1.4	0.8	4.2
Other income	0.1	0.2	0.1	0.3
Income before taxes	$ 44.8	$ 54.8	$ 119.2	$ 113.7

(1) Earnings of non-consolidated affiliates were included in the Chlor Alkali Products segment results consistent with management's monitoring of the operating segments. The earnings from non-consolidated affiliates were $11.0 million for the three months ended June 30, 2009 and 2008 and $25.8 million and $19.1 million for the six months ended June 30, 2009 and 2008, respectively.

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(2) The service cost and the amortization of prior service cost components of pension expense related to the employees of the operating segments are allocated to the operating segments based on their respective estimated census data. All other components of pension costs are included in Corporate/Other and include items such as the expected return on plan assets, interest cost, and recognized actuarial gains and losses. Pension income for the three and six months ended June 30, 2008 included a curtailment charge of $0.8 million resulting from the conversion of our McIntosh, AL Chlor Alkali hourly workforce from a defined benefit pension plan to a defined contribution pension plan.

(3) Other Operating Income for the six months ended June 30, 2009 included a $3.7 million gain on the sale of land and $0.9 million of gains on the disposal of assets primarily associated with the ongoing St. Gabriel, LA facility conversion and expansion project.

(4) Interest expense was reduced by capitalized interest of $3.0 million and $0.7 million for the three months ended June 30, 2009 and 2008, respectively, and $5.5 million and $1.1 million for the six months ended June 30, 2009 and 2008, respectively.

STOCK-BASED COMPENSATION

Stock-based compensation granted includes stock options, performance stock awards, restricted stock awards, and deferred directors' compensation. Stock-based compensation expense was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	($ in millions)			
Stock-based compensation	$ 3.1	$ 1.4	$ 5.1	$ 4.6
Mark-to-market adjustments	(1.2)	2.9	(2.4)	2.9
Total expense	$ 1.9	$ 4.3	$ 2.7	$ 7.5

The fair value of each stock option granted, which typically vests ratably over three years, but not less than one year, was estimated on the date of grant, using the Black-Scholes option-pricing model with the following weighted-average assumptions used:

Grant date	2009	2008
Dividend yield	4.26%	4.34%
Risk-free interest rate	2.32%	3.21%
Expected volatility	40%	32%
Expected life (years)	7.0	7.0
Grant fair value (per option)	$ 3.85	$ 4.52
Exercise price	$ 14.28	$ 20.29
Shares granted	866,250	523,350

Dividend yield for 2009 and 2008 was based on a historical average. Risk-free interest rate was based on zero coupon U.S. Treasury securities rates for the expected life of the options. Expected volatility was based on our historical stock price movements, and we believe that historical experience is the best available indicator of the expected volatility. Expected life of the option grant was based on historical exercise and cancellation patterns, and we believe that historical experience is the best estimate of future exercise patterns.

INVESTMENTS – AFFILIATED COMPANIES

We have a 50% ownership interest in SunBelt Chlor Alkali Partnership (SunBelt), which is accounted for using the equity method of accounting. The condensed financial positions and results of operations of SunBelt in its entirety were as follows:

100% Basis	June 30, 2009	December 31, 2008	June 30, 2008
Condensed Balance Sheet Data:		($ in millions)	
Current assets	$ 46.8	$ 22.4	$ 45.5
Noncurrent assets	101.7	107.7	113.1
Current liabilities	20.5	19.7	21.8
Noncurrent liabilities	97.5	97.5	109.7

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Condensed Income Statement Data:		($ in millions)		
Sales	$ 45.7	$ 47.3	$ 98.2	$ 89.5
Gross profit	23.1	24.6	53.6	44.5
Net income	18.0	18.9	43.6	33.3

The amount of cumulative unremitted earnings of SunBelt was $30.5 million, $12.9 million and $27.1 million at June 30, 2009, December 31, 2008, and June 30, 2008, respectively. We received distributions from SunBelt totaling $13.0 million and $6.4 million for the six months ended June 30, 2009 and 2008, respectively. We have not made any contributions in 2009 or 2008.

In accounting for our ownership interest in SunBelt, we adjust the reported operating results for depreciation expense in order to conform SunBelt's plant and equipment useful lives to ours. Beginning January 1, 2007, the original machinery and equipment of SunBelt had been fully depreciated in accordance with our useful asset lives, thus resulting in lower depreciation expense. The lower depreciation expense increased our share of SunBelt's operating results by $0.8 million and $1.3 million for the three months ended June 30, 2009 and 2008, respectively, and $1.7 million and $2.3 million for the six months ended June 30, 2009 and 2008, respectively. The operating results from SunBelt included interest expense of $1.0 million and $1.1 million for the three months ended June 30, 2009 and 2008, respectively, and $2.0 million and $2.2 million for the six months ended June 30, 2009 and 2008, respectively, on the SunBelt Notes. Finally, we provide various administrative, management and logistical services to SunBelt for which we received fees totaling $2.2 million for the three months ended June 30, 2009 and 2008 and $4.2 million and $4.3 million for the six months ended June 30, 2009 and 2008, respectively.

Pursuant to a note purchase agreement dated December 22, 1997, SunBelt sold $97.5 million of Guaranteed Senior Secured Notes due 2017, Series O, and $97.5 million of Guaranteed Senior Secured Notes due 2017, Series G. We refer to these notes as the SunBelt Notes. The SunBelt Notes bear interest at a rate of 7.23% per annum, payable semiannually in arrears on each June 22 and December 22.

We have guaranteed the Series O Notes, and PolyOne, our partner in this venture, has guaranteed the Series G Notes, in both cases pursuant to customary guaranty agreements. Our guarantee and PolyOne's guarantee are several, rather than joint. Therefore, we are not required to make any payments to satisfy the Series G Notes guaranteed by PolyOne. An insolvency or bankruptcy of PolyOne will not automatically trigger acceleration of the SunBelt Notes or cause us to be required to make payments under our guarantee, even if PolyOne is required to make payments under its guarantee. However, if SunBelt does not make timely payments on the SunBelt Notes, whether as a result of a failure to pay on a guarantee or otherwise, the holders of the SunBelt Notes may proceed against the assets of SunBelt for repayment. If we were to make debt service payments under our guarantee, we would have a right to recover such payments from SunBelt.

Beginning on December 22, 2002 and each year through 2017, SunBelt is required to repay $12.2 million of the SunBelt Notes, of which $6.1 million is attributable to the Series O Notes. Our guarantee of these SunBelt Notes was $54.8 million at June 30, 2009. In the event SunBelt cannot make any of these payments, we would be required to fund the payment on the Series O Notes. In certain other circumstances, we may also be required to repay the SunBelt Notes prior to their maturity. We and PolyOne have agreed that, if we or PolyOne intend to transfer our respective interests in SunBelt and the transferring party is unable to obtain consent from holders of 80% of the aggregate principal amount of the indebtedness related to the guarantee being transferred after good faith negotiations, then we and PolyOne will be required to repay our respective portions of the SunBelt Notes. In such event, any make whole or similar penalties or costs will be paid by the transferring party.

In addition to SunBelt, we have two other investments, which are accounted for under the equity method. The following table summarizes our investments in our equity affiliates:

	June 30, 2009	December 31, 2008	June 30, 2008
		($ in millions)	
SunBelt	$ 7.5	$ (3.7)	$ 3.5
Bay Gas	11.4	10.7	6.6
Bleach joint venture	11.7	12.0	11.3
Investments in equity affiliates	$ 30.6	$ 19.0	$ 21.4

The following table summarizes our equity earnings of non-consolidated affiliates:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
		($ in millions)		
SunBelt	$ 9.9	$ 10.7	$ 23.5	$ 18.9
Bay Gas	0.3	0.3	0.7	0.5
Bleach joint venture	0.8	—	1.6	(0.3)
Equity earnings of non-consolidated affiliates	$ 11.0	$ 11.0	$ 25.8	$ 19.1

We received net distributions from our non-consolidated affiliates of $14.1 million and $4.9 million for the six months ended June 30, 2009 and 2008, respectively.

PENSION PLANS AND RETIREMENT BENEFITS

Most of our employees participate in defined contribution pension plans. We provide a contribution to an individual retirement contribution account maintained with the CEOP equal to 5% of the employee's eligible compensation if such employee is less than age 45, and 7.5% of the employee's eligible compensation if such employee is age 45 or older. Expenses of the defined contribution pension plans were $3.0 million and $2.4 million for the three months ended June 30, 2009 and 2008, respectively, and $7.0 million and $5.6 million for the six months ended June 30, 2009 and 2008, respectively.

A portion of our bargaining hourly employees continue to participate in our domestic defined benefit pension plans, which are non-contributory final-average-pay or flat-benefit plans. Our funding policy for the defined benefit pension plans is consistent with the requirements of federal laws and regulations. Our foreign subsidiaries maintain pension and other benefit plans, which are consistent with statutory practices. Our defined benefit pension plan provides that if, within three years following a change of control of Olin, any corporate action is taken or filing made in contemplation of, among other things, a plan termination or merger or other transfer of assets or liabilities of the plan, and such termination, merger, or transfer thereafter takes place, plan benefits would automatically be increased for affected participants (and retired participants) to absorb any plan surplus (subject to applicable collective bargaining requirements).

We also provide certain postretirement health care (medical) and life insurance benefits for eligible active and retired domestic employees. The health care plans are contributory with participants' contributions adjusted annually based on medical rates of inflation and plan experience.

	Pension Benefits Three Months Ended June 30,		Other Postretirement Benefits Three Months Ended June 30,	
	2009	2008	2009	2008
Components of Net Periodic Benefit (Income) Cost	($ in millions)			
Service cost	$ 1.0	$ 1.6	$ 0.4	$ 0.4
Interest cost	24.7	25.3	1.0	1.1
Expected return on plans' assets	(33.0)	(32.5)	—	—
Amortization of prior service cost	0.2	0.4	—	(0.1)
Recognized actuarial loss	2.3	2.5	0.7	0.8
Curtailment	—	0.8	—	—
Net periodic benefit (income) cost	$ (4.8)	$ (1.9)	$ 2.1	$ 2.2

	Pension Benefits Six Months Ended June 30,		Other Postretirement Benefits Six Months Ended June 30,	
	2009	2008	2009	2008
Components of Net Periodic Benefit (Income) Cost	($ in millions)			
Service cost	$ 2.5	$ 3.3	$ 0.8	$ 0.8
Interest cost	50.0	50.4	2.0	2.2
Expected return on plans' assets	(66.2)	(65.2)	—	—
Amortization of prior service cost	0.3	0.8	(0.1)	(0.1)
Recognized actuarial loss	4.7	5.0	1.4	1.5
Curtailment	—	0.8	—	—

Net periodic benefit (income) cost	$	(8.7)	$	(4.9)	$	4.1	$	4.4

During the six months ended June 30, 2009, we made contributions to our foreign defined benefit pension plan of $1.5 million. In June 2008, we recorded a curtailment charge of $0.8 million resulting from the conversion of our McIntosh, AL Chlor Alkali hourly workforce from a defined benefit pension plan to a defined contribution pension plan.

INCOME TAXES

The effective tax rate for the three and six months ended June 30, 2009 included expense of $2.0 million for a valuation allowance recorded against the foreign tax credit carryforward deferred tax asset generated by our Canadian operations.

At June 30, 2009, our Current Deferred Income Taxes of $68.5 million included refundable income taxes of $6.9 million. A reclassification totaling $56.3 million from Deferred Income Taxes to Current Deferred Income Taxes was made conforming deferred taxes to the classification of the underlying related assets and liabilities at June 30, 2008.

As of June 30, 2009, we had $50.1 million of gross unrecognized tax benefits, all of which would impact the effective tax rate, if recognized. The amount of unrecognized tax benefits was as follows:

	June 30, 2009 ($ in millions)
Balance at beginning of year	$ 50.2
Decrease for prior year tax positions	(0.3)
Settlements with taxing authorities	0.2
Balance at end of period	$ 50.1

As of June 30, 2009, we believe it is reasonably possible that our total amount of unrecognized tax benefits will decrease by approximately $5.8 million over the next twelve months. The reduction primarily relates to settlements with taxing authorities and the lapse of federal, state, and foreign statutes of limitation.

Our federal income tax returns for 2005 to 2007 are open tax years under the statute of limitations. We file in numerous state and foreign jurisdictions with varying statutes of limitation. The tax years 2004 through 2007 are open depending on each jurisdiction's unique statute of limitation. Pioneer filed income tax returns in the U.S., various states, Canada, and various Canadian provinces. The Pioneer income tax returns are open for examination for the years 2005 and forward. The Internal Revenue Service (IRS) commenced an audit of Pioneer's 2006 and 2007 tax years in the fourth quarter of 2008. The Canada Revenue Agency has commenced an audit of Pioneer's Canadian tax returns for its 2005 to 2007 tax years. No issues have arisen to date that would suggest a tax liability should be recognized.

DERIVATIVE FINANCIAL INSTRUMENTS

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," (SFAS No. 161). SFAS No. 161 provides companies with requirements for enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on a company's financial position, financial performance and cash flows. In accordance with the effective date of SFAS No. 161, we adopted the disclosure provisions of SFAS No. 161 during the three months ended March 31, 2009.

We are exposed to market risk in the normal course of our business operations due to our purchases of certain commodities, our ongoing investing and financing activities, and our operations that use foreign currencies. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. We have established policies and procedures governing our management of market risks and the use of financial instruments to manage exposure to such risks.   SFAS No. 133, "Accounting for Derivative Instruments and Hedging

Activities," (SFAS No. 133), requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. We use hedge accounting treatment for substantially all of our business transactions whose risks are covered using derivative instruments. In accordance with SFAS No. 133, we designate commodity forward contracts as cash flow hedges of forecasted purchases of commodities and certain interest rate swaps as fair value hedges of fixed-rate borrowings. We do not enter into any derivative instruments for trading or speculative purposes.

Energy costs, including electricity used in our Chlor Alkali Products segment, and certain raw materials and energy costs, namely copper, lead, zinc, electricity, and natural gas used primarily in our Winchester segment, are subject to price volatility. Depending on market conditions, we may enter into futures contracts and put and call option contracts in order to reduce the impact of commodity price fluctuations. The majority of our commodity derivatives expire within one year. Those commodity contracts that extend beyond one year correspond with raw material purchases for long-term fixed-price sales contracts.

We enter into forward sales and purchase contracts to manage currency risk resulting from purchase and sale commitments denominated in foreign currencies (principally Australian dollar and Canadian dollar). All of the currency derivatives expire within one year and are for United States dollar equivalents. Our foreign currency forward contracts did not meet the criteria to qualify for hedge accounting. At June 30, 2009, December 31, 2008 and June 30, 2008, we had forward contracts to sell foreign currencies with a notional value of $2.8 million, zero, and $3.4 million, respectively. At June 30, 2009 and December 31, 2008 we did not have any forward contracts to buy foreign currencies. At June 30, 2008 we had forward contracts to buy foreign currencies with a notional value of $3.6 million.

In 2001 and 2002, we entered into interest rate swaps on $75 million of our underlying fixed-rate debt obligations, whereby we agree to pay variable rates to a counterparty who, in turn, pays us fixed rates. The counterparty to these agreements is Citibank, N.A., a major financial institution. In January 2009, we entered into a $75 million fixed interest rate swap with equal and opposite terms as the $75 million variable interest rate swaps on the 9.125% senior notes due 2011 (2011 Notes). We have agreed to pay a fixed rate to a counterparty who, in turn, pays us variable rates. The counterparty to this agreement is Bank of America, a major financial institution. The result was a gain of $7.9 million on the $75 million variable interest rate swaps, which will be recognized through 2011. In January 2009, we de-designated our $75 million interest rate swaps that had previously been designated as fair value hedges. The $75 million variable interest rate swaps and the $75 million fixed interest rate swap do not meet the criteria for hedge accounting. All changes in the fair value of these interest rate swaps are recorded currently in earnings.

Cash flow hedges

SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. For derivative instruments that are designated and qualify as a cash flow hedge, the change in fair value of the derivative is recognized as a component of Other Comprehensive Loss until the hedged item is recognized into earnings. Gains and losses on the derivatives representing hedge ineffectiveness are recognized currently in earnings.

We had the following notional amount of outstanding commodity forward contracts that were entered into to hedge forecasted purchases:

	June 30, 2009	December 31, 2008	June 30, 2008
		($ in millions)	
Copper	$ 38.9	$ 49.8	$ 40.5
Zinc	2.9	5.4	6.4
Lead	16.3	26.8	34.0
Natural gas	4.5	2.0	—

As of June 30, 2009, the counterparty to $49.0 million of these commodity forward contracts was Wells Fargo, a major financial institution.

We use cash flow hedges for certain raw material and energy costs such as copper, zinc, lead, and natural gas to provide a measure of stability in managing our exposure to price fluctuations associated with forecasted purchases of raw materials and energy costs used in the company's manufacturing process. At June 30, 2009, we had open positions in futures contracts through 2013. If all open futures contracts had been settled on June 30, 2009, we would have recognized a pretax loss of $2.3 million.

If commodity prices were to remain at the levels they were at June 30, 2009, approximately $0.1 million of deferred losses would be reclassified into earnings during the next twelve months. The actual effect on earnings will be dependent on actual commodity prices when the forecasted transactions occur.

Fair value hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. We include the gain or loss on the hedged items (fixed-rate borrowings) in the same line item, interest expense, as the offsetting loss or gain on the related interest rate swaps. As of June 30, 2009, December 31, 2008 and June 30, 2008, the total notional amount of our interest rate swaps designated as fair value hedges were $26.6 million, $101.6 million and $101.6 million, respectively. In January 2009, we de-designated our $75 million interest rate swaps that had previously been designated as fair value hedges.

We use interest rate swaps as a means of managing interest expense and floating interest rate exposure to optimal levels. These interest rate swaps are treated as fair value hedges. The accounting for gains and losses associated with changes in fair value of the derivative and the effect on the condensed financial statements will depend on the hedge designation and whether the hedge is effective in offsetting changes in fair value of cash flows of the asset or liability being hedged. We have entered into $26.6 million of such swaps, whereby we agree to pay variable rates to a counterparty who, in turn, pays us fixed rates. The counterparty to these agreements is Citibank, N.A., a major financial institution. In all cases, the underlying index for the variable rates is six-month London InterBank Offered Rate (LIBOR). Accordingly, payments are settled every six months and the terms of the swaps are the same as the underlying debt instruments.

Financial statement impacts

We present our derivative assets and liabilities in our Condensed Balance Sheets on a net basis. We net derivative assets and liabilities whenever we have a legally enforceable master netting agreement with the counterparty to our derivative contracts. We use these agreements to manage and substantially reduce our potential counterparty credit risk.

The following table summarizes the location and fair value of the derivative instruments on our Condensed Balance Sheets. The table disaggregates our net derivative assets and liabilities into gross components on a contract-by-contract basis before giving effect to master netting arrangements:

		Asset Derivatives Fair Value ($ in millions)				Liability Derivatives Fair Value ($ in millions)		
Derivatives Designated as Hedging Instruments	Balance Sheet Location	June 30, 2009	December 31, 2008	June 30, 2008	Balance Sheet Location	June 30, 2009	December 31, 2008	June 30, 2008
Interest rate contracts	Other assets	$ 1.9	$ 11.3	$ 6.0	Long-term debt	$ 8.7	$ 11.3	$ 6.0
Commodity contracts – gains	Other current assets	0.3	—	1.9	Accrued liabilities	(4.8)	(0.3)	(5.4)
Commodity contracts – losses	Other current assets	—	—	—	Accrued liabilities	7.0	41.2	13.0
		$ 2.2	$ 11.3	$ 7.9		$ 10.9	$ 52.2	$ 13.6

Derivatives Not Designated as Hedging

Instruments								
Interest rate contracts	Other assets	$ 6.5	$ —	$ —	Other liabilities	$ 0.1	$ —	$ —
Commodity contracts – losses	Other current assets	—	—	—	Accrued liabilities	0.8	—	—
Foreign currency contracts	Other current assets	—	—	—	Accrued liabilities	—	—	0.2
		$ 6.5	$ —	$ —		$ 0.9	$ —	$ 0.2
Total Derivatives(1)		$ 8.7	$ 11.3	$ 7.9		$ 11.8	$ 52.2	$ 13.8

(1) Does not include the impact of cash collateral provided to counterparties.

The following table summarizes the effects of derivative instruments on our Condensed Statements of Income:

		Amount of Gain (Loss) Three Months Ended June 30,		Amount of Gain (Loss) Six Months Ended June 30,	
	Location of Gain (Loss)	2009	2008	2009	2008
Derivatives – Cash Flow Hedges		($ in millions)			
Recognized in Other Comprehensive Loss (Effective Portion)	———	$ 7.0	$ (15.3)	$ 14.7	$ (5.6)
Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Cost of Goods Sold	$ (9.0)	$ (0.6)	$ (24.1)	$ 3.0
Recognized in Income (Ineffective Portion)	Cost of Goods Sold	(0.3)	(0.2)	(0.7)	(0.4)
		$ (9.3)	$ (0.8)	$ (24.8)	$ 2.6
Derivatives – Fair Value Hedges					
Interest rate contracts	Interest Expense	$ 0.7	$ 0.6	$ 1.6	$ 0.9
		$ 0.7	$ 0.6	$ 1.6	$ 0.9
Derivatives Not Designated as Hedging Instruments					
Interest rate contracts	Interest Expense	$ 0.9	$ —	$ 1.0	$ —
Foreign currency contracts	Selling and Administration	—	0.2	—	(0.4)
		$ 0.9	$ 0.2	$ 1.0	$ (0.4)

Credit risk and collateral

By using derivative instruments, we are exposed to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, our credit risk will equal the fair-value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes us, thus creating a repayment risk for us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, assume no repayment risk. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties. We monitor our positions and the credit ratings of our counterparties and we do not anticipate non-performance by the counterparties.

Based on the agreements with our various counterparties, cash collateral is required to be provided when the net fair value of the derivatives, with the counterparty, exceed a specific threshold. If the threshold is exceeded, cash is either provided by the counterparty to us if the value of the derivatives is our asset, or cash is provided by us to the counterparty if the value of the derivatives is our liability. As of June 30, 2009, December 31, 2008 and June 30, 2008, the amounts recognized in Accrued Liabilities for the right to reclaim cash collateral totaled zero, $22.0 million, and $4.4 million, respectively. In all instances where we are party to a master netting agreement, we offset the receivable or payable recognized upon payment of cash collateral against the fair value amounts recognized for derivative instruments that have also been offset under such master netting agreements. A reclassification totaling $22.0 million and $4.4 million from Other Current Assets to Accrued Liabilities was made conforming cash collateral to the classification of the related derivative instruments at December 31, 2008 and June 30, 2008, respectively.

FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” (SFAS No. 157). This statement did not require any new fair value measurements, but rather, it provided enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. The changes to current practice resulting from the application of this statement related to the definition of fair value, the methods used to estimate fair value, and the requirement for expanded disclosures about estimates of fair value. This statement became effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The effective date for this statement for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, has been delayed by one year. Nonfinancial assets and nonfinancial liabilities that were impacted by this deferral included assets and liabilities initially measured at fair value in a business combination, and intangible assets and goodwill tested annually for impairment. We adopted the provisions of SFAS No. 157 related to financial assets and financial liabilities on January 1, 2008. The partial adoption of this statement did not have a material impact on our financial statements. We adopted the remaining provisions of SFAS No. 157 related to nonfinancial assets and liabilities on January 1, 2009. The adoption of the remaining provisions of this statement did not have a material impact on our financial statements.

In April 2009, the FASB issued Staff Position SFAS No. 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” (SFAS No. 157-4). This position provided guidelines for making fair value measurements more consistent with the principles presented in SFAS No. 157. SFAS No. 157-4 related to determining fair values when there is no active market or where the price inputs being used represent distressed sales. SFAS No. 157-4, which reaffirms SFAS No. 157, stated that the objective of fair value measurement is to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. This position became effective for interim and fiscal years ending after June 15, 2009, with early adoption permitted. We adopted this position as of March 31, 2009. The adoption of this position did not have a material effect on our financial statements.

Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties or the amount that would be paid to transfer a liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments’ complexity.

Assets and liabilities recorded at fair value in the condensed balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS No. 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 — Inputs were unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 — Inputs (other than quoted prices included in Level 1) were either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.

Level 3 — Inputs reflected management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration was given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Determining which hierarchical level an asset or liability falls within requires significant judgment. We evaluate our hierarchy disclosures each quarter. The following table summarizes the financial instruments measured at fair value in the Condensed Balance Sheet as of June 30, 2009:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Assets		($ in millions)		
Interest rate swaps	$ —	$ 8.4	$ —	$ 8.4
Commodity forward contracts	0.3	—	—	0.3
Liabilities				
Interest rate swaps	$ —	$ 8.8	$ —	$ 8.8
Commodity forward contracts	1.7	1.3	—	3.0

Short-term investments

We classified our marketable securities as available-for-sale which were reported at fair market value. Unrealized gains and losses, to the extent such losses are considered temporary in nature, are included in Accumulated Other Comprehensive Loss, net of applicable taxes. At such time as the decline in fair market value and the related unrealized loss is determined to be a result of impairment of the underlying instrument, the loss is recorded as a charge to earnings. Fair values for marketable securities are based upon prices and other relevant information observable in market transactions involving identical or comparable assets or liabilities or prices obtained from independent third-party pricing services. The third-party pricing services employ various models that take into consideration such market-based factors as recent sales, risk-free yield curves, prices of similarly rated bonds, and direct discussions with dealers familiar with these types of securities.

As of June 30, 2008, we held corporate debt securities totaling $26.6 million of par value with a fair value of $20.5 million. For the six months ended June 30, 2008, a temporary unrealized after-tax loss of $3.7 million ($6.1 million pretax) was recorded in Accumulated Other Comprehensive Loss. As of June 30, 2008, we concluded no other-than-temporary impairment losses had occurred. The AA-rated issuer of these debt securities had funded all redemptions at par and maintained short-term A1/P2 credit ratings. We entered into this structured investment vehicle in March 2006 as part of an approved cash management portfolio. Given our liquidity and capital structure, we had the ability to hold these debt securities until maturity on April 1, 2009.

Through September 30, 2008, the issuer of these debt securities had continued to fund all redemptions at par but was downgraded to short-term A3/P2 credit ratings. On October 1, 2008, the issuer of these debt securities announced it would cease trading and appoint a receiver as a result of financial market turmoil. The decline in the market value of the assets supporting these debt securities negatively impacted the liquidity of the issuer. On October 1, subsequent to the issuer’s announcement, the Moody’s rating for these debt securities was downgraded from A3 to Ca.

As of September 30, 2008, we continued to hold corporate debt securities totaling $26.6 million of par value. We determined that these debt securities had no fair market value due to the actions taken by the issuer, turmoil in the financial markets, the lack of liquidity of the issuer, and the lack of trading in these debt securities. These factors led management to believe the recovery of the asset value, if any, was highly unlikely.

Because of the unlikelihood that these debt securities would recover in value, we recorded an after-tax impairment loss of $26.6 million in Other (Expense) Income for the three months ended September 30, 2008. We are currently unable to utilize the capital loss resulting from the impairment of these corporate debt securities; therefore, no tax benefit has been recognized for the impairment loss.

Interest rate swaps

The fair value of the interest rate swaps were valued using the "income approach" valuation technique. This method used valuation techniques to convert future amounts to a single present amount. The measurement was based on the value indicated by current market expectations about those future amounts. We use interest rate swaps as a means of managing interest expense and floating interest rate exposure to optimal levels.

Commodity forward contracts

The fair value of the commodity forward contracts were valued primarily based on prices and other relevant information observable in market transactions involving identical or comparable assets or liabilities including both forward and spot prices for commodities. We use commodity forward contracts for certain raw materials and energy costs such as copper, zinc, lead, and natural gas to provide a measure of stability in managing our exposure to price fluctuations.

Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments. The fair value of our long-term debt was determined based on current market rates for debt of the same risk and maturities. At June 30, 2009, December 31, 2008, and June 30, 2008, the estimated fair value of debt was $246.8 million, $221.0 million and $248.9 million, respectively, which compares to debt recorded on the balance sheet of $251.4 million, $252.4 million and $248.7 million, respectively. The lower fair value of debt as of December 31, 2008 was due to the adverse conditions in the overall credit and financial markets experienced in 2008.

SFAS No. 157 requires separate disclosure of assets and liabilities measured at fair value on a recurring basis, as documented above, from those measured at fair value on a nonrecurring basis. Nonfinancial assets measured at fair value on a nonrecurring basis are intangible assets and goodwill, which are reviewed annually in the fourth quarter and/or when circumstances or other events indicate that impairment may have occurred. No circumstances or events happened that indicated impairment may have occurred for the six months ended June 30, 2009; therefore, no measurement at fair value was required for these nonfinancial assets.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Business Background

Our manufacturing operations are concentrated in two business segments: Chlor Alkali Products and Winchester. Both are capital intensive manufacturing businesses with operating rates closely tied to the general economy. Each segment has a commodity element to it, and therefore, our ability to influence pricing is quite limited on the portion of the segment’s business that is strictly commodity. Our Chlor Alkali Products segment is a commodity business where all supplier products are similar and price is the major supplier selection criterion. We have little or no ability to influence prices in this large, global commodity market. Cyclical price swings, driven by changes in supply/demand, can be abrupt and significant and, given the capacity in our Chlor Alkali Products business, can lead to very significant changes in our overall profitability. Winchester also has a commodity element to its business, but a majority of Winchester ammunition is sold as a branded consumer product where there are opportunities to differentiate certain offerings through innovative new product development and enhanced product performance. While competitive pricing versus other branded ammunition products is important, it is not the only factor in product selection.

Executive Summary

During the second quarter of 2009, a bill was introduced in the United States House of Representatives which, if enacted, would ban the production of chlor alkali products using mercury cell technology two years from the date it is enacted into law. A companion bill was introduced in the United States Senate in July 2009. Olin currently operates two facilities which utilize mercury cell technology totaling approximately 350,000 ECUs of capacity (approximately 18% of our capacity). We are closely monitoring the progress of these bills, but it is too soon to estimate the likelihood of enactment, and therefore to determine what impact there will be on Olin and the chlor alkali industry. Olin operates its mercury cell facilities in full compliance with all environmental rules and regulations.

Chlor Alkali Products' segment income was $47.6 million and $116.3 million for the three and six months ended June 30, 2009, respectively. Chlor Alkali Products continued to experience the weak demand that began in the fourth quarter of 2008. Operating rates in Chlor Alkali Products for the three months ended June 30, 2009 and 2008 were 70% and 89%, respectively, and for the six months ended June 30, 2009 and 2008 were 67% and 86%, respectively. Volumes for chlorine and caustic soda decreased 32% and 31% for the three and six months ended June 30, 2009, respectively, compared to the prior year.

While second quarter 2009 ECU netbacks of $585 were similar to levels in the second quarter of 2008, the pricing dynamics in the North American market have changed. During 2008, North American demand for caustic soda remained strong, while supply continued to be constrained by the weakness in chlorine demand. This resulted in a significant supply and demand imbalance for caustic soda in North America, which resulted in record caustic soda pricing. The result was a record ECU netback in the first quarter of 2009 of approximately $765. Beginning late in the fourth quarter of 2008 and continuing through the second quarter of 2009, demand for caustic soda weakened significantly, and fell below the demand for chlorine. This created excess supply in North America, which has caused caustic soda prices to fall. The over supply of caustic soda caused industry operating rates to be constrained, which resulted in chlorine price increase announcements of $300 per ton during the second quarter of 2009. Caustic soda prices declined precipitously in the second quarter of 2009 and these declines have continued into the third quarter of 2009. We expect to begin realizing the increases in chlorine prices in the third quarter of 2009 with most of the improvement expected in the fourth quarter of 2009 and into 2010.

Winchester segment income was $19.1 million and $36.1 million for the three and six months ended June 30, 2009, respectively. Winchester segment income for the three and six months ended June 30, 2009, which represented the highest level of earnings in its history, improved 101% and 85%, respectively, compared to prior year. Winchester's results reflected the continuation of the stronger than normal demand that began in the fourth quarter of 2008 and improved pricing.

Earnings for the six months ended June 30, 2009 included $4.6 million of pretax gains associated with the sale of land and other asset disposals.

Consolidated Results of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	($ in millions, except per share data)			
Sales	$ 383.0	$ 428.3	$ 783.6	$ 827.4
Cost of Goods Sold	312.0	347.2	618.2	661.2
Gross Margin	71.0	81.1	165.4	166.2
Selling and Administration	36.1	35.6	75.3	68.9
Other Operating Income	0.2	0.4	5.7	1.0
Operating Income	35.1	45.9	95.8	98.3
Earnings of Non-consolidated Affiliates	11.0	11.0	25.8	19.1
Interest Expense	1.7	3.7	3.3	8.2
Interest Income	0.3	1.4	0.8	4.2
Other Income	0.1	0.2	0.1	0.3
Income before Taxes	44.8	54.8	119.2	113.7
Income Tax Provision	17.0	19.3	44.7	40.9
Net Income	$ 27.8	$ 35.5	$ 74.5	$ 72.8
Net Income per Common Share:				
Basic	$ 0.36	$ 0.47	$ 0.96	$ 0.97
Diluted	$ 0.36	$ 0.47	$ 0.96	$ 0.97

Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008

Sales for the three months ended June 30, 2009 were $383.0 million compared to $428.3 million last year, a decrease of $45.3 million, or 11%. Chlor Alkali Products' sales decreased $69.8 million, or 22%, due to decreased shipment volumes and slightly lower ECU prices. Winchester sales increased by $24.5 million, or 21%, from the three months ended June 30, 2008, primarily due to increased volumes.

Gross margin decreased $10.1 million, or 12%, compared to the three months ended June 30, 2008, primarily as a result of decreased Chlor Alkali gross margin resulting from lower volumes, partially offset by improved Winchester gross margin resulting from higher volumes. Gross margin as a percentage of sales was 19% in 2009 and 2008.

Selling and administration expenses for the three months ended June 30, 2009 increased $0.5 million, or 1%, from the three months ended June 30, 2008, primarily due to a higher level of legal and legal-related settlement expenses of $2.9 million, which included recovery actions for environmental costs previously incurred and expensed, increased consulting fees of $1.4 million, and higher salary and benefit costs of $0.5 million, partially offset by decreased management incentive compensation expense of $2.6 million, primarily resulting from mark-to-market adjustments on stock-based compensation and lower unfavorable foreign currency impact of $1.6 million. Selling and administration expenses as a percentage of sales were 9% in 2009 and 8% in 2008.

Other operating income for the three months ended June 30, 2009 decreased $0.2 million from the three months ended June 30, 2008, primarily due to a loss in 2009 of $0.4 million on dispositions of property, plant and equipment.

The earnings of non-consolidated affiliates were $11.0 million for the three months ended June 30, 2009 and 2008.

Interest expense decreased by $2.0 million, or 54%, in 2009 primarily due to an increase of $2.3 million in capitalized interest associated with our St. Gabriel, LA facility conversion and expansion project and a major maintenance capital project at our McIntosh, AL facility and the effect of lower short-term interest rates.

Interest income decreased by $1.1 million, or 79%, in 2009 primarily due to lower short-term interest rates and lower average cash balances.

The effective tax rate for the three months ended June 30, 2009 included expense of $2.0 million for a valuation allowance recorded against the foreign tax credit carryforward deferred tax asset generated by our Canadian operations. Additionally, the effective tax rate for the three months ended June 30, 2009 included a $1.0 million reduction in expense primarily associated with the expiration of statutes of limitation in foreign jurisdictions and a law change in foreign jurisdictions. The effective tax rate for the three months ended June 30, 2009 of 35.7%, which was increased by the effect of these two items of $1.0 million, was higher than the 35% U.S. federal statutory rate primarily due to state income taxes and income in certain foreign jurisdictions, primarily Canada, being taxed at higher rates, which were offset in part by the utilization of certain state tax credits. The effective tax rate for the three months ended June 30, 2008 included a $0.8 million reduction in expenses primarily associated with the expiration of statutes of limitation in foreign jurisdictions. The effective tax rate for the three months ended June 30, 2008 of 36.7%, which was reduced by the $0.8 million, was higher than the 35% U.S. federal statutory rate primarily due to state income taxes, which were offset in part by the benefit of the domestic manufacturing deduction and the utilization of certain state tax credits.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Sales for the six months ended June 30, 2009 were $783.6 million compared to $827.4 million last year, a decrease of $43.8 million, or 5%. Chlor Alkali Products' sales decreased $90.4 million, or 15%, due to decreased shipment volumes partially offset by higher ECU prices. Our ECU netbacks, excluding SunBelt, increased 15% compared to the same period in the prior year. Winchester sales increased by $46.6 million, or 21%, from the six months ended June 30, 2008, primarily due to increased volumes.

Gross margin decreased $0.8 million, or less than one percent, compared to the six months ended June 30, 2008, primarily as a result of decreased Chlor Alkali gross margin resulting from lower volumes, partially offset by improved Winchester gross margin resulting from higher volumes. Gross margin as a percentage of sales increased to 21% in 2009 from 20% in 2008.

Selling and administration expenses for the six months ended June 30, 2009 increased $6.4 million, or 9%, from the six months ended June 30, 2008, primarily due to a higher provision for doubtful customer accounts receivable of $5.1 million, related to a deterioration in customer credit, a higher level of legal and legal-related settlement expenses of $3.5 million, which included recovery actions for environmental costs previously incurred and expensed, increased consulting fees of $2.1 million, and higher salary and benefit costs of $1.3 million, partially offset by decreased management incentive compensation expense of $4.5 million, primarily resulting from mark-to-market adjustments on stock-based compensation and decreased recruiting expense of $0.8 million. Selling and administration expenses as a percentage of sales were 10% in 2009 and 8% in 2008.

Other operating income for the six months ended June 30, 2009 increased $4.7 million from the six months ended June 30, 2008, primarily due to a $3.7 million gain on the sale of land and $0.9 million of gains on the disposition of property, plant and equipment primarily associated with the ongoing St. Gabriel, LA facility conversion and expansion project.

The earnings of non-consolidated affiliates were $25.8 million for the six months ended June 30, 2009, an increase of $6.7 million from the six months ended June 30, 2008, primarily due to higher ECU prices at SunBelt and increased earnings at our bleach joint venture.

Interest expense decreased by $4.9 million, or 60%, in 2009 primarily due to an increase of $4.4 million in capitalized interest associated with our St. Gabriel, LA facility conversion and expansion project and a major maintenance capital project at our McIntosh, AL facility and the effect of lower short-term interest rates.

Interest income decreased by $3.4 million, or 81%, in 2009 primarily due to lower short-term interest rates and lower average cash balances.

The effective tax rate for the six months ended June 30, 2009 included expense of $2.0 million for a valuation allowance recorded against the foreign tax credit carryforward deferred tax asset generated by our Canadian operations. Additionally, the effective tax rate for the six months ended June 30, 2009 included a $0.9 million reduction in expense primarily associated with the expiration of statutes of limitation in foreign jurisdictions and a law change in foreign jurisdictions. The effective tax rate for the six months ended June 30, 2009 of 36.6%, which was increased by the effect of these two items of $1.1 million, was higher than the 35% U.S. federal statutory rate primarily due to state income taxes and income in certain foreign jurisdictions, primarily Canada, being taxed at higher rates, which were offset in part by the utilization of certain state tax credits. The effective tax rate for the six months ended June 30, 2008 included a $0.6 million reduction in expenses primarily associated with the favorable resolution of prior period tax matters. The effective tax rate for the six months ended June 30, 2008 of 36.5%, which was reduced by the $0.6 million, was higher than the 35% U.S. federal statutory rate primarily due to state income taxes, which were offset in part by the benefit of the domestic manufacturing deduction and the utilization of certain state tax credits.

Segment Results

We define segment results as income before interest expense, interest income, other income, and income taxes, and include the operating results of non-consolidated affiliates.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Sales:	($ in millions)			
Chlor Alkali Products	$ 242.4	$ 312.2	$ 510.1	$ 600.5
Winchester	140.6	116.1	273.5	226.9
Total sales	$ 383.0	$ 428.3	$ 783.6	$ 827.4
Income before taxes:				