OLIN CORP
Form 10-K
February 24, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2010

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 (State or other jurisdiction of incorporation or organization)	13-1872319 (I.R.S. Employer Identification No.)
190 Carondelet Plaza, Suite 1530, Clayton, MO (Address of principal executive offices)	63105-3443 (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 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 ¨ 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, 2010, the aggregate market value of registrant's common stock, par value $1 per share, held by non-affiliates of registrant was approximately $1,426,484,996 based on the closing sale price as reported on the New York Stock Exchange.

As of January 31, 2011, 79,583,516 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the following document are incorporated by reference in this Form 10-K as indicated herein:

Document	Part of 10-K into which incorporated
Proxy Statement relating to Olin's Annual Meeting of Shareholders to be held in 2011	Part III

PART I

Item 1. BUSINESS

GENERAL

Olin Corporation is a Virginia corporation, incorporated in 1892, having its principal executive offices in Clayton, MO. We are a manufacturer concentrated in two business segments: Chlor Alkali Products and Winchester. Chlor Alkali Products manufactures and sells chlorine and caustic soda, sodium hydrosulfite, hydrochloric acid, hydrogen, bleach products and potassium hydroxide, which represent 65% of 2010 sales. Winchester products, which represent 35% of 2010 sales, include sporting ammunition, reloading components, small caliber military ammunition and components, and industrial cartridges. See our discussion of our segment disclosures contained in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations."

GOVERNANCE

We maintain an Internet website at www.olin.com. Our reports on Form 10-K, Form 10-Q, and Form 8-K, as well as amendments to those reports, are available free of charge on our website, as soon as reasonably practicable after we file the reports with the Securities and Exchange Commission (SEC). Additionally, a copy of our SEC filings can be obtained at the SEC at their Office of Investor Education and Advocacy at 100 F Street, N.E., Washington, D.C. 20549 or by calling that office of the SEC at 1-800-SEC-0330. Also, a copy of our electronically filed materials can be obtained at www.sec.gov. Our Principles of Corporate Governance, Committee Charters and Code of Conduct are available on our website at www.olin.com in the Governance Section under Governance Documents and Committees.

In May 2010, our Chief Executive Officer executed the annual Section 303A.12(a) CEO Certification required by the New York Stock Exchange (NYSE), certifying that he was not aware of any violation of the NYSE's corporate governance listing standards by us. Additionally, our Chief Executive Officer and Chief Financial Officer executed the required Sarbanes-Oxley Act of 2002 (SOX) Sections 302 and 906 certifications relating to this Annual Report on Form 10-K, which are filed with the SEC as exhibits to this Annual Report on Form 10-K.

PRODUCTS, SERVICES AND STRATEGIES

Chlor Alkali Products

Products and Services

We have been involved in the U.S. chlor alkali industry for more than 100 years and are a major participant in the North American chlor alkali market. Chlorine, caustic soda and hydrogen are co-produced commercially by the electrolysis of salt. These co-products are produced simultaneously, and in a fixed ratio of 1.0 ton of chlorine to 1.1 tons of caustic soda. The industry refers to this as an Electrochemical Unit or ECU. With a demonstrated capacity as of the end of 2010 of 1.98 million ECUs per year, including 50% of the production from our partnership with PolyOne Corporation (PolyOne), which we refer to as SunBelt, we are the third largest chlor alkali producer, measured by production volume of chlorine and caustic soda, in North America, according to data from Chemical Market Associates, Inc. (CMAI). CMAI is a global petrochemical, plastics and fibers consulting firm established in 1979. Approximately 55% of our caustic soda production is high purity membrane and rayon grade, which, according to CMAI data, normally commands a premium selling price in the market. According to data from CMAI, we are the largest North American producer of industrial bleach, which is manufactured using both chlorine and caustic soda.

Our manufacturing facilities in Augusta, GA; McIntosh, AL; Charleston, TN; St. Gabriel, LA; Henderson, NV; Becancour, Quebec; and a portion of our facility in Niagara Falls, NY are ISO 9002 certified. In addition, Augusta, GA; McIntosh, AL; Charleston, TN; and Niagara Falls, NY are ISO 14001 certified. ISO 9000 (which includes ISO 9001 and ISO 9002) and ISO 14000 (which includes ISO 14001) are sets of related international standards on quality assurance and environmental management developed by the International Organization for Standardization to help companies effectively document the quality and environmental management system elements to be implemented to maintain effective quality and environmental management systems. Our facilities in Augusta, GA; McIntosh, AL; Charleston, TN; Niagara Falls, NY; and St. Gabriel, LA have also achieved Star status in the Voluntary Protection Program (VPP) of the Occupational Safety and Health Administration (OSHA). OSHA's VPP is a program in which companies voluntarily participate that recognizes facilities for their exemplary safety and health programs. Our Augusta, GA; McIntosh, AL; Charleston, TN; and Niagara Falls, NY chlor alkali manufacturing sites and the division headquarters are accredited under the RC 14001 Responsible Care® (RC 14001) standard. Supported by the chemical industry and recognized by government and regulatory agencies, RC 14001 establishes requirements for the management of safety, health, environmental, security, transportation, product stewardship, and stakeholder engagement activities for the business.

Chlorine is used as a raw material in the production of thousands of products for end-uses including vinyls, chlorinated intermediates, isocyanates, and water treatment. A significant portion of U.S. chlorine production is consumed in the manufacture of ethylene dichloride, or EDC, a precursor for polyvinyl chloride, or PVC. PVC is a plastic used in applications such as vinyl siding, plumbing and automotive parts. We estimate that approximately 12% of our chlorine produced, including the production from our share of SunBelt, is consumed in the manufacture of EDC. While much of the chlorine produced in the U.S. is consumed by the producing company to make downstream products, we sell most of the chlorine we produce to third parties in the merchant market.

Caustic soda has a wide variety of end-use applications, the largest of which in North America is in the pulp and paper industry used in the delignification and bleaching portion of the pulping process. Caustic soda is also used in the production of detergents and soaps, alumina and a variety of other inorganic and organic chemicals.

The chlor alkali industry is cyclical, both as a result of changes in demand for each of the co-products and as a result of the large increments in which new capacity is added and removed. Because chlorine and caustic soda are produced in a fixed ratio, the supply of one product can be constrained both by the physical capacity of the production facilities and/or by the ability to sell the co-product. Prices for both products respond rapidly to changes in supply and demand. Our ECU netbacks (defined as gross selling price less freight and discounts) averaged approximately $475, $520 and $635 per ECU in 2010, 2009 and 2008, respectively.

During the first three quarters of 2008, North American demand for caustic soda was strong. However, caustic soda supply continued to be constrained by the weakness in chlorine demand, which caused operating rates to be reduced. This resulted in a significant supply and demand imbalance for caustic soda in North America. This imbalance, combined with increased freight and energy costs, resulted in our achieving record levels of caustic soda pricing. During the fourth quarter of 2008, North American caustic soda demand weakened but less than the decline in chlorine demand. This caused the caustic soda supply and demand imbalance to continue, which continued to support record levels of caustic soda prices. The result was a record ECU netback, in our system, in the first quarter of 2009.

Our 2009 ECU netbacks of $520 were 18% lower than the 2008 netbacks of $635, reflecting the changes in the pricing dynamics in North America. Beginning late in the fourth quarter of 2008 and continuing through 2009, demand for caustic soda weakened significantly, and fell below the demand for chlorine. This created excess supply in North America, which 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 continued into the third quarter of 2009. During the third quarter of 2009, chlorine and caustic soda demand became more balanced eliminating the oversupply of caustic soda. We began realizing increases in chlorine prices in the third quarter of 2009 with most of the improvement in the fourth quarter of 2009. ECU netbacks, in our system, bottomed out in the third quarter of 2009. During the fourth quarter of 2009, as caustic soda demand improved, chlorine production declined due to seasonally weaker demand. This resulted in a supply and demand imbalance for caustic soda in North America. As a result of this imbalance, in December 2009, a $75 per ton caustic soda price increase was announced. We began realizing the benefits of this price increase in caustic soda in the first half of 2010.

Our 2010 ECU netbacks of $475 were 9% lower than the 2009 netbacks of $520; however, the pricing trend has been positive throughout 2010 as ECU netbacks increased sequentially from the low level of $375 in the third quarter of 2009. The fourth quarter of 2010 ECU netback was $515. As business conditions improved throughout 2010, our quarterly chlor alkali operating rates improved year-over-year by at least 10%, peaking in the third quarter of 2010 with a 91% operating rate during the summer demand season. A significant portion of the North American chlor alkali demand improvement came from exports of products made from chlorine, driven by the energy advantage North America enjoys by using natural gas as compared to crude oil. With demand for both chlorine and caustic soda improving, price increases were announced throughout the year. During February 2010, an $80 per ton caustic soda price increase was announced. We began realizing a portion of this price increase in caustic soda in the second quarter of 2010. Caustic soda demand continued to improve, and as a result, during the third quarter of 2010, three additional caustic soda price increases were announced totaling $135 per ton. We believe that a portion of the $135 per ton caustic soda price increases announced during the third quarter of 2010 will be realized. We anticipate some additional benefits from these price increases and from contracts that re-set on an annual basis to be realized in the first half of 2011. Additionally, we announced a $40 per ton caustic soda price increase in January 2011. While the success of this $40 per ton caustic soda price increase is not yet known, some portion of the benefits of this price increase, if realized, would impact our system beginning in the second quarter of 2011.

Electricity and salt are the major purchased raw materials for our Chlor Alkali Products segment. Raw materials represent approximately 49% of the total cost of producing an ECU. Electricity is the single largest raw material component in the production of chlor alkali products. We are supplied by utilities that primarily utilize coal, hydroelectric, natural gas, and nuclear power. The commodity nature of this industry places an emphasis on cost management and we believe that we have managed our manufacturing costs in a manner that makes us one of the low cost producers in the industry. During the fourth quarter of 2009, we completed a conversion and expansion project at our St. Gabriel, LA facility and initiated production. This project increased capacity at this location from 197,000

ECUs to 246,000 ECUs and significantly reduced the site's manufacturing costs. In addition, as market demand requires, we believe the design of the SunBelt plant, as well as the new design of the St. Gabriel, LA facility, would allow us to expand capacity cost-effectively at these locations. In December 2010, we announced a plan to convert our Charleston, TN facility to 200,000 tons of membrane capacity capable of producing both potassium hydroxide and caustic soda. The conversion of the Charleston, TN plant to membrane technology will reduce the electricity usage per ECU produced by approximately 25% and the configuration of the new plant will result in an increase in our capacity to produce potassium hydroxide. In addition, we announced our intention to reconfigure our Augusta, GA facility to manufacture bleach and distribute caustic soda, while discontinuing chlor alkali manufacturing at this site. When complete, this plan will reduce our overall chlor alkali production capacity by 160,000 ECU's or 8% of our demonstrated capacity.

We also manufacture and sell other chlor alkali-related products. These products include chemically processed salt, hydrochloric acid, sodium hypochlorite (bleach), hydrogen, sodium hydrosulfite, and potassium hydroxide. We have recently invested in capacity and product upgrades in bleach and hydrochloric acid. In the fourth quarter of 2009, we initiated bleach manufacturing and shipping by railroad expansion projects at three of our chlor alkali facilities. During 2010, we initiated a $17 million to $20 million capital project to construct a low salt, high strength bleach facility located at our McIntosh, AL chlor alkali site. This low salt, high strength bleach facility will double the concentration of the bleach we manufacture, which should significantly reduce transportation costs.

The following table lists products of our Chlor Alkali Products business, with principal products on the basis of annual sales highlighted in bold face.

Products & Services	Major End Uses	Plants & Facilities	Major Raw Materials & Components for Products/Services
Chlorine/caustic soda	Pulp & paper processing, chemical manufacturing, water purification, manufacture of vinyl chloride, bleach, swimming pool chemicals & urethane chemicals	Augusta, GA Becancour, Quebec Charleston, TN Henderson, NV McIntosh, AL Niagara Falls, NY St. Gabriel, LA	salt, electricity
Sodium hypochlorite (bleach)	Household cleaners, laundry bleaching, swimming pool sanitizers, semiconductors, water treatment, textiles, pulp & paper and food processing	Augusta, GA Becancour, Quebec Charleston, TN Henderson, NV McIntosh, AL Niagara Falls, NY Santa Fe Springs, CA Tacoma, WA Tracy, CA	chlorine, caustic soda
Hydrochloric acid	Steel, oil & gas, plastics, organic chemical synthesis, water and wastewater treatment, brine treatment, artificial sweeteners, pharmaceuticals, food processing and ore and mineral processing	Augusta, GA Becancour, Quebec Charleston, TN Henderson, NV McIntosh, AL Niagara Falls, NY	chlorine, hydrogen
Potassium hydroxide	Fertilizer manufacturing, soaps, detergents and cleaners, battery manufacturing, food processing	Charleston, TN	potassium chloride, electricity

	chemicals and deicers		
Hydrogen	Fuel source, hydrogen peroxide and hydrochloric acid	Augusta, GA Becancour, Quebec Charleston, TN Henderson, NV McIntosh, AL Niagara Falls, NY St. Gabriel, LA	salt, electricity
Sodium hydrosulfite	Paper, textile & clay bleaching	Charleston, TN	caustic soda, sulfur dioxide

Strategies

Continued Role as a Preferred Supplier to Merchant Market Customers. Based on our market research, we believe our Chlor Alkali Products business is viewed as a preferred supplier by our merchant market customers. We will continue to focus on providing quality customer service support and developing relationships with our valued customers.

Pursue Incremental Expansion Opportunities. We have invested in capacity and product upgrades in our chemically processed salt, hydrochloric acid, bleach, potassium hydroxide and hydrogen businesses. These expansions increase our captive use of chlorine while increasing the sales of these co-products. These niche businesses provide opportunities to upgrade chlorine and caustic soda to higher value-added applications. We also have the opportunity, when business conditions permit, to pursue incremental chlorine and caustic soda expansions through our SunBelt and St. Gabriel, LA facilities.

Winchester

Products and Services

In 2010, Winchester was in its 144th year of operation and its 80th year as part of Olin. Winchester is a premier developer and manufacturer of small caliber ammunition for sale to domestic and international retailers (commercial customers), law enforcement agencies and domestic and international militaries. We believe we are a leading U.S. producer of ammunition for recreational shooters, hunters, law enforcement agencies and the U.S. Armed Forces. As an example of our law enforcement business, the Federal Bureau of Investigation (FBI) awarded Winchester a five-year contract in 2007 for bonded pistol ammunition and, in 2009, we received a Department of Homeland Security (DHS) contract for pistol ammunition. Additionally, during 2010 we were awarded five-year contracts from both the U.S. Secret Service (pistol ammunition and shotshells) and the FBI (rifle ammunition.) Our legendary Winchester® product line includes all major gauges and calibers of shotgun shells, rimfire and centerfire ammunition for pistols and rifles, reloading components and industrial cartridges. We believe we are the leading U.S. supplier of small caliber commercial ammunition. In support of our continuous improvement initiatives, our manufacturing facilities in East Alton, IL, achieved ISO recertification to the ISO 9001:2008 standard in December 2009. Additionally our facility in Australia was upgraded to the ISO 9001:2008 standard in February 2009 and our manufacturing facility in Oxford, MS achieved ISO 9001:2008 recertification in January 2010.

Winchester has strong relationships throughout the sales and distribution chain and strong ties to traditional dealers and distributors. Winchester has also built its business with key high volume mass merchants and specialty sporting goods retailers. We have consistently developed industry-leading ammunition. In 2009, Winchester was named "Ammunition Manufacturer of the Year" for the second consecutive year by the National Association of Sporting Goods Wholesalers and Winchester wholesaler, Big Rock Sports, recognized Winchester as its 2009 "Hunting/Shooting Vendor of the Year." In addition, the carton for Winchester's 2008 Theodore Roosevelt Commemorative Ammunition was honored with a "2009 Excellence Award" from the Paperboard Packaging Council, the International Hunter Education Association (IHEA) presented Winchester with the "Gladney Davidson Memorial Award," its most prestigious honor, and Winchester's new web-based ballistics calculator received the 2009 SHOT Show "Editor's Choice" award from Shooting Sports Retailer magazine. In 2010, the Winchester® Supreme Elite™ Bonded PDX1™ product line received the National Rifle Association's "Golden Bullseye Award" in the ammunition category from its Shooting Illustrated magazine while Winchester's Ballistic Silvertip® Lead-Free varmint loads received both a 2010 "Best of the Best" award in the ammunition category from Field & Stream magazine and a 2010 "Best New Load for 2010" award from Outdoor Life magazine. Outdoor Life additionally named Winchester's Supreme Elite™ Dual Bond™ .44 Magnum

big-bore handgun hunting cartridge a “Best New Load for 2010.” Winchester was also honored with the “Cabela Lifetime Business Achievement Award” from the U.S. Sportsmen’s Alliance (USSA) during 2010.

Winchester purchases raw materials such as copper-based strip and ammunition cartridge case cups and lead from vendors based on a conversion charge or premium. These conversion charges or premiums are in addition to the market prices for metal as posted on exchanges such as the Commodity Exchange, or COMEX, and London Metals Exchange, or LME. Winchester’s other main raw material is propellant, which is purchased predominantly from one of the United States’ largest propellant suppliers.

The following table lists products and services of our Winchester business, with principal products on the basis of annual sales highlighted in bold face.

Products & Services	Major End Uses	Plants & Facilities	Major Raw Materials & Components for Products/Services
Winchester® sporting ammunition (shot-shells, small caliber centerfire & rimfire ammunition)	Hunters & recreational shooters, law enforcement agencies	East Alton, IL Oxford, MS Geelong, Australia	brass, lead, steel, plastic, propellant, explosives
Small caliber military ammunition	Infantry and mounted weapons	East Alton, IL Oxford, MS	brass, lead, propellant, explosives
Industrial products (8 gauge loads & powder-actuated tool loads)	Maintenance applications in power & concrete industries, powder-actuated tools in construction industry	East Alton, IL Oxford, MS Geelong, Australia	brass, lead, plastic, propellant, explosives

On November 3, 2010, we announced that we had made the decision to relocate Winchester centerfire ammunition operations from East Alton, IL to Oxford, MS. This relocation, when completed, is forecast to reduce Winchester's annual operating costs by approximately $30 million. We currently expect to complete this relocation by the end of 2015. Once completed, Winchester expects to have the most modern centerfire ammunition production facility in North America.

Strategies

Leverage Existing Strengths. Winchester plans to seek new opportunities to leverage the legendary Winchester brand name and will continue to offer a full line of ammunition products to the markets we serve, with specific focus on investments that lower our costs and that make Winchester ammunition the retail brand of choice.

Focus on Product Line Growth. With a long record of pioneering new product offerings, Winchester has built a strong reputation as an industry innovator. This includes the introduction of reduced-lead and non-lead products, which are growing in popularity for use in indoor shooting ranges and for outdoor hunting.

INTERNATIONAL OPERATIONS

Our subsidiary, Olin Canada ULC, formerly PCI Chemicals Canada Company/Société PCI Chimie Canada, operates one chlor alkali facility in Becancour, Quebec, which sells chlor alkali-related products within Canada and to the United States. Our subsidiary, Winchester Australia Limited, loads and packs sporting and industrial ammunition in Australia. See the Note "Segment Information" of the notes to consolidated financial statements in Item 8, for geographic segment data. We are incorporating our segment information from that Note into this section of our Form 10-K.

CUSTOMERS AND DISTRIBUTION

During 2010, no single customer accounted for more than 8% of sales. Sales to all U.S. government agencies and sales under U.S. government contracting activities in total accounted for approximately 5% of sales in 2010. Products we sell to industrial or commercial users or distributors for use in the production of other products constitute a major part of our total sales. We sell some of our products, such as caustic soda and sporting ammunition, to a large number of users or distributors, while we sell others, such as chlorine, in substantial quantities to a relatively small number of industrial users. We discuss the customers for each of our two businesses in more detail above under “Products and Services.”

We market most of our products and services primarily through our sales force and sell directly to various industrial customers, mass merchants, retailers, wholesalers, other distributors, and the U.S. Government and its prime contractors.

Because we engage in some government contracting activities and make sales to the U.S. Government, we are subject to extensive and complex U.S. Government procurement laws and regulations. These laws and regulations provide for ongoing government audits and reviews of contract procurement, performance and administration. Failure to comply, even inadvertently, with these laws and regulations and with laws governing the export of munitions and other controlled products and commodities could subject us or one or more of our businesses to civil and criminal penalties, and under certain circumstances, suspension and debarment from future government contracts and the exporting of products for a specified period of time.

BACKLOG

The total amount of contracted backlog was approximately $178.1 million and $231.2 million as of January 31, 2011 and 2010, respectively. The backlog orders are in our Winchester business. Backlog is comprised of all open customer orders not yet shipped. Approximately 66% of contracted backlog as of January 31, 2011 is expected to be filled during 2011.

COMPETITION

We are in active competition with businesses producing the same or similar products, as well as, in some instances, with businesses producing different products designed for the same uses.

Chlor alkali manufacturers in North America, with approximately 15 million tons of chlorine and 16 million tons of caustic soda capacity, account for approximately 18% of worldwide chlor alkali production capacity. According to CMAI, the Dow Chemical Company (Dow), and the Occidental Chemical Corporation (OxyChem), are the two largest chlor alkali producers in North America. Approximately 75% of the total North American capacity is located in the U.S. Gulf Coast region.

Many of our competitors are integrated producers of chlorine, using some, or all, of their chlorine production in the manufacture of other downstream products. In contrast, we are primarily a merchant producer of chlorine and sell the majority of our chlorine to merchant customers. As a result, we supply a greater share of the merchant chlorine market than our share of overall industry capacity. We do utilize chlorine to manufacture industrial bleach and hydrochloric acid. There is a worldwide market for caustic soda, which attracts imports and allows exports depending on market conditions. All of our competitors sell caustic soda into the North American merchant market.

The chlor alkali industry in North America is highly competitive, and many of our competitors, including Dow and OxyChem, are substantially larger and have greater financial resources than we do. While the technologies to manufacture and transport chlorine and caustic soda are widely available, the production facilities require large capital investments, and are subject to significant regulatory and permitting requirements.

We are among the largest manufacturers in the United States of commercial small caliber ammunition based on independent market research sponsored by the Sporting Arms and Ammunition Manufacturers' Institute (SAAMI) and the National Shooting Sports Foundation. Founded in 1926, SAAMI is an association of the nation's leading manufacturers of sporting firearms, ammunition and components. According to SAAMI, our Winchester business, Alliant Techsystems Inc. (ATK) and Remington Arms Company, Inc. (Remington) are the three largest commercial ammunition manufacturers in the United States. The ammunition industry is highly competitive with us, ATK, Remington, numerous smaller domestic manufacturers and foreign producers competing for sales to the commercial ammunition customers. Many factors influence our ability to compete successfully, including price, delivery, service, performance, product innovation and product recognition and quality, depending on the product involved.

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EMPLOYEES

As of December 31, 2010, we had approximately 3,700 employees, with 3,500 working in the United States and 200 working in foreign countries, primarily Canada. Various labor unions represent a majority of our hourly-paid employees for collective bargaining purposes.

The following labor contracts are scheduled to expire in 2011 or early 2012:

Location	Number of Employees	Expiration Date
East Alton (Winchester)	1,470	December 2011
McIntosh (Chlor Alkali)	210	April 2012
Becancour (Chlor Alkali)	128	April 2012

While we believe our relations with our employees and their various representatives are generally satisfactory, we cannot assure that we can conclude these labor contracts or any other labor agreements without work stoppages and cannot assure that any work stoppages will not have a material adverse effect on our business, financial condition, or results of operations.

RESEARCH ACTIVITIES; PATENTS

Our research activities are conducted on a product-group basis at a number of facilities. Company-sponsored research expenditures were $2.1 million in 2010, $2.2 million in 2009 and $2.0 million in 2008.

We own or license a number of patents, patent applications, and trade secrets covering our products and processes. We believe that, in the aggregate, the rights under our patents and licenses are important to our operations, but we do not consider any individual patent or license or group of patents and licenses related to a specific process or product to be of material importance to our total business.

RAW MATERIALS AND ENERGY

We purchase the major portion of our raw material requirements. The principal basic raw materials for our production of chlor alkali products are salt, electricity, potassium chloride, sulfur dioxide, and hydrogen. A portion of the salt used in our Chlor Alkali Products segment is produced from internal resources. Lead, brass, and propellant are the principal raw materials used in the Winchester business. We typically purchase our electricity, salt, potassium chloride, sulfur dioxide, ammunition cartridge case cups and copper-based strip, and propellants pursuant to multi-year contracts. We provide additional information with respect to specific raw materials in the tables set forth under “Products and Services.”

Electricity is the predominant energy source for our manufacturing facilities. Most of our facilities are served by utilities which generate electricity principally from coal, hydroelectric and nuclear power except at St. Gabriel, LA and Henderson, NV which predominantly use natural gas.

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ENVIRONMENTAL AND TOXIC SUBSTANCES CONTROLS

In the United States, the establishment and implementation of federal, state and local standards to regulate air, water and land quality affect substantially all of our manufacturing locations. Federal legislation providing for regulation of the manufacture, transportation, use and disposal of hazardous and toxic substances, and remediation of contaminated sites has imposed additional regulatory requirements on industry, particularly the chemicals industry. In addition, implementation of environmental laws, such as the Resource Conservation and Recovery Act and the Clean Air Act, has required and will continue to require new capital expenditures and will increase operating costs. Our Canadian facility is governed by federal environmental laws administered by Environment Canada and by provincial environmental laws enforced by administrative agencies. Many of these laws are comparable to the U.S. laws described above. We employ waste minimization and pollution prevention programs at our manufacturing sites and we are a party to various governmental and private environmental actions associated with former waste disposal sites and past manufacturing facilities. Charges or credits to income for investigatory and remedial efforts were material to operating results in the past three years and may be material to operating results in future years.

See our discussion of our environmental matters in Item 3, “Legal Proceedings” below, the Note “Environmental” of the notes to consolidated financial statements contained in Item 8, and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 1A. RISK FACTORS

In addition to the other information in this Form 10-K, the following factors should be considered in evaluating Olin and our business. All of our forward-looking statements should be considered in light of these factors. Additional risks and uncertainties that we are unaware of or that we currently deem immaterial also may become important factors that affect us.

Sensitivity to Global Economic Conditions and Cyclicality—Our operating results could be negatively affected during economic downturns.

The business of most of our customers, particularly our vinyl, urethanes, and pulp and paper customers are, to varying degrees, cyclical and have historically experienced periodic downturns. These economic and industry downturns have been characterized by diminished product demand, excess manufacturing capacity and, in some cases, lower average selling prices. Therefore, any significant downturn in our customers’ businesses or in global economic conditions could result in a reduction in demand for our products and could adversely affect our results of operations or financial condition.

Although we do not generally sell a large percentage of our products directly to customers abroad, a large part of our financial performance is dependent upon a healthy economy beyond North America. Our customers sell their products abroad. As a result, our business is affected by general economic conditions and other factors in Western Europe, South America and most of East Asia, particularly China and Japan, including fluctuations in interest rates, customer demand, labor and energy costs, currency changes, and other factors beyond our control. The demand for our customers’ products, and therefore, our products, is directly affected by such fluctuations. In addition, our customers could decide to move some or all of their production to lower cost, offshore locations, and this could reduce demand in North America for our products. We cannot assure you that events having an adverse effect on the industries in which we operate will not occur or continue, such as a downturn in the Western European, South American, Asian or world economies, increases in interest rates, or unfavorable currency fluctuations. Economic conditions in other regions of the world, predominantly Asia and Europe, can increase the amount of caustic soda

produced and available for export to North America. The increased caustic soda supply can put downward pressure on our caustic soda prices, negatively impacting our profitability.

Cyclical Pricing Pressure—Our profitability could be reduced by declines in average selling prices of our products, particularly declines in the ECU netback for chlorine and caustic soda.

Our historical operating results reflect the cyclical and sometimes volatile nature of the chemical and ammunition industries. We experience cycles of fluctuating supply and demand in each of our business segments, particularly in Chlor Alkali Products, which result in changes in selling prices. Periods of high demand, tight supply and increasing operating margins tend to result in increases in capacity and production until supply exceeds demand, generally followed by periods of oversupply and declining prices. There have been capacity additions of approximately 1,950,000 tons announced by Formosa Plastics Corporation, Shintech, Inc., Westlake Chemical Corporation, a Dow/Mitsui & Co. Ltd. joint venture, and K2 Pure Solutions. These announced capacity expansions are forecast by CMAI to come on line ratably over the next four years. In 2010, we announced plans to convert our Charleston, TN facility to 200,000 tons of membrane capacity and our intention to reconfigure our Augusta, GA facility to discontinue chlor alkali manufacturing. These actions will reduce overall chlor alkali production capacity by 160,000 ECU's. Another factor influencing demand and pricing for chlorine and caustic soda is the price of natural gas. Higher natural gas prices increase our customers' and competitors' manufacturing costs, and depending on the ratio of crude oil to natural gas prices, could make them less competitive in world markets. Continued expansion offshore, particularly in Asia, will continue to have an impact on the ECU values as imported caustic soda replaces some capacity in North America.

Price in the chlor alkali industry is the major supplier selection criterion. We have little or no ability to influence prices in this large commodity market. Decreases in the average selling prices of our products could have a material adverse effect on our profitability. For example, assuming all other costs remain constant and internal consumption remains approximately the same, a $10 per ECU selling price change equates to an approximate $17 million annual change in our revenues and pretax profit when we are operating at full capacity. While we strive to maintain or increase our profitability by reducing costs through improving production efficiency, emphasizing higher margin products, and by controlling transportation, selling, and administration expenses, we cannot assure you that these efforts will be sufficient to offset fully the effect of decreases in pricing on operating results.

Because of the cyclical nature of our businesses, we cannot assure you that pricing or profitability in the future will be comparable to any particular historical period, including the most recent period shown in our operating results. We cannot assure you that the chlor alkali industry will not experience adverse trends in the future, or that our operating results and/or financial condition will not be adversely affected by them.

Our Winchester segment is also subject to changes in operating results as a result of cyclical pricing pressures, but to a lesser extent than the Chlor Alkali Products segment. Selling prices of ammunition are affected by changes in raw material costs and availability and customer demand, and declines in average selling prices of our Winchester segment could adversely affect our profitability.

Imbalance in Demand for Our Chlor Alkali Products—A loss of a substantial customer for our chlorine or caustic soda could cause an imbalance in demand for these products, which could have an adverse effect on our results of operations.

Chlorine and caustic soda are produced simultaneously and in a fixed ratio of 1.0 ton of chlorine to 1.1 tons of caustic soda. The loss of a substantial chlorine or caustic soda customer could cause an imbalance in demand for our chlorine and caustic soda products. An imbalance in demand may require us to reduce production of both chlorine and caustic soda or take other steps to correct the imbalance. Since we cannot store large quantities of chlorine, we may not be able to respond to an imbalance in demand for these products as quickly or efficiently as some of our competitors. If a

substantial imbalance occurred, we would need to reduce prices or take other actions that could have a negative impact on our results of operations and financial condition.

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