OLIN CORP
Form 10-Q
October 29, 2013

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 September 30, 2013
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 x No ¨

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 September 30, 2013, 79,570,120 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)

	September 30, 2013	December 31, 2012	September 30, 2012
ASSETS			
Current assets:			
Cash and cash equivalents	$283.8	$165.2	$103.1
Receivables, net	343.8	299.0	350.8
Income tax receivable	4.0	8.2	12.4
Inventories	183.5	195.1	214.3
Current deferred income taxes	51.7	61.3	56.5
Other current assets	10.3	20.3	20.2
Total current assets	877.1	749.1	757.3
Property, plant and equipment (less accumulated depreciation of $1,236.8, $1,164.0 and $1,206.0)	991.7	1,034.3	1,019.4
Prepaid pension costs	2.1	2.1	51.1
Restricted cash	6.6	11.9	18.5
Deferred income taxes	8.4	9.1	—
Other assets	210.0	224.1	223.4
Goodwill	747.1	747.1	747.1
Total assets	$2,843.0	$2,777.7	$2,816.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current installments of long-term debt	$12.5	$23.6	$23.6
Accounts payable	170.4	174.3	189.5
Income taxes payable	0.8	7.6	—
Accrued liabilities	242.4	228.5	250.1
Total current liabilities	426.1	434.0	463.2
Long-term debt	690.5	690.1	703.1
Accrued pension liability	123.2	164.3	66.8
Deferred income taxes	134.3	110.4	151.6
Other liabilities	371.6	380.5	355.5
Total liabilities	1,745.7	1,779.3	1,740.2
Commitments and contingencies			
Shareholders' equity:			
Common stock, par value $1 per share: authorized, 120.0 shares; issued and outstanding 79.6, 80.2 and 80.2 shares	79.6	80.2	80.2
Additional paid-in capital	841.6	856.1	854.1
Accumulated other comprehensive loss	(363.1)	(371.3)	(272.6)
Retained earnings	539.2	433.4	414.9
Total shareholders' equity	1,097.3	998.4	1,076.6
Total liabilities and shareholders' equity	$2,843.0	$2,777.7	$2,816.8

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Sales	$670.7	$581.2	$1,952.9	$1,597.1
Operating expenses:				
Cost of goods sold	528.5	475.8	1,564.0	1,260.1
Selling and administration	36.5	42.4	134.3	131.2
Restructuring charges	1.6	2.3	4.1	6.0
Acquisition costs	—	8.3	—	8.3
Other operating (expense) income	(0.4)	1.1	1.3	1.5
Operating income	103.7	53.5	251.8	193.0
Earnings of non-consolidated affiliates	1.0	1.2	2.4	2.0
Interest expense	9.9	6.0	28.7	18.3
Interest income	0.1	0.2	0.3	0.7
Other expense	1.9	2.2	6.3	6.9
Income before taxes	93.0	46.7	219.5	170.5
Income tax provision	23.3	18.0	65.6	55.5
Net income	$69.7	$28.7	$153.9	$115.0
Net income per common share:				
Basic	$0.87	$0.36	$1.92	$1.44
Diluted	$0.86	$0.35	$1.90	$1.42
Dividends per common share	$0.20	$0.20	$0.60	$0.60
Average common shares outstanding:				
Basic	79.8	80.1	80.1	80.1
Diluted	80.8	81.0	81.1	80.9

The accompanying notes to condensed financial statements are an integral part of the condensed financial statements.

OLIN CORPORATION AND CONSOLIDATED SUBSIDIARIES
Condensed Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$69.7	$28.7	$153.9	$115.0
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	0.4	0.8	(1.8)	0.3
Unrealized gains (losses) on derivative contracts	4.1	9.2	(5.3)	10.5
Amortization of prior service costs and actuarial losses	4.9	3.3	15.3	10.8
Total other comprehensive income, net of tax	9.4	13.3	8.2	21.6
Comprehensive income	$79.1	$42.0	$162.1	$136.6

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

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares Issued	Par Value				
Balance at January 1, 2012	80.1	$80.1	$852.0	$(294.2)	$347.9	$985.8
Net income	—	—	—	—	115.0	115.0
Other comprehensive income	—	—	—	21.6	—	21.6
Dividends paid:						
Common stock ($0.60 per share)	—	—	—	—	(48.0)	(48.0)
Common stock repurchased and retired	(0.2)	(0.2)	(2.9)	—	—	(3.1)
Common stock issued for:						
Stock options exercised	0.1	0.1	1.3	—	—	1.4
Other transactions	0.2	0.2	2.4	—	—	2.6
Stock-based compensation	—	—	1.3	—	—	1.3
Balance at September 30, 2012	80.2	$80.2	$854.1	$(272.6)	$414.9	$1,076.6
Balance at January 1, 2013	80.2	$80.2	$856.1	$(371.3)	$433.4	$998.4
Net income	—	—	—	—	153.9	153.9
Other comprehensive income	—	—	—	8.2	—	8.2
Dividends paid:						
Common stock ($0.60 per share)	—	—	—	—	(48.1)	(48.1)
Common stock repurchased and retired	(1.2)	(1.2)	(27.6)	—	—	(28.8)
Common stock issued for:						
Stock options exercised	0.4	0.4	7.2	—	—	7.6
Other transactions	0.2	0.2	3.0	—	—	3.2
Stock-based compensation	—	—	2.9	—	—	2.9
Balance at September 30, 2013	79.6	$79.6	$841.6	$(363.1)	$539.2	$1,097.3

The accompanying notes to condensed financial statements are an integral part of the condensed financial statements.

OLIN CORPORATION AND CONSOLIDATED SUBSIDIARIES
Condensed Statements of Cash Flows
(In millions)
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Operating Activities		
Net income	$153.9	$115.0
Adjustments to reconcile net income to net cash and cash equivalents provided by (used for) operating activities:		
Earnings of non-consolidated affiliates	(2.4)	(2.0)
Gains on disposition of property, plant and equipment	(1.1)	(0.9)
Stock-based compensation	6.4	4.2
Depreciation and amortization	101.2	78.7
Deferred income taxes	27.9	34.5
Qualified pension plan contributions	(0.7)	(0.6)
Qualified pension plan income	(18.1)	(18.6)
Change in:		
Receivables	(44.8)	(50.5)
Income taxes receivable/payable	(2.6)	(11.7)
Inventories	11.6	(1.3)
Other current assets	2.4	0.7
Accounts payable and accrued liabilities	16.1	15.0
Other assets	2.5	4.7
Other noncurrent liabilities	(10.6)	(10.0)
Other operating activities	—	(0.5)
Net operating activities	241.7	156.7
Investing Activities		
Capital expenditures	(70.4)	(210.8)
Business acquired in purchase transaction, net of cash acquired	—	(310.4)
Proceeds from sale/leaseback of equipment	35.8	3.5
Proceeds from disposition of property, plant and equipment	4.3	3.7
Distributions from affiliated companies, net	0.9	0.5
Restricted cash activity	5.3	33.2
Other investing activities	(1.8)	(0.4)
Net investing activities	(25.9)	(480.7)
Financing Activities		
Long-term debt:		
Borrowings	—	200.0
Repayments	(11.4)	(7.7)
Earn out payment – SunBelt	(17.1)	(15.3)
Common stock repurchased and retired	(28.8)	(3.1)
Stock options exercised	6.8	1.3
Excess tax benefits from stock-based compensation	1.4	0.7
Dividends paid	(48.1)	(48.0)
Deferred debt issuance costs	—	(5.6)
Net financing activities	(97.2)	122.3

Net increase (decrease) in cash and cash equivalents	118.6	(201.7)
Cash and cash equivalents, beginning of period	165.2	304.8
Cash and cash equivalents, end of period	$283.8	$103.1
Cash paid for interest and income taxes:		
Interest	$29.1	$18.4
Income taxes, net of refunds	$43.1	$28.5
Non-cash investing activities:		
Capital expenditures included in accounts payable and accrued liabilities	$11.1	$20.2

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 three business segments: Chlor Alkali Products, Chemical Distribution and Winchester. Chlor Alkali Products, with nine U.S. manufacturing facilities and one Canadian manufacturing facility, produces chlorine and caustic soda, hydrochloric acid, hydrogen, bleach products and potassium hydroxide. Chemical Distribution, with twenty-seven owned and leased terminal facilities, manufactures bleach products and distributes caustic soda, bleach products, potassium hydroxide and hydrochloric acid. Winchester, with its principal manufacturing facilities in East Alton, IL and Oxford, MS, produces and distributes sporting ammunition, law enforcement 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, 2012. Certain reclassifications were made to prior year amounts to conform to the 2013 presentation.

On August 22, 2012, we acquired 100% of privately-held K. A. Steel Chemicals Inc. (KA Steel), whose operating results are included in the accompanying financial statements since the date of the acquisition.

ACQUISITION

On August 22, 2012, we acquired 100% of privately-held KA Steel, on a debt free basis, for $336.6 million in cash, after receiving the final working capital adjustment of $1.9 million. As of the date of acquisition, KA Steel had cash and cash equivalents of $26.2 million. KA Steel is one of the largest distributors of caustic soda in North America and manufactures and sells bleach in the Midwest.

The acquisition was partially financed with proceeds from the $200.0 million of 5.50% senior notes (2022 Notes) sold on August 22, 2012 with a maturity date of August 15, 2022. Proceeds from the 2022 Notes were $196.0 million, after expenses of $4.0 million.

For segment reporting purposes, KA Steel comprises the newly created Chemical Distribution segment. The KA Steel results of operations have been included in our consolidated results for the period subsequent to the effective date of the acquisition.

The transaction has been accounted for using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. We finalized our purchase price allocation during the fourth quarter of 2012 and certain preliminary amounts reported as of September 30, 2012 have been retrospectively adjusted to reflect the final purchase price allocation. The following table summarizes the allocation of the purchase price to KA Steel's assets and liabilities:

	August 22, 2012 ($ in millions)
Total current assets	$128.1
Property, plant and equipment	25.1
Deferred taxes	1.6
Intangible assets	139.3
Total assets acquired	294.1
Total current liabilities	64.2
Other liabilities	10.4
Total liabilities assumed	74.6
Net identifiable assets acquired	219.5
Goodwill	119.7
Fair value of net assets acquired	$339.2
Supplemental Data	
Cash paid	$336.6
Olin trade accounts receivable from KA Steel	2.6
Total fair value of consideration	$339.2

Included in total current assets is cash and cash equivalents of $26.2 million and receivables of $63.1 million with a contracted value of $63.5 million. Included in other liabilities is an accrued contingent liability of $10.0 million for the withdrawal from a multi-employer defined benefit pension plan.

Based on final valuations, we allocated $128.0 million of the purchase price to intangible assets relating to customers, customer contracts and relationships, which management estimates to have a useful life of ten years, $10.9 million to intangible assets associated with the KA Steel trade name, which management estimates to have an indefinite useful life, and $0.4 million associated with a favorable lease agreement that will be amortized over the remaining life of the lease term (approximately four years) on a straight line basis. These identifiable intangible assets were included in other assets. Based on final valuations, $119.7 million was assigned to goodwill, all of which is deductible for tax purposes. The primary reasons for the acquisition and the principal factors that contributed to a KA Steel purchase price that resulted in the recognition of goodwill are the expanded capability to market and sell caustic soda, bleach, potassium hydroxide, and hydrochloric acid, as well as the geographic diversification the KA Steel locations provide us, and the strengthened position in the industrial bleach segment.

Goodwill and the indefinite-lived trade name intangible asset recorded in the acquisition are not amortized but will be reviewed for impairment annually in the fourth quarter and/or when circumstances or other events indicate that impairment may have occurred.

The following pro forma summary presents the condensed statement of income as if the acquisition of KA Steel had occurred on January 1, 2012 (unaudited):

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
	($ in millions, except per share data)	
Sales	$648.9	$1,879.8
Net income	38.7	125.6
Net income per common share:		
Basic	$0.48	$1.57
Diluted	$0.48	$1.55

The pro forma statement of income was prepared based on historical financial information and has been adjusted to give effect to pro forma adjustments that are (i) directly attributable to the transaction, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results. The pro forma statement of income uses estimates and assumptions based on information available at the time. Management believes the estimates and assumptions to be reasonable; however, actual results may differ significantly from this pro forma financial information. The pro forma information is not intended to reflect the actual results that would have occurred had the companies actually been combined during the periods presented. The pro forma data reflect the application of the following adjustments:

- Additional amortization expense related to the fair value of acquired identifiable intangible assets ($1.6 million and $8.0 million for the three and nine months ended September 30, 2012, respectively).
- Additional depreciation expense related to the fair value adjustment to property, plant and equipment and conforming KA Steel’s useful lives to ours ($0.1 million and $0.2 million for the three and nine months ended September 30, 2012, respectively).
- Increase in interest expense related to the 2022 Notes issued in conjunction with this acquisition ($1.6 million and $7.1 million for the three and nine months ended September 30, 2012, respectively).
- Elimination of intersegment sales of caustic soda and bleach to KA Steel from Chlor Alkali Products at prices that approximate market ($4.6 million and $23.2 million for the three and nine months ended September 30, 2012, respectively).
- Elimination of transaction costs incurred in 2012 that are directly related to the transaction, and do not have a continuing impact on our combined operating results ($8.3 million for the three and nine months ended September 30, 2012).

In addition, the pro forma data reflect the tax effect of all of the above adjustments. The pro forma tax provision reflects an increase of $3.8 million and $1.1 million for the three and nine months ended September 30, 2012, respectively, associated with the incremental pretax income, the fair value adjustments for acquired intangible assets and property, plant and equipment, and the interest expense of the 2022 Notes issued in conjunction with this acquisition, which reflects the marginal tax of the adjustments in the various jurisdictions where such adjustments occurred.

RESTRUCTURING CHARGES