OLIN CORP
Form 10-Q
May 11, 2015

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 March 31, 2015
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 April 30, 2015, 77,513,605 shares of the registrant’s common stock were outstanding.

Part I — Financial Information

Item 1. Financial Statements.

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

	March 31, 2015	December 31, 2014	March 31, 2014
ASSETS			
Current assets:			
Cash and cash equivalents	$196.8	$256.8	$242.9
Receivables, net	303.8	263.1	331.0
Income taxes receivable	15.1	21.6	2.3
Inventories	216.1	210.1	187.6
Current deferred income taxes	54.0	54.2	49.6
Other current assets	17.4	10.3	15.3
Total current assets	803.2	816.1	828.7
Property, plant and equipment (less accumulated depreciation of $1,357.9, $1,330.7 and $1,287.3)	919.9	931.0	968.6
Prepaid pension costs	—	—	1.6
Restricted cash	—	—	3.6
Deferred income taxes	12.9	12.5	9.0
Other assets	198.2	191.4	205.2
Goodwill	747.1	747.1	747.1
Total assets	$2,681.3	$2,698.1	$2,763.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current installments of long-term debt	$16.4	$16.4	$12.6
Accounts payable	147.8	146.8	164.6
Income taxes payable	1.1	0.2	0.5
Accrued liabilities	205.1	214.3	198.2
Total current liabilities	370.4	377.7	375.9
Long-term debt	656.9	658.7	677.5
Accrued pension liability	167.2	182.0	102.0
Deferred income taxes	107.3	107.1	123.3
Other liabilities	361.3	359.3	377.5
Total liabilities	1,663.1	1,684.8	1,656.2
Commitments and contingencies			
Shareholders' equity:			
Common stock, par value $1 per share: authorized, 120.0 shares; issued and outstanding 77.5, 77.4 and 79.0 shares	77.5	77.4	79.0
Additional paid-in capital	792.1	788.3	830.5
Accumulated other comprehensive loss	(439.7)	(443.1)	(363.5)
Retained earnings	588.3	590.7	561.6
Total shareholders' equity	1,018.2	1,013.3	1,107.6
Total liabilities and shareholders' equity	$2,681.3	$2,698.1	$2,763.8

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 March 31,	
	2015	2014
Sales	$518.0	$577.4
Operating expenses:		
Cost of goods sold	433.2	475.4
Selling and administration	47.0	43.5
Restructuring charges	1.2	1.0
Acquisition costs	10.4	0.2
Other operating expense	0.2	0.1
Operating income	26.0	57.2
Earnings of non-consolidated affiliates	0.4	0.4
Interest expense	7.1	9.7
Interest income	0.3	0.3
Income before taxes	19.6	48.2
Income tax provision	6.5	18.7
Net income	$13.1	$29.5
Net income per common share:		
Basic	$0.17	$0.37
Diluted	$0.17	$0.37
Dividends per common share	$0.20	$0.20
Average common shares outstanding:		
Basic	77.4	79.2
Diluted	78.5	80.5

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 March 31, 2015	2014
Net income	$13.1	$29.5
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(1.4)	0.7
Unrealized losses on derivative contracts	(0.3)	(3.1)
Amortization of prior service costs and actuarial losses	5.1	4.0
Total other comprehensive income, net of tax	3.4	1.6
Comprehensive income	$16.5	$31.1

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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, 2014	79.4	$79.4	$838.8	$(365.1)	$548.0	$1,101.1
Net income	—	—	—	—	29.5	29.5
Other comprehensive income	—	—	—	1.6	—	1.6
Dividends paid:						
Common stock ($0.20 per share)	—	—	—	—	(15.9)	(15.9)
Common stock repurchased and retired	(0.6)	(0.6)	(14.1)	—	—	(14.7)
Common stock issued for:						
Stock options exercised	0.2	0.2	5.1	—	—	5.3
Other transactions	—	—	(1.0)	—	—	(1.0)
Stock-based compensation	—	—	1.7	—	—	1.7
Balance at March 31, 2014	79.0	$79.0	$830.5	$(363.5)	$561.6	$1,107.6
Balance at January 1, 2015	77.4	$77.4	$788.3	$(443.1)	$590.7	$1,013.3
Net income	—	—	—	—	13.1	13.1
Other comprehensive income	—	—	—	3.4	—	3.4
Dividends paid:						
Common stock ($0.20 per share)	—	—	—	—	(15.5)	(15.5)
Common stock issued for:						
Stock options exercised	0.1	0.1	2.7	—	—	2.8
Other transactions	—	—	(0.2)	—	—	(0.2)
Stock-based compensation	—	—	1.3	—	—	1.3
Balance at March 31, 2015	77.5	$77.5	$792.1	$(439.7)	$588.3	$1,018.2

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

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

	Three Months Ended March 31, 2015	2014
Operating Activities		
Net income	$13.1	$29.5
Adjustments to reconcile net income to net cash and cash equivalents provided by (used for) operating activities:		
Earnings of non-consolidated affiliates	(0.4)	(0.4)
Losses on disposition of property, plant and equipment	0.3	0.2
Stock-based compensation	1.8	2.1
Depreciation and amortization	34.4	34.2
Deferred income taxes	(3.1)	6.0
Qualified pension plan contributions	(0.2)	(0.2)
Qualified pension plan income	(6.8)	(7.3)
Change in:		
Receivables	(40.7)	(50.9)
Income taxes receivable/payable	7.4	(1.6)
Inventories	(6.0)	(1.1)
Other current assets	(7.1)	(1.1)
Accounts payable and accrued liabilities	(6.3)	(13.2)
Other assets	1.3	1.7
Other noncurrent liabilities	2.4	(4.8)
Other operating activities	0.3	—
Net operating activities	(9.6)	(6.9)
Investing Activities		
Capital expenditures	(23.3)	(18.6)
Proceeds from disposition of property, plant and equipment	0.6	0.7
Proceeds from disposition of affiliated companies	2.2	—
Restricted cash activity	—	0.6
Other investing activities	(1.4)	0.7
Net investing activities	(21.9)	(16.6)
Financing Activities		
Long-term debt repayments	(1.0)	(0.1)
Earn out payment – SunBelt	—	(14.8)
Common stock repurchased and retired	—	(14.7)
Stock options exercised	2.0	3.6
Excess tax benefits from stock-based compensation	0.3	0.5
Dividends paid	(15.5)	(15.9)
Deferred debt issuance costs	(14.3)	—
Net financing activities	(28.5)	(41.4)
Net decrease in cash and cash equivalents	(60.0)	(64.9)
Cash and cash equivalents, beginning of period	256.8	307.8
Cash and cash equivalents, end of period	$196.8	$242.9
Cash paid for interest and income taxes:		

Interest	$6.6	$12.7
Income taxes, net of refunds	$1.6	$13.8
Non-cash investing activities:		
Capital expenditures included in accounts payable and accrued liabilities	$2.4	$6.3

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 (Olin) 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 eight 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-four 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 U.S. 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, 2014. Certain reclassifications were made to prior year amounts to conform to the 2015 presentation.

PROPOSED MERGER

On March 27, 2015, Olin and The Dow Chemical Company (TDCC) announced that Olin had agreed to acquire certain chlor alkali and downstream derivatives businesses from TDCC using a Reverse Morris Trust structure. Olin and TDCC and certain affiliates have entered into an Agreement and Plan of Merger (the Merger Agreement) dated March 26, 2015 among Olin, TDCC, Blue Cube Acquisition Corporation, a wholly-owned subsidiary of Olin (Merger Sub) and Blue Cube Spinco Inc. (Spinco), pursuant to which, subject to the terms and conditions of the Merger Agreement and a Separation Agreement dated March 26, 2015 between TDCC and Spinco (the Separation Agreement), (1) TDCC will transfer its U.S. chlor alkali and vinyl, global chlorinated organics and global epoxy businesses (collectively, the Business) to Spinco, (2) TDCC will distribute Spinco's stock to TDCC's shareholders, at TDCC's option, by way of a spin-off, a split-off or a combination thereof (the Distribution) and (3) Merger Sub will merge with and into Spinco, with Spinco as the surviving corporation (the Merger).

Upon consummation of the transactions contemplated by the Merger Agreement and the Separation Agreement, the shares of Spinco common stock then outstanding will automatically be converted into approximately 80.6 million shares of Olin's common stock and will represent approximately 50.5% of the outstanding shares of Olin's common stock. Olin's existing shareholders will continue to hold the remaining approximately 49.5% of the outstanding shares of Olin's common stock. In the event that certain joint venture interests owned by an unrelated third party participant in a TDCC chlor alkali joint venture (DMCA JV) are transferred to Spinco in the transaction, approximately 6.9 million shares of additional Olin common stock would be issued in the Merger to TDCC shareholders receiving the Distribution.

Prior to the Distribution, TDCC will receive from Spinco distributions of cash and debt instruments of Spinco with an aggregate value of approximately $2.0 billion (collectively, the Cash and Debt Distribution). TDCC expects to deliver the Spinco debt instruments received in the Cash and Debt Distribution in exchange for outstanding debt obligations to be identified by TDCC prior to the consummation of the Distribution (the Exchange). As the cash portion of the Cash and Debt Distribution, TDCC will receive from Spinco a total of $875 million immediately prior to the Distribution. The amount of the Cash and Debt Distribution is subject to adjustment based on Spinco's working capital at the time of Distribution. If TDCC determines that the Exchange is not reasonably likely to be consummated at the time of the Distribution, TDCC may elect to receive the Spinco debt instruments in any event, or alternatively, may elect to receive cash for the full amount of the Cash and Debt Distribution; however TDCC has no obligation to waive the consummation of the Exchange as a condition to the closing of the Merger.

On March 26, 2015, we and certain financial institutions executed commitment letters pursuant to which the financial institutions have agreed to provide financing to Spinco to finance the amount of the Cash and Debt Distribution and to provide financing to Olin to refinance certain of our existing debt (the Bridge Financing), in each case on the terms and conditions set forth in the commitment letters. For the three months ended March 31, 2015, we paid deferred debt issuance costs of $14.3 million associated with the Bridge Financing.

During 2015, we expect to incur one-time costs in connection with the Merger and related transactions, including approximately$40 million to $45 million of advisory, legal, accounting and other professional fees, approximately $50 million of costs associated with the change in control mandatory acceleration of expenses under deferred compensation plans as a result of the transaction and approximately $25 million to $30 million financing-related fees. For the three months ended March 31, 2015 acquisition costs included $10.4 million associated with advisory, legal, accounting and other professional fees and interest expense included $0.4 million for financing fees.

The consummation of the Merger is subject to the satisfaction or waiver of various customary closing conditions, including, among others, (1) the consummation of the separation of the Business from the other businesses of TDCC (the Separation) and the Distribution in accordance with the Separation Agreement, (2) the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of regulatory approvals in certain other jurisdictions, (3) the effectiveness of registration statements to be filed with the SEC, (4) the approval by Olin's shareholders of the issuance of Olin common stock in the Merger (the Share Issuance) and the amendment of Olin's Amended and Restated Articles of Incorporation to increase the number of authorized shares of Olin common stock (the Charter Amendment), (5) the receipt by TDCC of a favorable IRS private letter ruling with respect to certain aspects of the Separation and the Distribution and an opinion from its counsel with respect to certain federal income tax matters related to the Separation, Distribution and Exchange, (6) the receipt by TDCC, on the one hand, and Olin, on the other hand, of an opinion from their respective counsel to the effect that the Merger will be treated as a "reorganization" for U.S. federal income tax purposes, (7) the consummation of the Exchange (unless TDCC elects to receive cash for the full amount of the Cash and Debt Distribution as described above), (8) material compliance by each party with its covenants and (9) subject to certain materiality qualifiers, the absence of breaches of representations and warranties.

In connection with the transactions contemplated by the Merger Agreement and the Separation Agreement, certain additional agreements have been or will by entered into, including, among others, an Employee Matters Agreement, a Tax Matters Agreement and site, transitional and other services agreements, supply and purchase agreements, real estate agreements, technology licenses and intellectual property agreements. In addition, Olin and TDCC have agreed in connection with the transactions to enter into arrangements for the long-term supply of ethylene by TDCC to Olin at co-producer economics, pursuant to which, among other things, Olin will make an upfront payment of just over $300 million upon the closing of the Merger. Olin will also have the option of obtaining additional future ethylene supply by paying an additional reservation fee at closing.

RESTRUCTURING CHARGES

On December 12, 2014, we announced that we had made the decision to permanently close the portion of the Becancour, Canada chlor alkali facility that had been shut down since late June 2014. This action reduces the facility's chlor alkali capacity by 185,000 tons. Subsequent to the shutdown, the plant will predominantly focus on bleach and hydrochloric acid, which are value-added products, as well as caustic soda. In the fourth quarter of 2014, we recorded pretax restructuring charges of $10.0 million for the write-off of equipment and facility costs, employee severance and related benefit costs, lease and other contract termination costs and a non-cash pension curtailment charge related to these actions. For the three months ended March 31, 2015, we recorded pretax restructuring charges of $1.2 million for the write-off of equipment and facility costs, lease and other contract termination costs, facility exit costs and a non-cash pension curtailment charge related to these actions. We expect to incur additional restructuring charges through 2016 of approximately $4 million related to the shut down of this portion of the facility.

On December 9, 2010, our board of directors approved a plan to eliminate our use of mercury in the manufacture of chlor alkali products. Under the plan, the 260,000 tons of mercury cell capacity at our Charleston, TN facility was converted to 200,000 tons of membrane capacity capable of producing both potassium hydroxide and caustic soda. The board of directors also approved plans to reconfigure our Augusta, GA facility to manufacture bleach and distribute caustic soda, while discontinuing chlor alkali manufacturing at this site. The completion of these projects eliminated our chlor alkali production using mercury cell technology. For the three months ended March 31, 2014, we recorded pretax restructuring charges of $0.6 million for employee severance and related benefit costs and facility exit costs related to these actions.

On November 3, 2010, we announced that we made the decision to relocate the Winchester centerfire pistol and rifle ammunition manufacturing operations from East Alton, IL to Oxford, MS. This relocation, when completed, is forecast to reduce Winchester's annual operating costs by approximately $35 million to $40 million. Consistent with this decision we initiated an estimated $110 million five-year project, which includes approximately $80 million of capital spending. The capital spending was partially financed by $31 million of grants provided by the State of Mississippi and local governments. We currently expect to complete this relocation by the end of 2016. For the three months ended March 31, 2015 and 2014, we recorded pretax restructuring charges of less than $0.1 million and $0.4 million, respectively, for employee severance and related benefit costs, employee relocation costs and facility exit costs related to these actions. We expect to incur additional restructuring charges through 2016 of approximately $2 million related to the transfer of these operations.

The following table summarizes the activity by major component of these 2014 and 2010 restructuring actions and the remaining balances of accrued restructuring costs as of March 31, 2015:

	Employee severance and job related benefits	Lease and other contract termination costs	Employee relocation costs	Facility exit costs	Write-off of equipment and facility	Total
	($ in millions)					
Balance at January 1, 2014	$10.2	$—	$—	$—	$—	$10.2
2014 restructuring charges	0.2	—	0.1	0.7	—	1.0
Amounts utilized	(0.6)	—	(0.1)	(0.7)	—	(1.4)
Balance at March 31, 2014	$9.8	$—	$—	$—	$—	$9.8
Balance at January 1, 2015	$11.2	$4.5	$—	$—	$—	$15.7
2015 restructuring charges	—	0.7	0.1	0.2	0.2	1.2
Amounts utilized	(2.8)	—	(0.1)	(0.2)	(0.2)	(3.3)
Currency translation adjustments	(0.4)	(0.3)	—	—	—	(0.7)
Balance at March 31, 2015	$8.0	$4.9	$—	$—	$—	$12.9

The following table summarizes the cumulative restructuring charges of these 2014 and 2010 restructuring actions by major component through March 31, 2015:

	Chlor Alkali Products		Winchester	Total
	Becancour	Mercury		
	($ in millions)			
Write-off of equipment and facility	$3.2	$17.8	$—	$21.0
Employee severance and job related benefits	2.3	5.6	13.1	21.0
Facility exit costs	0.1	15.6	2.0	17.7
Pension and other postretirement benefits curtailment	0.4	—	4.1	4.5
Employee relocation costs	—	0.9	4.8	5.7
Lease and other contract termination costs	5.2	0.7	—	5.9