OLIN CORP
Form 10-Q
October 28, 2011
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, 2011

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 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 September 30, 2011, 80,162,837 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)

	September 30, 2011	December 31, 2010	September 30, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	$ 318.3	$ 458.6	$ 393.4
Receivables, net	290.5	186.9	231.1
Income tax receivable	2.2	6.1	12.5
Inventories	166.3	155.6	157.3
Current deferred income taxes	50.4	46.0	40.9
Other current assets	11.1	29.6	17.6
Total current assets	838.8	882.8	852.8
Property, plant and equipment (less accumulated depreciation of $1,122.1, $1,068.1 and $1,048.2)	821.3	675.0	683.8
Prepaid pension costs	46.1	16.3	33.7
Restricted cash	71.6	102.0	—
Other assets	86.8	72.3	92.2
Goodwill	627.4	300.3	300.3
Total assets	$ 2,492.0	$ 2,048.7	$ 1,962.8
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Current liabilities:			
Current installments of long-term debt	$ 87.8	$ 77.8	$ 1.8
Accounts payable	129.6	115.5	107.9
Accrued liabilities	237.6	197.7	189.5
Total current liabilities	455.0	391.0	299.2
Long-term debt	501.8	418.2	385.1
Accrued pension liability	55.2	58.6	50.4
Deferred income taxes	113.5	23.5	39.8
Other liabilities	359.3	327.1	330.9
Total liabilities	1,484.8	1,218.4	1,105.4
Commitments and contingencies			
Shareholders’ equity:			
Common stock, par value $1 per share: authorized, 120.0 shares; issued and outstanding 80.2, 79.6 and 79.6 shares	80.2	79.6	79.6
Additional paid-in capital	852.4	842.3	840.1
Accumulated other comprehensive loss	(270.6)	(261.8)	(246.3)
Retained earnings	345.2	170.2	184.0
Total shareholders’ equity	1,007.2	830.3	857.4
Total liabilities and shareholders’ equity	$ 2,492.0	$ 2,048.7	$ 1,962.8

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 Income
(In millions, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales	$ 550.2	$ 432.8	$ 1,515.3	$ 1,200.5
Operating expenses:				
Cost of goods sold	432.7	366.5	1,205.6	1,026.7
Selling and administration	39.8	33.3	121.8	101.3
Restructuring charges	4.1	—	6.6	—
Other operating income	4.3	0.3	5.9	2.6
Operating income	77.9	33.3	187.2	75.1
Earnings of non-consolidated affiliates	0.8	11.6	8.5	22.8
Interest expense	7.9	6.4	22.5	19.5
Interest income	0.2	0.3	0.7	0.7
Other (expense) income	(1.6)	—	179.0	0.1
Income before taxes	69.4	38.8	352.9	79.2
Income tax provision	22.2	7.0	129.9	16.4
Net income	$ 47.2	$ 31.8	$ 223.0	$ 62.8
Net income per common share:				
Basic	$ 0.59	$ 0.40	$ 2.79	$ 0.79
Diluted	$ 0.58	$ 0.40	$ 2.76	$ 0.79
Dividends per common share	$ 0.20	$ 0.20	$ 0.60	$ 0.60
Average common shares outstanding:				
Basic	80.2	79.4	79.9	79.1
Diluted	80.8	80.2	80.8	79.8

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

OLIN CORPORATION AND CONSOLIDATED SUBSIDIARIES

Condensed Statements of Shareholders' Equity
(In millions, except per share data)
(Unaudited)

	Common Stock		Additional	Accumulated Other		Total
	Shares Issued	Par Value	Paid-In Capital	Comprehensive Loss	Retained Earnings	Shareholders' Equity
Balance at January 1, 2010	78.7	$ 78.7	$ 823.1	$ (248.2)	$ 168.7	$ 822.3
Comprehensive income:						
Net income	—	—	—	—	62.8	62.8
Translation adjustment	—	—	—	(0.6)	—	(0.6)
Net unrealized loss	—	—	—	(4.9)	—	(4.9)
Amortization of prior service costs and actuarial losses, net	—	—	—	7.4	—	7.4
Comprehensive income						64.7
Dividends paid:						
Common stock ($0.60 per share)	—	—	—	—	(47.5)	(47.5)
Common stock issued for:						
Stock options exercised	0.2	0.2	2.3	—	—	2.5
Employee benefit plans	0.6	0.6	9.6	—	—	10.2
Other transactions	0.1	0.1	2.2	—	—	2.3
Stock-based compensation	—	—	2.9	—	—	2.9
Balance at September 30, 2010	79.6	$ 79.6	$ 840.1	$ (246.3)	$ 184.0	$ 857.4
Balance at January 1, 2011	79.6	$ 79.6	$ 842.3	$ (261.8)	$ 170.2	$ 830.3
Comprehensive income:						
Net income	—	—	—	—	223.0	223.0
Translation adjustment	—	—	—	2.3	—	2.3
Net unrealized loss	—	—	—	(20.2)	—	(20.2)
Amortization of prior service costs and actuarial losses, net	—	—	—	9.1	—	9.1
Comprehensive income						214.2
Dividends paid:						
Common stock ($0.60 per share)	—	—	—	—	(48.0)	(48.0)
Common stock repurchased and retired	(0.1)	(0.1)	(2.1)	—	—	(2.2)
Common stock issued for:						
Stock options exercised	0.5	0.5	8.8	—	—	9.3
Other transactions	0.2	0.2	3.6	—	—	3.8
Stock-based compensation	—	—	(0.2)	—	—	(0.2)
Balance at September 30, 2011	80.2	$ 80.2	$ 852.4	$ (270.6)	$ 345.2	$ 1,007.2

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)

	Nine Months Ended September 30,	
	2011	2010
Operating Activities		
Net income	$ 223.0	$ 62.8
Adjustments to reconcile net income to net cash and cash equivalents provided by (used for) operating activities:		
Gain on remeasurement of investment in SunBelt	(181.4)	—
Earnings of non-consolidated affiliates	(8.5)	(22.8)
Other operating income – gains on disposition of property, plant and equipment	(4.8)	(1.5)
Stock-based compensation	4.3	5.1
Depreciation and amortization	74.1	64.8
Deferred income taxes	93.1	22.1
Qualified pension plan contributions	(0.7)	(7.3)
Qualified pension plan income	(19.5)	(18.4)
Common stock issued under employee benefit plans	—	1.0
Change in:		
Receivables	(79.6)	(47.8)
Income taxes receivable	3.5	6.9
Inventories	(6.7)	(33.5)
Other current assets	0.3	0.1
Accounts payable and accrued liabilities	11.6	10.4
Other assets	(0.2)	(1.6)
Other noncurrent liabilities	6.1	0.9
Other operating activities	(2.2)	(0.1)
Net operating activities	112.4	41.1
Investing Activities		
Capital expenditures	(128.4)	(63.4)
Business acquired in purchase transaction, net of cash acquired	(123.4)	—
Proceeds from disposition of property, plant and equipment	6.2	2.9
Distributions from affiliated companies, net	1.1	9.5
Restricted cash activity	30.4	—
Other investing activities	2.3	(0.5)
Net investing activities	(211.8)	(51.5)
Financing Activities		
Long-term debt repayments	—	(18.9)
Issuance of common stock	—	9.2
Common stock repurchased and retired	(2.2)	—
Stock options exercised	7.3	2.3
Excess tax benefits from stock options exercised	2.0	0.2
Dividends paid	(48.0)	(47.5)
Net financing activities	(40.9)	(54.7)
Net decrease in cash and cash equivalents	(140.3)	(65.1)
Cash and cash equivalents, beginning of period	458.6	458.5
Cash and cash equivalents, end of period	$ 318.3	$ 393.4

Cash paid (received) for interest and income taxes:				
Interest	$	19.6	$	20.0
Income taxes, net of refunds	$	34.4	$	(5.6)
Non-cash investing activities:				
Capital expenditures included in accounts payable and accrued liabilities	$	(4.2)	$	10.0

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, hydrochloric acid, hydrogen, bleach products and potassium hydroxide. Winchester, with its principal manufacturing facilities in East Alton, IL and Oxford, MS, 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, 2010. Certain reclassifications were made to prior year amounts to conform to the 2011 presentation.

On February 28, 2011, we acquired PolyOne Corporation's (PolyOne) 50% interest in the SunBelt Chlor Alkali Partnership, which we refer to as SunBelt. Previously, we had a 50% ownership interest in SunBelt, which was accounted for using the equity method of accounting. Accordingly, we included only our share of SunBelt results in earnings of non-consolidated affiliates. Since the date of acquisition, SunBelt's results are no longer included in earnings of non-consolidated affiliates but are consolidated in our accompanying financial statements.

ACQUISITION

On February 28, 2011, we acquired PolyOne's 50% interest in SunBelt for $132.3 million in cash plus the assumption of a PolyOne guarantee related to the SunBelt Notes. With this acquisition, Olin now owns 100% of SunBelt. The SunBelt chlor alkali plant, which is located within our McIntosh, AL facility, has approximately 350,000 tons of membrane technology capacity. We also agreed to a three year earn out, which has no guaranteed minimum or maximum, based on the performance of SunBelt. In addition, during the second quarter of 2011, we remitted to PolyOne $6.0 million, which represented 50% of distributable cash generated by SunBelt from January 1, 2011 through February 28, 2011.

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 semi-annually in arrears on each June 22 and December 22. 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 and of which $6.1 million is attributable to the Series G Notes. In conjunction with the acquisition, we consolidated the SunBelt Notes with a remaining principal balance of $85.3 million.

We have guaranteed the Series O Notes, and PolyOne, our former SunBelt partner, has guaranteed the Series G Notes, in both cases pursuant to customary guaranty agreements. We have agreed to indemnify PolyOne for any payments or other costs under the guarantee in favor of the purchasers of the Series G Notes, to the extent any payments or other costs arise from a default or other breach under the SunBelt Notes. 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.

From January 1, 2011 to February 28, 2011, we recorded $6.3 million of equity earnings of non-consolidated affiliates for our 50% ownership in SunBelt. The value of our investment in SunBelt was $(0.8) million. We remeasured our equity interest in SunBelt to fair value upon the close of the transaction. As a result, we recognized a pretax gain of $181.4 million, which was classified in other (expense) income in our condensed statement of income. In conjunction with this remeasurement, a discrete deferred tax expense of $76.0 million was recorded.

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 second quarter of 2011. The adjustments to the purchase price allocation from March 31, 2011 were primarily the result of finalizing estimates for intangible assets and goodwill. The following table summarizes the final allocation of the purchase price to SunBelt’s assets and liabilities:

	February 28, 2011 ($ in millions)	
Total current assets	$	37.6
Property, plant and equipment		87.4
Deferred income taxes		0.4
Other assets		5.8
Total assets acquired		131.2
Total current liabilities		42.7
Long-term debt		75.1
Other liabilities		27.6
Total liabilities assumed		145.4
Less: Investment in SunBelt		(0.8)
Net liabilities assumed		(13.4)
Liabilities for uncertainties		48.3
Gain on remeasurement of investment in SunBelt		(181.4)
Goodwill		327.1
Fair value of assets acquired	$	180.6

Included in total current assets are cash and cash equivalents of $8.9 million. Included in total current liabilities is $12.2 million of current installments of long-term debt.

Based on final valuations, we allocated $5.8 million of the purchase price to intangible assets relating to customers, customer contracts and relationships, which management estimates to have a useful life of fifteen years. These identifiable intangible assets were included in other assets. Based on final valuations, $327.1 million was assigned to goodwill. The preliminary value assigned to goodwill as of March 31, 2011 was $327.9 million. For tax purposes, $163.7 million of the goodwill is deductible. The goodwill represents the remeasurement of our previously held 50% equity interest in SunBelt and the benefits of the acquisition that are in addition to the fair values of the other net assets acquired. The primary reason for the acquisition and the principal factors that contributed to a SunBelt purchase price that resulted in the recognition of goodwill is the cost savings available from operating the business under a single owner and our ability to fully utilize SunBelt's low cost membrane capacity in lieu of higher cost diaphragm capacity. The cost saving opportunities include operational efficiencies in logistics, purchasing and manufacturing.

Goodwill recorded in the acquisition is 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.

For segment reporting purposes, SunBelt has been included in Chlor Alkali Products. The SunBelt results of operations have been included in our consolidated results for the period subsequent to the effective date of the acquisition. Our consolidated results for the three months ended September 30, 2011 included $58.9 million of SunBelt sales and $11.7 million of additional SunBelt pretax income ($14.4 million included in Chlor Alkali Products segment income; less $1.0 million of interest expense and $1.7 million of expense for our earn out liability). Our consolidated results for the nine months ended September 30, 2011 included $125.0 million of SunBelt sales and $23.2 million of additional SunBelt pretax income ($29.4 million included in Chlor Alkali Products segment income; less $0.8 million of acquisition costs, $2.8 million of interest expense and $2.6 million of expense for our earn out liability) on the 50% interest we acquired. The following pro forma summary presents the condensed statements of income as if the acquisition of SunBelt had occurred on January 1, 2010.

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2010	2011	2010
	($ in millions, except per share data)		
Sales	$ 484.4	$ 1,541.6	$ 1,321.1
Net income	44.9	121.9	86.4
Net income per common share:			
Basic	$ 0.57	$ 1.53	$ 1.09
Diluted	$ 0.56	$ 1.51	$ 1.08

The pro forma statements of income were prepared based on historical financial information and have 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 statements of income use 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 does not reflect any cost savings that might be achieved from operating the business under a single owner and 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:

- Elimination of the pretax gain resulting from the remeasurement of our previously held 50% equity interest in SunBelt, which is considered non-recurring ($181.4 million for the nine months ended September 30, 2011).
- Additional amortization expense related to the fair value of acquired identifiable intangible assets ($0.1 million for the three months ended September 30, 2010, and $0.1 million and $0.3 million for the nine months ended September 30, 2011 and 2010, respectively).
- Reduction of depreciation expense related to the fair value adjustment to property, plant and equipment ($1.4 million for the three months ended September 30, 2010, and $1.0 million and $4.3 million for the nine months ended September 30, 2011 and 2010, respectively).
- Reduction in interest expense as a result of increasing the carrying value of acquired debt obligations to its estimated fair value ($0.2 million for the three months ended September 30, 2010, and $0.1 million and $0.4 million for the nine months ended September 30, 2011 and 2010, respectively).
- Additional accretion expense for the earn out liability that was recorded as a result of the acquisition ($0.6 million for the three months ended September 30, 2010, and $0.4 million and $1.9 million for the nine months ended September 30, 2011 and 2010, respectively).
- Elimination of transaction costs incurred in 2011 that are directly related to the transaction, and do not have a continuing impact on our combined operating results ($0.8 million for the nine months ended September 30, 2011).

In addition, the pro forma data reflect the tax effect of all of the above adjustments. The pro forma tax provision for the nine months ended September 30, 2011 reflects a reduction of $76.0 million related to the elimination of the gain resulting from the remeasurement of our previously held 50% equity interest in SunBelt. The pro forma tax provision reflects an increase of $3.4 million for the three months ended September 30, 2010, and $2.3 million and $6.1 million for the nine months ended September 30, 2011 and 2010, respectively, associated with the incremental pretax income and the fair value adjustments for acquired intangible assets, property, plant and equipment and the SunBelt Notes, which reflects the marginal tax of the adjustments in the various jurisdictions where such adjustments occurred.

RESTRUCTURING CHARGES

On December 9, 2010, our board of directors approved a plan to convert the 260,000 tons of mercury cell capacity at our Charleston, TN facility to 200,000 tons of membrane capacity capable of producing both potassium hydroxide and caustic soda. The project has an estimated capital cost of approximately $160 million. 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. This action will reduce our chlor alkali manufacturing capacity by 100,000 tons. We based our decision to convert and reconfigure on several factors. First, during 2009 and 2010 we had experienced a steady increase in the number of customers unwilling to accept our products manufactured using mercury cell technology. Second, there was federal legislation that was passed in 2008 governing the treatment of mercury that significantly limits our recycling options after December 31, 2012. We concluded that exiting mercury cell technology production after 2012 represented an unacceptable future cost risk. Further, 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. The decision to reconfigure the Augusta, GA facility to manufacture bleach and distribute caustic soda removes the highest cost production capacity from our system. We currently expect to complete the conversion and reconfiguration by the end of 2012. We recorded a pretax restructuring charge of $28.0 million associated with these actions in the fourth quarter of 2010. The restructuring charge included write-off of equipment and facility costs of $17.5 million, acceleration of asset retirement obligations of $6.7 million, employee severance and related benefit costs of $2.8 million and lease and other contract termination costs of $1.0 million. For the three and nine months ended September 30, 2011, we recorded pretax restructuring charges of $2.0 million and $2.3 million, respectively, for employee severance and related benefit costs and facility exit costs. We expect to incur additional restructuring charges through 2014 of approximately $8 million related to the implementation of plans to exit the use of mercury cell technology in the chlor alkali manufacturing process.

On November 3, 2010, we announced that we made the decision to relocate the 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. Consistent with this decision we have initiated an estimated $110 million five-year project, which includes approximately $80 million of capital spending. The State of Mississippi and local governments have provided incentives which should offset approximately 40 percent of the capital spending. We recorded a pretax restructuring charge of $6.2 million associated with these actions in the fourth quarter of 2010. The restructuring charge included employee severance and related benefit costs of $3.2 million and a non-cash pension and other postretirement benefits curtailment charge of $3.0 million. For the three and nine months ended September 30, 2011, we recorded additional pretax restructuring charges of $2.1 million and $4.3 million, respectively, for employee severance and related benefits costs, a non-cash pension curtailment charge, employee relocation costs and facility exit costs. These restructuring charges related primarily to the second quarter 2011 ratification of a new five and one half year Winchester, East Alton, IL union labor agreement. We expect to incur additional restructuring charges through 2016 of approximately $18 million related to the transfer of these operations.

The following table summarizes the 2011 activity by major component of these restructuring actions and the remaining balances of accrued restructuring costs as of September 30, 2011:

	Employee severance and job related benefits	Pension and other postretirement benefits curtailment	Lease and other contract termination costs	Employee relocation costs	Facility exit costs	Total
	($ in millions)					
Balance at January 1, 2011	$ 6.0	$ —	$ 1.0	$ —	$ —	$ 7.0
2011 restructuring charges	3.7	1.1	—	1.3	0.5	6.6
Amounts utilized	(0.2)	(1.1)	(0.2)	(1.3)	(0.5)	(3.3)
Balance at September 30, 2011	$ 9.5	$ —	$ 0.8	$ —	$ —	$ 10.3

As of September 30, 2011, we have incurred cash expenditures of $2.2 million related to these restructuring actions. The majority of the remaining balance of $10.3 million is expected to be paid out in 2012 through 2016.

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:

	September 30,	
	2011	2010
	($ in millions)	
Balance at beginning of year	$ 4.8	$ 3.3
Provisions charged	0.8	0.2
(Write-offs) recoveries, net	(1.7)	0.1
Balance at end of period	$ 3.9	$ 3.6

Provisions charged (credited) to operations were $0.6 million and $(0.6) million for the three months ended September 30, 2011 and 2010, respectively.

INVENTORIES

Inventories consisted of the following:

	September 30, 2011	December 31, 2010	September 30, 2010
		($ in millions)	
Supplies	$ 32.8	$ 30.8	$ 29.3
Raw materials	69.8	56.5	59.8
Work in process	32.4	24.7	27.8
Finished goods	104.9	104.4	103.3
	239.9	216.4	220.2
LIFO reserve	(73.6)	(60.8)	(62.9)
Inventories, net	$ 166.3	$ 155.6	$ 157.3

In conjunction with the acquisition of SunBelt, we obtained inventories with a fair value of $4.0 million, as of February 28, 2011. 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 September 30, 2011, reflect certain estimates relating to inventory quantities and costs at December 31, 2011. If the first-in, first-out (FIFO) method of inventory accounting had been used, inventories would have been approximately $73.6 million, $60.8 million and $62.9 million higher than reported at September 30, 2011, December 31, 2010 and September 30, 2010, 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Computation of Income per Share	($ and shares in millions, except per share data)			
Net income	$ 47.2	$ 31.8	$ 223.0	$ 62.8
Basic shares	80.2	79.4	79.9	79.1
Basic net income per share	$ 0.59	$ 0.40	$ 2.79	$ 0.79
Diluted shares:				
Basic shares	80.2	79.4	79.9	79.1
Stock-based compensation	0.6	0.8	0.9	0.7
Diluted shares	80.8	80.2	80.8	79.8
Diluted net income per share	$ 0.58	$ 0.40	$ 2.76	$ 0.79

The computation of dilutive shares from stock-based compensation does not include 1.7 million shares and 1.3 million shares for the three months ended September 30, 2011 and September 30, 2010, respectively, and 0.9 million shares and 1.3 million shares for the nine months ended September 30, 2011 and 2010, respectively, as their effect would have been anti-dilutive.

ENVIRONMENTAL

We are party to various government and private environmental actions associated with past manufacturing facilities and former waste disposal sites. Charges to income for investigatory and remedial efforts were material to operating results in 2011 and 2010. The condensed balance sheets included reserves for future environmental expenditures to investigate and remediate known sites amounting to $164.6 million, $167.6 million and $170.5 million at September 30, 2011, December 31, 2010 and September 30, 2010, respectively, of which $136.6 million, $139.6 million and $146.5 million, respectively, were classified as other noncurrent liabilities.

Environmental provisions charged (credited) to income, which are included in cost of goods sold, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	($ in millions)			
Charges to income	$ 4.0	$ 8.6	$ 13.9	$ 14.7
Recoveries from third parties of costs incurred and expensed in prior periods	(1.5)	(0.2)	(11.0)	(5.6)
Total environmental expense	$ 2.5	$ 8.4	$ 2.9	$ 9.1

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.

COMMITMENTS AND CONTINGENCIES

We, and our subsidiaries, are defendants in various legal actions (including proceedings based on alleged exposures to asbestos) incidental to our past and current business activities. As of September 30, 2011, December 31, 2010 and September 30, 2010, our condensed balance sheets included liabilities for these legal actions of $16.1 million, $18.1 million and $18.9 million, respectively. These liabilities do not include costs associated with legal representation. Based on our analysis, and considering the inherent uncertainties associated with litigation, we do not believe that it is reasonably possible that these legal actions will materially adversely affect our financial position or results of operations in the near term.

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 Accounting Standards Codification (ASC) 450 “Contingencies” (ASC 450) and therefore do not record gain contingencies and recognize income until it is earned and realizable.

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SHAREHOLDERS' EQUITY

On July 21, 2011, our board of directors authorized a share repurchase program of up to 5 million shares of common stock that will terminate in three years for any of the remaining shares not yet repurchased. Since the date of authorization, 0.1 million shares were purchased and retired under this program at a cost of $2.2 million. As of September 30, 2011, we had purchased a total of 0.1 million shares under this program and 4.9 million shares remained authorized to be purchased.

We issued 0.5 million shares and 0.2 million shares representing stock options exercised for the nine months ended September 30, 2011 and 2010, respectively, with a total value of $9.3 million and $2.5 million, respectively. In addition, we issued 0.6 million shares with a total value of $10.2 million for the nine months ended September 30, 2010, in connection with our Contributing Employee Ownership Plan (CEOP). Effective September 23, 2010, our CEOP plan began to purchase shares in the open market in lieu of our issuing shares to satisfy the investment in our common stock resulting from employee contributions, our matching contributions, retirement contributions and re-invested dividends. Effective February 1, 2011, we reinstated the match on all salaried and certain non-bargained hourly employees' contributions, which had previously been suspended effective January 1, 2010.

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)	Pension and Postretirement Benefits (net of taxes)	Accumulated Other Comprehensive Loss
	($ in millions)			
Balance at January 1, 2010	$ (0.5)	$ 11.6	$ (259.3)	$ (248.2)
Unrealized losses	(0.6)	(0.8)	—	(1.4)
Reclassification adjustments into income	—	(4.1)	7.4	3.3
Balance at September 30, 2010	$ (1.1)	$ 6.7	$ (251.9)	$ (246.3)
Balance at January 1, 2011	$ 0.4	$ 11.6	$ (273.8)	$ (261.8)
Unrealized gains (losses)	2.3	(13.0)	—	(10.7)
Reclassification adjustments into income	—	(7.2)	9.1	1.9
Balance at September 30, 2011	$ 2.7	$ (8.6)	$ (264.7)	$ (270.6)

Pension and postretirement benefits (net of taxes) activity in other comprehensive loss included the amortization of prior service costs and actuarial losses.

Unrealized gains and losses on derivative contracts (net of taxes) activity in other comprehensive loss included a deferred tax provision (benefit) for the nine months ended September 30, 2011 and 2010 of $12.9 million and $(3.0) million, respectively. Pension and postretirement benefits (net of taxes) activity in other comprehensive loss included a deferred tax provision for the nine months ended September 30, 2011 and 2010 of $5.9 million and $4.5 million, respectively.

SEGMENT INFORMATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales:	($ in millions)			
Chlor Alkali Products	$ 386.1	$ 275.3	$ 1,065.8	$ 763.9
Winchester	164.1	157.5	449.5	436.6
Total sales	$ 550.2	$ 432.8	$ 1,515.3	$ 1,200.5
Income before taxes:				
Chlor Alkali Products	$ 76.7	$ 44.0	$ 194.7	$ 80.7
Winchester	13.1	18.8	37.4	59.4
Corporate/other:				
Pension income	6.9	7.0	20.8	18.2
Environmental expense	(2.5)	(8.4)	(2.9)	(9.1)
Other corporate and unallocated costs	(15.7)	(16.8)	(53.6)	(53.9)
Restructuring charges	(4.1)	—	(6.6)	—
Other operating income	4.3	0.3	5.9	2.6
Interest expense	(7.9)	(6.4)	(22.5)	(19.5)
Interest income	0.2	0.3	0.7	0.7
Other (expense) income	(1.6)	—	179.0	0.1
Income before taxes	$ 69.4	$ 38.8	$ 352.9	$ 79.2

STOCK-BASED COMPENSATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	($ in millions)			
Stock-based compensation	$ 1.9	$ 2.2	$ 6.7	$ 7.9
Mark-to-market adjustments	(2.0)	0.9	(1.2)	1.1