OLIN CORP
Form 10-Q
October 24, 2014

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, 2014
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, 2014, 78,194,324 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, 2014	December 31, 2013	September 30, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	$263.6	$307.8	$283.8
Receivables, net	333.4	280.1	343.8
Income tax receivable	4.3	1.9	4.0
Inventories	198.8	186.5	183.5
Current deferred income taxes	45.8	50.4	51.7
Other current assets	11.1	13.2	10.3
Total current assets	857.0	839.9	877.1
Property, plant and equipment (less accumulated depreciation of $1,324.6, $1,259.1 and $1,236.8)	936.4	987.8	991.7
Prepaid pension costs	1.6	1.7	2.1
Restricted cash	2.0	4.2	6.6
Deferred income taxes	11.2	9.0	8.4
Other assets	197.7	213.1	210.0
Goodwill	747.1	747.1	747.1
Total assets	$2,753.0	$2,802.8	$2,843.0
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current installments of long-term debt	$16.4	$12.6	$12.5
Accounts payable	165.5	148.7	170.4
Income taxes payable	0.5	1.7	0.8
Accrued liabilities	209.2	244.5	242.4
Total current liabilities	391.6	407.5	426.1
Long-term debt	672.7	678.4	690.5
Accrued pension liability	64.7	115.4	123.2
Deferred income taxes	139.0	117.6	134.3
Other liabilities	363.8	382.8	371.6
Total liabilities	1,631.8	1,701.7	1,745.7
Commitments and contingencies			
Shareholders' equity:			
Common stock, par value $1 per share: authorized, 120.0 shares; issued and outstanding 78.2, 79.4 and 79.6 shares	78.2	79.4	79.6
Additional paid-in capital	805.9	838.8	841.6
Accumulated other comprehensive loss	(356.4)	(365.1)	(363.1)
Retained earnings	593.5	548.0	539.2
Total shareholders' equity	1,121.2	1,101.1	1,097.3
Total liabilities and shareholders' equity	$2,753.0	$2,802.8	$2,843.0

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,	
	2014	2013	2014	2013
Sales	$593.6	$670.7	$1,741.4	$1,952.9
Operating expenses:				
Cost of goods sold	492.3	528.5	1,431.3	1,564.0
Selling and administration	42.8	36.5	128.5	134.3
Restructuring charges	1.2	1.6	4.5	4.1
Other operating (expense) income	—	(0.4)	0.8	1.3
Operating income	57.3	103.7	177.9	251.8
Earnings of non-consolidated affiliates	0.5	1.0	1.4	2.4
Interest expense	17.7	9.9	37.0	28.7
Interest income	0.2	0.1	0.9	0.3
Other (expense) income	—	(1.9)	0.1	(6.3)
Income from continuing operations before taxes	40.3	93.0	143.3	219.5
Income tax provision	14.2	23.3	51.1	65.6
Income from continuing operations	26.1	69.7	92.2	153.9
Income from discontinued operations, net	—	—	0.7	—
Net income	$26.1	$69.7	$92.9	$153.9
Net income per common share:				
Basic income per common share:				
Income from continuing operations	$0.33	$0.87	$1.17	$1.92
Income from discontinued operations, net	—	—	0.01	—
Net income	$0.33	$0.87	$1.18	$1.92
Diluted income per common share:				
Income from continuing operations	$0.33	$0.86	$1.15	$1.90
Income from discontinued operations, net	—	—	0.01	—
Net income	$0.33	$0.86	$1.16	$1.90
Dividends per common share	$0.20	$0.20	$0.60	$0.60
Average common shares outstanding:				
Basic	78.4	79.8	78.8	80.1
Diluted	79.5	80.8	80.0	81.1

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,	
	2014	2013	2014	2013
Net income	$26.1	$69.7	$92.9	$153.9
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(1.5)	0.4	(0.5)	(1.8)
Unrealized (losses) gains on derivative contracts	(2.0)	4.1	(2.3)	(5.3)
Amortization of prior service costs and actuarial losses	3.5	4.9	11.5	15.3
Total other comprehensive income, net of tax	—	9.4	8.7	8.2
Comprehensive income	$26.1	$79.1	$101.6	$162.1

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 Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares Issued	Par Value				
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
Balance at January 1, 2014	79.4	$79.4	$838.8	$(365.1)	$548.0	$1,101.1
Net income	—	—	—	—	92.9	92.9
Other comprehensive income	—	—	—	8.7	—	8.7
Dividends paid:						
Common stock ($0.60 per share)	—	—	—	—	(47.4)	(47.4)
Common stock repurchased and retired	(1.7)	(1.7)	(43.0)	—	—	(44.7)
Common stock issued for:						
Stock options exercised	0.4	0.4	8.2	—	—	8.6
Other transactions	0.1	0.1	1.9	—	—	2.0
Balance at September 30, 2014	78.2	$78.2	$805.9	$(356.4)	$593.5	$1,121.2

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)

	Nine Months Ended September 30,	
	2014	2013
Operating Activities		
Net income	$92.9	$153.9
Adjustments to reconcile net income to net cash and cash equivalents provided by (used for) operating activities:		
Earnings of non-consolidated affiliates	(1.4)	(2.4)
Gains on disposition of property, plant and equipment	(0.6)	(1.1)
Stock-based compensation	3.5	6.4
Depreciation and amortization	104.3	101.2
Deferred income taxes	17.9	27.9
Qualified pension plan contributions	(0.6)	(0.7)
Qualified pension plan income	(21.4)	(18.1)
Change in:		
Receivables	(46.7)	(44.8)
Income taxes receivable/payable	(10.2)	(2.6)
Inventories	(12.3)	11.6
Other current assets	0.9	2.4
Accounts payable and accrued liabilities	(12.0)	16.1
Other assets	5.1	2.5
Other noncurrent liabilities	(20.0)	(10.6)
Other operating activities	0.1	—
Net operating activities	99.5	241.7
Investing Activities		
Capital expenditures	(49.7)	(70.4)
Proceeds from sale/leaseback of equipment	—	35.8
Proceeds from disposition of property, plant and equipment	4.0	4.3
Distributions from affiliated companies, net	—	0.9
Restricted cash activity	2.2	5.3
Other investing activities	(0.5)	(1.8)
Net investing activities	(44.0)	(25.9)
Financing Activities		
Long-term debt:		
Borrowings	150.0	—
Repayments	(149.2)	(11.4)
Earn out payment – SunBelt	(14.8)	(17.1)
Common stock repurchased and retired	(44.7)	(28.8)
Stock options exercised	6.5	6.8
Excess tax benefits from stock-based compensation	1.1	1.4
Dividends paid	(47.4)	(48.1)
Deferred debt issuance costs	(1.2)	—
Net financing activities	(99.7)	(97.2)
Net (decrease) increase in cash and cash equivalents	(44.2)	118.6

Cash and cash equivalents, beginning of period	307.8	165.2
Cash and cash equivalents, end of period	$263.6	$283.8
Cash paid for interest and income taxes:		
Interest	$30.8	$31.3
Income taxes, net of refunds	$42.7	$43.1
Non-cash investing activities:		
Capital expenditures included in accounts payable and accrued liabilities	$3.6	$11.1

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

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

DESCRIPTION OF BUSINESS

Olin Corporation is a Virginia corporation, incorporated in 1892. We are a manufacturer concentrated in 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-six 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, 2013. Certain reclassifications were made to prior year amounts to conform to the 2014 presentation.

RESTRUCTURING CHARGES

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. 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 passed in 2008 governing the treatment of mercury that significantly limited 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 reduced the electricity usage per ECU produced by approximately 25%. The decision to reconfigure the Augusta, GA facility to manufacture bleach and distribute caustic soda removed the highest cost production capacity from our system. Mercury cell chlor alkali production at the Augusta, GA facility was discontinued at the end of September 2012 and the conversion at Charleston, TN was completed in the second half of 2012 with the successful start-up of two new membrane cell lines. These actions reduced our Chlor Alkali capacity by 160,000 tons. The completion of these projects eliminated our chlor alkali production using mercury cell technology. For the three months ended September 30, 2014 and 2013, we recorded pretax restructuring charges of $0.7 million and $1.3 million, respectively, for employee severance and related benefit costs, employee relocation costs, facility exit costs and lease and other contract termination costs related to these actions. For the nine months ended September 30, 2014 and 2013, we recorded pretax restructuring charges of $3.0 million and $2.7 million, respectively, for employee severance and

related benefit costs, employee relocation costs, facility exit costs, write-off of equipment and facility and lease and other contract termination costs related to these actions. We expect to incur additional restructuring charges through 2014 of less than $1 million related to exiting 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 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. The full amount of these grants were received in 2011. We currently expect to complete this relocation by the end of 2016. For the three months ended September 30, 2014 and 2013, we recorded pretax restructuring charges of $0.5 million and $0.3 million, respectively, for employee severance and related benefit costs, employee relocation costs and facility exit costs related to these actions. For the nine months ended September 30, 2014 and 2013, we recorded pretax restructuring charges of $1.5 million and $1.4 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 $3 million related to the transfer of these operations.

The following table summarizes the activity by major component of these 2010 restructuring actions and the remaining balances of accrued restructuring costs as of September 30, 2014:

	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, 2013	$13.5	$0.4	$—	$—	$—	$13.9
Restructuring charges (credits):						
First quarter	0.6	—	0.1	1.6	—	2.3
Second quarter	(0.7)	—	0.3	0.6	—	0.2
Third quarter	0.2	(0.4)	0.2	1.6	—	1.6
Amounts utilized	(2.8)	—	(0.6)	(3.8)	—	(7.2)
Balance at September 30, 2013	$10.8	$—	$—	$—	$—	$10.8
Balance at January 1, 2014	$10.2	$—	$—	$—	$—	$10.2
Restructuring charges:						
First quarter	0.2	—	0.1	0.7	—	1.0
Second quarter	1.2	—	—	0.8	0.3	2.3
Third quarter	0.5	—	0.3	0.4	—	1.2
Amounts utilized	(1.9)	—	(0.4)	(1.9)	(0.3)	(4.5)
Balance at September 30, 2014	$10.2	$—	$—	$—	$—	$10.2

The following table summarizes the cumulative restructuring charges of these 2010 restructuring actions by major component through September 30, 2014:

	Chlor Alkali Products	Winchester	Total
	($ in millions)		
Write-off of equipment and facility	$17.8	$—	$17.8
Employee severance and job related benefits	5.6	13.2	18.8
Facility exit costs	14.8	1.7	16.5
Pension and other postretirement benefits curtailment	—	4.1	4.1
Employee relocation costs	0.9	4.6	5.5
Lease and other contract termination costs	0.7	—	0.7
Total cumulative restructuring charges	$39.8	$23.6	$63.4

As of September 30, 2014, we have incurred cash expenditures of $24.6 million and non-cash charges of $28.6 million related to these restructuring actions. The remaining balance of $10.2 million is expected to be paid out through 2016.

DISCONTINUED OPERATIONS

In 2007 we sold our Metals business, which was a reportable segment, and accordingly it was reported as a discontinued operation. Metals produced and distributed copper and copper alloy sheet, strip, foil, rod, welded tube, fabricated parts, and stainless steel and aluminum strip. In conjunction with the sale of the Metals business, we retained certain assets and liabilities.

During the nine months ended September 30, 2014, we made a payment of $5.5 million to resolve certain indemnity obligations related to the sale. As a result of the favorable resolution, we recognized a pretax gain of $4.6 million included in income from discontinued operations. The tax provision from discontinued operations included expense of $2.2 million for changes in tax contingencies related to the Metals sale. Income from discontinued operations, net consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	($ in millions)			
Income from discontinued operations	$—	$—	$4.6	$—
Tax provision	—	—	3.9	—
Income from discontinued operations, net	$—	$—	$0.7	$—

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,	
	2014	2013
	($ in millions)	
Balance at beginning of year	$3.4	$3.6
Provisions charged	0.5	0.2
Write-offs, net of recoveries	(0.4)	(0.1)
Balance at end of period	$3.5	$3.7

Provisions credited to operations were $0.2 million for both the three months ended September 30, 2014 and 2013.

INVENTORIES

Inventories consisted of the following:

	September 30, 2014	December 31, 2013	September 30, 2013
	($ in millions)		
Supplies	$42.2	$40.5	$41.2
Raw materials	66.9	76.5	70.7
Work in process	35.5	26.4	28.1
Finished goods	130.5	115.9	117.3
	275.1	259.3	257.3
LIFO reserve	(76.3)	(72.8)	(73.8)
Inventories, net	$198.8	$186.5	$183.5

Inventories are valued at the lower of cost or market. The Chlor Alkali Products and Winchester segments inventory costs are determined principally by the dollar value last-in, first-out (LIFO) method of inventory accounting. The Chemical Distribution segment inventory costs are determined principally by the first-in, first-out (FIFO) 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, 2014 reflect certain estimates relating to inventory quantities and costs at December 31, 2014. The replacement cost of our inventories would have been approximately $76.3 million, $72.8 million and $73.8 million higher than reported at September 30, 2014, December 31, 2013 and September 30, 2013, respectively.

OTHER ASSETS

Included in other assets were the following:

	September 30, 2014	December 31, 2013	September 30, 2013
	($ in millions)		
Investments in non-consolidated affiliates	$23.0	$21.6	$30.8
Intangible assets (less accumulated amortization of $38.9, $28.0 and $24.4)	127.2	138.1	141.7
Deferred debt issuance costs	11.1	14.4	15.1
Income tax receivable	6.6	—	—
Interest rate swaps	4.1	5.9	6.5
Other	25.7	33.1	15.9
Other assets	$197.7	$213.1	$210.0

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,	
	2014	2013	2014	2013
Computation of Income per Share	($ and shares in millions, except per share data)			
Income from continuing operations	$26.1	$69.7	$92.2	$153.9
Income from discontinued operations, net	—	—	0.7	—
Net income	$26.1	$69.7	$92.9	$153.9
Basic shares	78.4	79.8	78.8	80.1
Basic income per share:				
Income from continuing operations	$0.33	$0.87	$1.17	$1.92
Income from discontinued operations, net	—	—	0.01	—
Net income	$0.33	$0.87	$1.18	$1.92
Diluted shares:				
Basic shares	78.4	79.8	78.8	80.1
Stock-based compensation	1.1	1.0	1.2	1.0
Diluted shares	79.5	80.8	80.0	81.1
Diluted income per share:				
Income from continuing operations	$0.33	$0.86	$1.15	$1.90
Income from discontinued operations, net	—	—	0.01	—
Net income	$0.33	$0.86	$1.16	$1.90

The computation of dilutive shares from stock-based compensation does not include 0.6 million shares and 0.9 million shares for the three months ended September 30, 2014 and 2013, respectively, and 0.6 million shares and 1.4 million shares for the nine months ended September 30, 2014 and 2013, 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 2014 and 2013. The condensed balance sheets included reserves for future environmental expenditures to investigate and remediate known sites amounting to $139.7 million, $144.6 million and $143.0 million at September 30, 2014, December 31, 2013 and September 30, 2013, respectively, of which $121.7 million, $126.6 million and $122.0 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,	
	2014	2013	2014	2013
	($ in millions)			
Charges to income	$1.6	$2.0	$6.3	$6.2
Recoveries from third parties of costs incurred and expensed in prior periods	—	(1.3)	—	(1.3)

Total environmental expense	$1.6	$0.7	$6.3	$4.9

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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.

DEBT

In August 2014, we redeemed our $150.0 million 8.875% senior notes (2019 Notes), which would have matured on August 15, 2019. For the three months ended September 30, 2014, we recognized interest expense of $9.5 million for the call premium and the write-off of unamortized deferred debt issuance costs related to this action.

On June 24, 2014, we entered into a new five-year $415.0 million senior credit facility consisting of a $265.0 million senior revolving credit facility, which replaced our previous $265.0 million senior revolving credit facility, and a $150.0 million delayed-draw term loan facility. In August 2014, we drew the entire $150.0 million of the term loan and used the proceeds to redeem our 2019 Notes. The new senior credit facilities will expire in June 2019. The new $265.0 million senior revolving credit facility includes a $60.0 million letter of credit subfacility and the option to expand the facility by an additional $100.0 million. At September 30, 2014, we had $249.7 million available under our $265.0 million senior revolving credit facility because we had issued $15.3 million of letters of credit under the $60.0 million subfacility. The $150.0 million term loan facility includes amortization in equal quarterly installments at a rate of 2.5% annually for the first two years increasing to 5% for the remaining three years. The terms and conditions of the new senior credit facilities are similar to those of our previous $265.0 million senior revolving credit facility except the addition of annual installments on the term loan facility. Under the new senior credit facilities, we may select various floating rate borrowing options. The actual interest rate paid on borrowings under the senior credit facilities is based on a pricing grid which is dependent upon the leverage ratio as calculated under the terms of the facilities for the prior fiscal quarter. The facilities include various customary restrictive covenants, including restrictions related to the ratio of debt to earnings before interest expense, taxes, depreciation and amortization (leverage ratio) and the ratio of earnings before interest expense, taxes, depreciation and amortization to interest expense (coverage ratio). Compliance with these covenants is determined quarterly based on the operating cash flows for the last four quarters. We were in compliance with all covenants and restrictions under all our outstanding credit agreements as of September 30, 2014 and 2013, and December 31, 2013, and no event of default had occurred that would permit the lenders under our outstanding credit agreements to accelerate the debt if not cured. As of September 30, 2014, there were no covenants or other restrictions that limited our ability to borrow.

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, 2014, December 31, 2013 and September 30, 2013, our condensed balance sheets included liabilities for these legal actions of $22.6 million, $19.3 million and $16.7 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, cash flows or results of operations.

During the ordinary course of our business, contingencies arise resulting from an existing condition, situation or set of circumstances involving an uncertainty as to the realization of a possible gain contingency. In certain instances such as environmental projects, we are responsible for managing the cleanup and remediation of an environmental

site. There exists the possibility of recovering a portion of these costs from other parties. We account for gain contingencies in accordance with the provisions of Accounting Standards Codification (ASC) 450 "Contingencies" (ASC 450) and therefore do not record gain contingencies and recognize income until it is earned and realizable.

For the three months ended September 30, 2013, we recognized $11.0 million as a reduction to cost of goods sold related to a Chlor Alkali Products segment favorable contract settlement. Also for the three months ended September 30, 2013, we recognized $13.9 million as a reduction of selling and administration expenses related to the recovery of legacy legal costs.

SHAREHOLDERS' EQUITY

On April 24, 2014, our board of directors authorized a new share repurchase program for up to 8 million shares of common stock that will terminate in three years for any of the remaining shares not yet repurchased. This authorization replaced the July 2011 share repurchase program. For the nine months ended September 30, 2014 and 2013, 1.7 million and 1.2 million shares were purchased and retired at a cost of $44.7 million and $28.8 million, respectively. As of September 30, 2014, we had purchased a total of 1.1 million shares under the April 2014 program, and 6.9 million shares remained authorized to be purchased.

We issued 0.4 million shares representing stock options exercised for both the nine months ended September 30, 2014 and 2013 with a total value of $8.6 million and $7.6 million, respectively.

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, 2013	$2.1	$4.7	$(378.1)	$(371.3)
Unrealized gains (losses):				
First quarter	0.1	(4.1)	—	(4.0)
Second quarter	(2.3)	(4.3)	—	(6.6)
Third quarter	0.4	3.0	—	3.4
Reclassification adjustments into income:				
First quarter	—	(1.0)	5.2	4.2
Second quarter	—	—	5.2	5.2
Third quarter	—	1.1	4.9	6.0
Balance at September 30, 2013	$0.3	$(0.6)	$(362.8)	$(363.1)
Balance at January 1, 2014	$(0.5)	$0.9	$(365.5)	$(365.1)
Unrealized gains (losses):				
First quarter	0.7	(3.5)	—	(2.8)
Second quarter	0.3	4.1	—	4.4
Third quarter	(1.5)	(2.0)	—	(3.5)
Reclassification adjustments into income:				
First quarter	—	0.4	4.0	4.4
Second quarter	—	(1.3)	4.0	2.7
Third quarter	—	—	3.5	3.5
Balance at September 30, 2014	$(1.0)	$(1.4)	$(354.0)	$(356.4)

Net income and cost of goods sold included reclassification adjustments for realized gains and losses on derivative contracts from accumulated other comprehensive loss. Unrealized gains and losses on derivative contracts (net of taxes) activity in accumulated other comprehensive loss included deferred tax (benefits) provisions of $(1.3) million and $2.6 million for the three months ended September 30, 2014 and 2013, respectively, and $(1.5) million and $(3.4) million for the nine months ended September 30, 2014 and 2013, respectively.

Net income, cost of goods sold and selling and administrative expenses included the amortization of prior service costs and actuarial losses from accumulated other comprehensive loss. This amortization is recognized equally in cost of goods sold and selling and administrative expenses. Pension and postretirement benefits (net of taxes) activity in

accumulated other comprehensive loss included deferred tax provisions of $2.0 million and $3.2 million for the three months ended September 30, 2014 and 2013, respectively, and $7.3 million and $9.7 million for the nine months ended September 30, 2014 and 2013, respectively.

SEGMENT INFORMATION

We define segment results as income (loss) from continuing operations before interest expense, interest income, other operating (expense) income, other (expense) income and income taxes, and include the operating results of non-consolidated affiliates. Intersegment sales of $21.8 million and $18.5 million for the three months ended September 30, 2014 and 2013, respectively, and $67.2 million and $62.1 million for the nine months ended September 30, 2014 and 2013, respectively, have been eliminated. These represent the sale of caustic soda, bleach, potassium hydroxide and hydrochloric acid between Chemical Distribution and Chlor Alkali Products, at prices that approximate market.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Sales:	($ in millions)			
Chlor Alkali Products	$329.2	$374.2	$996.0	$1,090.1
Chemical Distribution	76.6	101.9	221.4	325.7
Winchester	209.6	213.1	591.2	599.2
Intersegment sales elimination	(21.8)	(18.5)	(67.2)	(62.1)
Total sales	$593.6	$670.7	$1,741.4	$1,952.9
Income (loss) from continuing operations before taxes:				
Chlor Alkali Products	$26.2	$64.4	$101.3	$173.1
Chemical Distribution	0.8	3.4	—	9.7
Winchester	38.5	40.7	109.9	109.1
Corporate/other:				
Pension income	8.8	7.3	24.2	20.0
Environmental expense	(1.6)	(0.7)	(6.3)	(4.9)
Other corporate and unallocated costs	(13.7)	(8.4)	(46.1)	(50.0)
Restructuring charges	(1.2)	(1.6)	(4.5)	(4.1)
Other operating (expense) income	—	(0.4)	0.8	1.3
Interest expense	(17.7)	(9.9)	(37.0)	(28.7)
Interest income	0.2	0.1	0.9	0.3
Other (expense) income	—	(1.9)	0.1	(6.3)
Income from continuing operations before taxes	$40.3	$93.0	$143.3	$219.5

STOCK-BASED COMPENSATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	($ in millions)			
Stock-based compensation	$1.8	$3.4	$6.8	$9.6
Mark-to-market adjustments	(0.8)	(0.7)	(1.9)	0.6
Total expense	$1.0	$2.7	$4.9	$10.2

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

Grant date	2014	2013
Dividend yield	3.13 %	3.44 %
Risk-free interest rate	2.13 %	1.35 %
Expected volatility	42 %	43 %
Expected life (years)	7.0	7.0
Grant fair value (per option)	$8.30	$7.05
Exercise price	$25.57	$23.28
Shares granted	589,000	621,000

Dividend yield for 2014 and 2013 was based on a historical average. Risk-free interest rate was based on zero coupon U.S. Treasury securities rates for the expected life of the options. Expected volatility was based on our historical stock price movements, as we believe that historical experience is the best available indicator of the expected volatility. Expected life of the option grant was based on historical exercise and cancellation patterns, as we believe that historical experience is the best estimate of future exercise patterns.

PENSION PLANS AND RETIREMENT BENEFITS

Most of our employees participate in defined contribution pension plans. We provide a contribution to an individual retirement contribution account maintained with the Contributing Employee Ownership Plan (CEOP) primarily equal to 5% of the employee’s eligible compensation if such employee is less than age 45, and 7.5% of the employee’s eligible compensation if such employee is age 45 or older. The defined contribution pension plans expense was $4.2 million and $4.0 million for the three months ended September 30, 2014 and 2013, respectively, and $12.6 million and $11.8 million for the nine months ended September 30, 2014 and 2013, respectively.

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

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

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2014	2013	2014	2013
Components of Net Periodic Benefit (Income) Cost	($ in millions)			
Service cost	$1.3	$1.6	$0.2	$0.3
Interest cost	21.5	20.2	0.5	0.6
Expected return on plans' assets	(34.8)	(34.4)	—	—
Amortization of prior service cost	—	—	—	—
Recognized actuarial loss	5.4	7.4	0.1	0.7
Net periodic benefit (income) cost	$(6.6)	$(5.2)	$0.8	$1.6

	Pension Benefits		Other Postretirement Benefits	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Components of Net Periodic Benefit (Income) Cost	($ in millions)			
Service cost	$4.0	$4.7	$0.8	$1.0
Interest cost	64.9	60.9	2.0	2.0
Expected return on plans' assets	(104.6)	(103.2)	—	—
Amortization of prior service cost	0.1	0.1	(0.1)	(0.1)
Recognized actuarial loss	16.7	22.2	2.1	2.8
Net periodic benefit (income) cost	$(18.9)	$(15.3)	$4.8	$5.7

We made cash contributions to our Canadian qualified defined benefit pension plan of $0.6 million and $0.7 million for the nine months ended September 30, 2014 and 2013, respectively.

As part of the acquisition of K. A. Steel Chemicals Inc. (KA Steel), as of September 30, 2014, we have recorded a contingent liability of $9.0 million for the withdrawal from a multi-employer defined benefit pension plan.

INCOME TAXES

The following table accounts for the difference between the actual tax provision and the amounts obtained by applying the statutory U.S. federal income tax rate of 35.0% to income from continuing operations before taxes.

Effective Tax Rate Reconciliation (Percent)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Statutory federal tax rate	35.0 %	35.0 %	35.0 %	35.0 %
Foreign rate differential	(0.2)	(0.1)	(0.2)	(0.1)
Domestic manufacturing/export tax incentive	(1.7)	(0.9)	(2.1)	(1.0)
Dividends paid to CEOP	(0.6)	(0.4)	(0.4)	(0.4)
Return to provision	(0.3)	(0.1)	(0.8)	—
State income taxes, net	1.7	2.1	2.0	2.2
Change in valuation allowance	1.0	1.2	1.7	(1.0)
Change in tax contingencies	0.8	(9.5)	—	(4.1)
Section 41 research credit	—	(2.1)	—	(0.9)
Remeasurement of deferred taxes	—	0.2	0.3	0.1
Other, net	(0.5)	(0.3)	0.2	0.1
Effective tax rate	35.2 %	25.1 %	35.7 %	29.9 %

The effective tax rates from continuing operations for the three months ended September 30, 2014 and 2013 included the cumulative effect of changes to our annual estimated effective tax rate from continuing operations from prior quarters.

The effective tax rate from continuing operations for the nine months ended September 30, 2014 included a benefit of $1.2 million associated with return to provision adjustments for the finalization of our 2013 U.S. federal and state income tax returns. The effective tax rate from continuing operations for the nine months ended September 30, 2014 also included $1.6 million of expense primarily associated with increases in valuation allowances on certain state tax credit carryforwards associated with a change in a state tax law and $0.5 million of expense related to the remeasurement of deferred taxes due to an increase in state effective tax rates.

The effective tax rates from continuing operations for both the three and nine months ended September 30, 2013 included a benefit of $8.8 million and $9.1 million, respectively, primarily associated with decreases in unrecognized tax benefits due to the expiration of federal and state statutes of limitation. The effective tax rates from continuing operations for both the three and nine months ended September 30, 2013 included a benefit of $1.9 million associated with the Research Credit under Section 41 of the Internal Revenue Code (Research Credit) that was claimed on our 2011 and 2012 U.S. federal income tax returns. The effective tax rate from continuing operations for the nine months ended September 30, 2013 included a benefit of $3.4 million associated with the reduction of valuation allowance against certain capital loss carryforwards that we believe are more likely than not to be realized in future periods.

At September 30, 2014, the condensed balance sheet includes $6.6 million of income tax receivables that are classified as other noncurrent assets.

As of September 30, 2014, we had $36.5 million of gross unrecognized tax benefits, which would have a net $34.8 million impact on the effective tax rate from continuing operations, if recognized. As of September 30, 2013, we had $34.9 million of gross unrecognized tax benefits, of which $32.1 million would have impacted the effective tax rate from continuing operations, if recognized. The amount of unrecognized tax benefits was as follows:

	September 30,	
	2014	2013
	($ in millions)	
Balance at beginning of year	$34.5	$40.1
Increases for prior year tax positions	0.2	3.2
Decreases for prior year tax positions	(0.2)	(8.4)
Increases for current year tax positions	2.2	—
Settlement with taxing authorities	(0.2)	—
Balance at end of period	$36.5	$34.9

Income from discontinued operations, net for the nine months ended September 30, 2014, included $2.2 million of tax expense related to changes in tax contingencies.

As of September 30, 2014, we believe it is reasonably possible that our total amount of unrecognized tax benefits will decrease by approximately $7.2 million over the next twelve months. The anticipated reduction primarily relates to settlements with taxing authorities and the expiration of federal, state and foreign statutes of limitation.

We operate primarily in North America and file income tax returns in numerous jurisdictions. Our tax returns are subject to examination by various federal, state and local tax authorities. Our U.S. federal income tax returns are under examination by the Internal Revenue Service (IRS) for tax years 2008, 2010 and 2011. Our Canadian federal income tax returns are under examination by Canada Revenue Authority (CRA) for tax years 2010 and 2011. Our Canadian provincial income tax returns are under examination by Quebec Revenue Authority for tax years 2008 to 2011. We believe we have adequately provided for all tax positions; however, amounts asserted by taxing authorities could be greater than our accrued positions. For our primary tax jurisdictions, the tax years that remain subject to examination are as follows:

	Tax Years
U.S. federal income tax	2008; 2010 – 2013
U.S. state income tax	2006 – 2013
Canadian federal income tax	2010 – 2013
Canadian provincial income tax	2008 – 2013

DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to market risk in the normal course of our business operations due to our purchases of certain commodities, our ongoing investing and financing activities and our operations that use foreign currencies. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. We have established policies and procedures governing our management of market risks and the use of financial instruments to manage exposure to such risks. ASC 815 “Derivatives and Hedging” (ASC 815) requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. We use hedge accounting treatment for substantially all of our business transactions whose risks are covered using derivative instruments. In accordance with ASC 815, we designate commodity forward contracts as cash flow hedges of forecasted purchases of commodities and certain interest rate swaps as fair value hedges of fixed-rate borrowings. We do not enter into any derivative instruments for trading or speculative purposes.

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

In March 2010, we entered into interest rate swaps on $125 million of our underlying fixed-rate debt obligations, whereby we agreed to pay variable rates to a counterparty who, in turn, pays us fixed rates. The counterparty to these agreements is Citibank, N.A. (Citibank), a major financial institution. In October 2011, we entered into $125 million of interest rate swaps with equal and opposite terms as the $125 million variable interest rate swaps on the 6.75% senior notes due 2016 (2016 Notes). We have agreed to pay a fixed rate to a counterparty who, in turn, pays us variable rates. The counterparty to these agreements is also Citibank. The result was a gain of $11.0 million on the $125 million variable interest rate swaps, which will be recognized through 2016. As of September 30, 2014, $4.3 million of this gain was included in long-term debt. In October 2011, we de-designated our $125 million interest rate swaps that had previously been designated as fair value hedges. The $125 million variable interest rate swaps and the $125 million fixed interest rate swaps do not meet the criteria for hedge accounting. All changes in the fair value of these interest rate swaps are recorded currently in earnings.

Cash flow hedges

ASC 815 requires that all derivative instruments be recorded on the balance sheet at their fair value. For derivative instruments that are designated and qualify as a cash flow hedge, the change in fair value of the derivative is recognized as a component of other comprehensive income until the hedged item is recognized in earnings. Gains and losses on the derivatives representing hedge ineffectiveness are recognized currently in earnings.

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

	September 30, 2014	December 31, 2013	September 30, 2013
	($ in millions)		
Copper	$56.2	$45.3	$58.3
Zinc	5.9	4.5	5.8
Lead	16.4	22.8	28.8
Natural gas	7.4	5.5	7.4

As of September 30, 2014, the counterparty to $55.7 million of these commodity forward contracts is Wells Fargo Bank, N.A. (Wells Fargo), a major financial institution, and the counterparty to $30.2 million of these commodity forward contracts is Citibank, a major financial institution.

We use cash flow hedges for certain raw material and energy costs such as copper, zinc, lead, electricity and natural gas to provide a measure of stability in managing our exposure to price fluctuations associated with forecasted purchases of raw materials and energy used in the company's manufacturing process. At September 30, 2014, we had open positions in futures contracts through 2018. If all open futures contracts had been settled on September 30, 2014, we would have recognized a pretax loss of $2.6 million.

If commodity prices were to remain at September 30, 2014 levels, approximately $0.9 million of deferred losses would be reclassified into earnings during the next twelve months. The actual effect on earnings will be dependent on actual commodity prices when the forecasted transactions occur.

Fair value hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. We include the gain or loss on the hedged items (fixed-rate borrowings) in the same line item, interest expense, as the offsetting loss or gain on the related interest rate swaps. We had no interest rate swaps designated as

fair value hedges as of September 30, 2014, December 31, 2013 and September 30, 2013.

In June 2012, we terminated $73.1 million of interest rate swaps with Wells Fargo that had been entered into on the SunBelt Notes in May 2011. The result was a gain of $2.2 million, which will be recognized through 2017. As of September 30, 2014, $0.9 million of this gain was included in long-term debt. Pursuant to a note purchase agreement dated December 22, 1997, the SunBelt Chlor Alkali Partnership (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.

We use interest rate swaps as a means of managing interest expense and floating interest rate exposure to optimal levels. These interest rate swaps are treated as fair value hedges. The accounting for gains and losses associated with changes in fair value of the derivative and the effect on the condensed financial statements will depend on the hedge designation and whether the hedge is effective in offsetting changes in fair value of cash flows of the asset or liability being hedged.

Financial statement impacts

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

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

	Asset Derivatives				Liability Derivatives			
		Fair Value				Fair Value		
Derivatives Designated as Hedging Instruments	Balance Sheet Location	September 30, 2014	December 31, 2013	September 30, 2013	Balance Sheet Location	September 30, 2014	December 31, 2013	September 30, 2013
		($ in millions)				($ in millions)		
Interest rate contracts	Other assets	$—	$ —	$ —	Long-term debt	$5.2	$7.3	$ 8.1
Commodity contracts – losses	Other current assets	—	(2.4)	—	Accrued liabilities	3.7	—	4.0
Commodity contracts – gains	Other current assets	—	3.6	—	Accrued liabilities	(1.1)	—	(2.9)
		$—	$ 1.2	$ —		$7.8	$7.3	$ 9.2
Derivatives Not Designated as Hedging Instruments								
Interest rate contracts – gains	Other assets	$4.9	$ 7.6	$ 8.4	Other liabilities	$—	$—	$ —
Interest rate contracts – losses	Other assets	(0.8)	(1.7)	(1.9)	Other liabilities	—	—	—
Commodity contracts – losses	Other current assets	—	(0.1)	—	Accrued liabilities	0.5	—	0.4
		—	0.2	—		—	—	—

Commodity contracts – gains	Other current assets				Accrued liabilities			
		$4.1	$ 6.0	$ 6.5		$0.5	$—	$ 0.4
Total derivatives[(1)]		$4.1	$ 7.2	$ 6.5		$8.3	$7.3	$ 9.6

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

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The following table summarizes the effects of derivative instruments on our condensed statements of income:

	Location of Gain (Loss)	Amount of Gain (Loss) Three Months Ended September 30, 2014	2013	Amount of Gain (Loss) Nine Months Ended September 30, 2014	2013
Derivatives – Cash Flow Hedges		($ in millions)			
Recognized in other comprehensive loss (effective portion)	———	$(3.2)	$4.9	$(5.2)	$(8.8)
Reclassified from accumulated other comprehensive loss into income (effective portion)	Cost of goods sold	$0.1	$(1.8)	$(1.4)	$(0.1)
Derivatives – Fair Value Hedges					
Interest rate contracts	Interest expense	$0.8	$0.8	$2.2	$2.2
Derivatives Not Designated as Hedging Instruments					
Commodity contracts	Cost of goods sold	$(0.7)	$(0.1)	$(0.1)	$—

Credit risk and collateral

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

Based on the agreements with our various counterparties, cash collateral is required to be provided when the net fair value of the derivatives, with the counterparty, exceed a specific threshold. If the threshold is exceeded, cash is either provided by the counterparty to us if the value of the derivatives is our asset, or cash is provided by us to the counterparty if the value of the derivatives is our liability. As of September 30, 2014, December 31, 2013 and September 30, 2013, this threshold was not exceeded. In all instances where we are party to a master netting agreement, we offset the receivable or payable recognized upon payment of cash collateral against the fair value amounts recognized for derivative instruments that have also been offset under such master netting agreements.

FAIR VALUE MEASUREMENTS

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

Assets and liabilities recorded at fair value in the condensed balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 "Fair Value Measurements and Disclosures" (ASC 820) are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, and are as follows:

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

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

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

We are required to separately disclose assets and liabilities measured at fair value on a recurring basis, from those measured at fair value on a nonrecurring basis. Nonfinancial assets measured at fair value on a nonrecurring basis are intangible assets and goodwill, which are reviewed annually in the fourth quarter and/or when circumstances or other events indicate that impairment may have occurred.

Determining which hierarchical level an asset or liability falls within requires significant judgment. We evaluate our hierarchy disclosures each quarter. The following table summarizes the assets and liabilities measured at fair value in the condensed balance sheets:

	Fair Value Measurements			
Balance at September 30, 2014	Level 1	Level 2	Level 3	Total
Assets	($ in millions)			
Interest rate swaps	$—	$4.1	$—	$4.1
Liabilities				
Interest rate swaps	$—	$5.2	$—	$5.2
Commodity forward contracts	—	3.1	—	3.1
Balance at December 31, 2013				
Assets				
Interest rate swaps	$—	$5.9	$—	$5.9
Commodity forward contracts	—	1.3	—	1.3
Liabilities				
Interest rate swaps	$—	$7.3	$—	$7.3
Earn out	—	—	26.7	26.7
Balance at September 30, 2013				
Assets				
Interest rate swaps	$—	$6.5	$—	$6.5
Liabilities				
Interest rate swaps	$—	$8.1	$—	$8.1
Commodity forward contracts	—	1.5	—	1.5
Earn out	—	—	25.2	25.2

For the nine months ended September 30, 2014, there were no transfers into or out of Level 1 and Level 2.

The following table summarizes the activity for our earn out liability measured at fair value using Level 3 inputs:

	September 30,	
	2014	2013
	($ in millions)	
Balance at beginning of year	$26.7	$42.0
Settlements	(26.7)	(23.2)
Unrealized losses included in other (expense) income	—	6.4
Balance at end of period	$—	$25.2

Interest Rate Swaps

The fair value of the interest rate swaps was included in other assets and long-term debt as of September 30, 2014, December 31, 2013 and September 30, 2013. These financial instruments were valued using the "income approach" valuation technique. This method used valuation techniques to convert future amounts to a single present amount. The measurement was based on the value indicated by current market expectations about those future amounts. We use interest rate swaps as a means of managing interest expense and floating interest rate exposure to optimal levels.

Commodity Forward Contracts

The fair value of the commodity forward contracts was classified in other current assets and accrued liabilities as of September 30, 2014, December 31, 2013 and September 30, 2013, with unrealized gains and losses included in accumulated other comprehensive loss, net of applicable taxes. These financial instruments were valued primarily based on prices and other relevant information observable in market transactions involving identical or comparable assets or liabilities including both forward and spot prices for commodities. We use commodity forward contracts for certain raw materials and energy costs such as copper, zinc, lead, electricity and natural gas to provide a measure of stability in managing our exposure to price fluctuations.

Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments. The fair value of our long-term debt was determined based on current market rates for debt of similar risk and maturities. The following table summarizes the fair value measurements of debt and the actual debt recorded on our condensed balance sheets:

	Fair Value Measurements				Amount recorded on balance sheets
	Level 1	Level 2	Level 3	Total	
	($ in millions)				
Balance at September 30, 2014	$—	$551.4	$153.0	$704.4	$689.1
Balance at December 31, 2013	—	561.4	153.0	714.4	691.0
Balance at September 30, 2013	—	575.6	153.0	728.6	703.0

Earn Out

The fair value of the earn out associated with the SunBelt acquisition was estimated using a probability-weighted discounted cash flow model. This fair value measurement was based on significant inputs not observed in the market. Key assumptions used in determining the fair value of the earn out included the discount rate and cash flow projections.

During the nine months ended September 30, 2014 and 2013, we paid $26.7 million and $23.2 million, respectively, for the earn out related to the 2013 and 2012 SunBelt performance. The earn out payments for the nine months ended September 30, 2014 and 2013 included $14.8 million and $17.1 million, respectively, that were recognized as part of the original purchase price. The $14.8 million and $17.1 million are included as a financing activity in the statement of cash flows.

Nonrecurring Fair Value Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, we record assets and liabilities at fair value on a nonrecurring basis as required by ASC 820. There were no assets measured at fair value on a nonrecurring basis as of September 30, 2014, December 31, 2013 and September 30, 2013.

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

Business Background

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

Executive Summary

Chlor Alkali Products' segment income was $26.2 million and $101.3 million for the three and nine months ended September 30, 2014, respectively. Chlor Alkali Products' segment income was lower than the comparable periods in the prior year primarily as a result of lower product prices, predominantly caustic soda, and decreased chlorine and caustic soda volumes. Our operating rate for the three months ended September 30, 2014 was 78%, which was lower than the third quarter of 2013 level of 86%. The lower operating rate for the three months ended September 30, 2014 was affected by customer outages and planned and unplanned maintenance outages at our facilities and lower demand.

Third quarter of 2014 ECU netbacks were approximately $505, 11% lower than the third quarter of 2013 ECU netbacks of approximately $570 and 1% lower than the second quarter of 2014 ECU netbacks of approximately $510. The decrease from the third quarter of 2013 was due to both lower chlorine and caustic soda prices. ECU netbacks in the fourth quarter of 2014 are forecast to be slightly lower than the third quarter of 2014 as a result of lower caustic soda prices. In the third quarter of 2014, we announced a caustic soda price increase of $30 per ton. While the success of this price increase is not yet known, the majority of the benefit, if realized, would impact first quarter of 2015 results. The announced second quarter caustic soda price increase of $60 per ton was not successful.

Chemical Distribution segment income was $0.8 million and breakeven for the three and nine months ended September 30, 2014, respectively. Chemical Distribution segment income was lower than the comparable periods in the prior year primarily due to decreased caustic soda volumes. Depreciation and amortization expense included in segment income of $4.0 million and $3.8 million for the three months ended September 30, 2014 and 2013, respectively, and $11.9 million and $11.5 million for the nine months ended September 30, 2014 and 2013, respectively, were associated with the acquisition fair valuing of KA Steel.

Winchester segment income was $38.5 million and $109.9 million for the three and nine months ended September 30, 2014, respectively. Winchester third quarter segment income declined compared to the third quarter last year which reflects a lower level of demand for shotshell and rifle ammunition. Winchester segment income for the nine months ended September 30, 2014 was higher than the comparable period last year and reflects the highest segment income in the first nine months of a year in at least the last two decades. Winchester continues to see strong commercial demand which began in the fourth quarter of 2012, especially for pistol and rimfire ammunition.

Income from discontinued operations, net for the nine months ended September 30, 2014, included an after tax gain of $0.7 million ($4.6 million pretax) for the favorable resolution of certain indemnity obligations related to our Metals business sold in 2007.

In August 2014, we redeemed our 2019 Notes, which would have matured on August 15, 2019. For the three months ended September 30, 2014, we recognized interest expense of $9.5 million for the call premium and the write-off of unamortized deferred debt issuance costs related to this action. We anticipate interest expense savings of approximately $10 million during the first year after the redemption of these notes.

On June 24, 2014, we entered into a new five-year $415.0 million senior credit facility consisting of a $265.0 million senior revolving credit facility, which replaced our previous $265.0 million senior revolving credit facility, and a $150.0 million delayed-draw term loan facility. In August 2014, we drew the entire $150.0 million of the term loan and used the proceeds to redeem our 2019 Notes. The new senior credit facilities will expire in June 2019.

Consolidated Results of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	($ in millions, except per share data)			
Sales	$593.6	$670.7	$1,741.4	$1,952.9
Cost of goods sold	492.3	528.5	1,431.3	1,564.0
Gross margin	101.3	142.2	310.1	388.9
Selling and administration	42.8	36.5	128.5	134.3
Restructuring charges	1.2	1.6	4.5	4.1
Other operating (expense) income	—	(0.4)	0.8	1.3
Operating income	57.3	103.7	177.9	251.8
Earnings of non-consolidated affiliates	0.5	1.0	1.4	2.4
Interest expense	17.7	9.9	37.0	28.7
Interest income	0.2	0.1	0.9	0.3
Other (expense) income	—	(1.9)	0.1	(6.3)
Income from continuing operations before taxes	40.3	93.0	143.3	219.5
Income tax provision	14.2	23.3	51.1	65.6
Income from continuing operations	26.1	69.7	92.2	153.9
Income from discontinued operations, net	—	—	0.7	—
Net Income	$26.1	$69.7	$92.9	$153.9
Net income per common share:				