OLIN CORP
Form 10-K
February 27, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 1-1070

OLIN CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large Accelerated Filer x Accelerated Filer ¨ Non-accelerated Filer ¨

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes ¨ No x

As of June 30, 2006, the aggregate market value of registrant s common stock, par value $1 per share, held by non-affiliates of registrant was approximately $1,296,497,600 based on the closing sale price as reported on the New York Stock Exchange.

As of January 31, 2007, 73,487,596 shares of the registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference in this Form 10-K

as indicated herein:

Document	Part of 10-K into which incorporated
Proxy Statement relating to Olin s 2007 Annual Meeting of Shareholders to be held on April 26, 2007	Part II, Part III

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PART I

Item 1. BUSINESS

GENERAL

Olin Corporation is a Virginia corporation, incorporated in 1892, having its principal executive offices in Clayton, MO. We are a manufacturer concentrated in three business segments: Chlor Alkali Products, Metals and Winchester®. Chlor Alkali Products manufactures and sells chlorine and caustic soda, sodium hydrosulfite, hydrochloric acid, hydrogen, bleach products and potassium hydroxide, which represent 21% of 2006 sales. Metals products, which represent 67% of 2006 sales, include copper and copper alloy sheet, strip, foil, rod, welded tube, fabricated parts and stainless steel and aluminum strip. Winchester products, which represent 12% of 2006 sales, include sporting ammunition, canister powder, reloading components, small caliber military ammunition and components, and industrial cartridges. See our discussion of our segment disclosures contained in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

GOVERNANCE

We maintain an Internet website at www.olin.com. Our reports on Form 10-K, Form 10-Q, and Form 8-K, as well as amendments to those reports, are available free of charge on our website, as soon as reasonably practicable after we file the reports with the Securities and Exchange Commission (SEC). Additionally, a copy of our SEC filings can be obtained at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330. Also, a copy of our electronically filed materials can be obtained at www.sec.gov. Our Principles of Corporate Governance, Committee Charters and Code of Business Conduct are available in the Corporate Governance section of the Investor section of our website at www.olin.com or from the Company by writing to: George Pain, Vice President, General Counsel and Secretary, Olin Corporation, 190 Carondelet Plaza, Suite 1530, Clayton, MO 63105.

In May 2006, our Chief Executive Officer executed the annual Section 303A.12(a) CEO Certification required by the New York Stock Exchange (NYSE), certifying that he was not aware of any violation of the NYSE s corporate governance listing standards by Olin. Additionally, our Chief Executive Officer and Chief Financial Officer executed the required Sarbanes-Oxley Act of 2002 (SOX) Sections 302 and 906 certifications relating to this Annual Report on Form 10-K, which are filed with the SEC as exhibits to this Annual Report on Form 10-K.

PRODUCTS, SERVICES AND STRATEGIES

Chlor Alkali Products

Products and Services

We have been involved in the U.S. chlor alkali industry for more than 100 years and are a major participant in the U.S. chlor alkali market. Chlorine and caustic soda are co-produced commercially primarily by the electrolysis of salt. These co-products are produced simultaneously, and in a fixed ratio of 1.0 ton of chlorine to 1.1 tons of caustic soda. The industry refers to this as an Electrochemical Unit or ECU. With a demonstrated capacity as of the end of 2006 of 1.23 million ECUs per year, including 50% of the production from our partnership with PolyOne Corporation, which we refer to as our SunBelt joint venture, we are the fourth largest chlor alkali producer in the United States, according to data from Chemical Market Associates, Inc. (CMAI). CMAI is a global petrochemical, plastics and fibers consulting firm established in 1979. According to CMAI data, we are the largest producer measured by production volume of chlorine and caustic soda in the eastern United States, with facilities located in McIntosh, AL, Charleston, TN, Augusta, GA, and Niagara Falls, NY. Since transportation costs can be a significant part of the final cost of the product to the customer, our close proximity to our caustic customers is an advantage. Approximately 60% of our caustic soda production is high purity membrane and rayon grade, which, according to CMAI data, normally commands a premium selling price in the market.

Our manufacturing facilities in Augusta, McIntosh, Charleston, and a portion of our facility in Niagara Falls are ISO 9001:2000 certified. ISO 9000 (which includes ISO 9001 and ISO 9002) and ISO 14000 (which includes ISO 14001) are sets of related international standards on quality assurance and environmental management developed by the International Organization for Standardization to help companies effectively document the quality and environmental management system elements to be implemented to maintain effective quality and environmental management systems. All four of these manufacturing facilities have also achieved Star status in the Voluntary Protection Program (VPP) of the Occupational Safety and Health Administration (OSHA). OSHA s VPP is a program in which companies voluntarily participate that recognizes facilities for their exemplary safety and health programs. In 2006, Chlor Alkali successfully completed the effort to obtain accreditation under the RC 14001 Responsible Care® standard. All of our Chlor Alkali manufacturing sites and the division headquarters are certified to this comprehensive integrated management system. Supported by the chemical industry and recognized by government and regulatory agencies, RC14001 establishes requirements for the management of safety, health, environmental, security, transportation, product stewardship, and stakeholder engagement activities for the business.

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

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

The chlor alkali industry is cyclical, both as a result of changes in demand for each of the co-products and as a result of the large increments in which new capacity is added. Because chlorine and caustic are produced in a fixed ratio, the supply of one product can be constrained both by the physical capacity of the production facilities and/or by the ability to sell the co-product. Prices for both products respond rapidly to changes in supply and demand. Our ECU netbacks (defined as gross selling price less freight and discounts) averaged approximately $575 per ECU in the first half of 2006 and then decreased, with fourth quarter 2006 netbacks averaging approximately $520 per ECU.

Electricity and salt are the major purchased raw materials for our Chlor Alkali Products segment. Raw materials represent approximately 50% of the total cost of producing an ECU. Electricity is the single largest raw material component in the production of chlor alkali products. During the past three years, we experienced an increase in the cost of electricity from our suppliers due primarily to energy cost increases and regulatory requirements. We are supplied by utilities that primarily utilize coal, hydroelectric and nuclear power and have relatively minor exposure to natural gas. The majority of the salt used in our Chlor Alkali Products segment is produced from internal resources but we do purchase salt in the merchant market. The commodity nature of this industry places an added emphasis on cost management and we believe that we have managed our manufacturing costs in a manner that makes us one of the low cost producers in the industry. In addition, if market demand grows in the future, we believe the design of the SunBelt joint venture plant will enable us to expand capacity cost-effectively.

We also manufacture and sell other chlor alkali-related products and we recently invested in capacity and product upgrades in some of these areas. These products include hydrochloric acid, sodium hypochlorite, and potassium hydroxide. We also sell sodium hydrosulfite to paper, textile and clay bleaching customers.

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

Products & Services	***Major End Uses***	***Plants & Facilities***	***Major Raw Materials & Components for Products/Services***
Chlorine/caustic soda	Pulp & paper processing, chemical manufacturing, water purification, manufacture of vinyl chloride, bleach, swimming pool chemicals & urethane chemicals	Augusta, GA Charleston, TN McIntosh, AL Niagara Falls, NY	salt, electricity
Sodium hydrosulfite	Paper, textile & clay bleaching	Augusta, GA Charleston, TN	caustic soda, sulfur dioxide
Sodium hypochlorite	Household cleaners, laundry bleaching, swimming pool sanitizers, semiconductors, water treatment, textiles, pulp & paper and food processing	Augusta, GA Charleston, TN McIntosh, AL Niagara Falls, NY	chlorine, caustic soda
Hydrochloric acid	Steel, oil & gas, plastics, organic chemical synthesis, water and wastewater treatment, brine treatment, artificial sweeteners, pharmaceuticals, food processing and ore and mineral processing	Augusta, GA Charleston, TN Niagara Falls, NY	chlorine, hydrogen
Potassium hydroxide	Fertilizer manufacturing, soaps, detergents and cleaners, battery manufacturing, food processing chemicals and deicers	Charleston, TN	potassium chloride, electricity

Strategies

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

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

Metals

Products and Services

We have been in the Metals business for 90 years. Based on Copper Development Association Inc. (CDA) data, we are a leading manufacturer of copper and copper alloy sheet, strip, plate, foil and brass rod in the United States. CDA acts as the central authoritative source of data and information pertaining to the U.S. copper and brass industry. While primarily processing copper and copper alloys, we also reroll and form other metals, such as aluminum and stainless steel. We believe we hold leading positions for premium priced, high performance alloys in the United States. We also supply high performance alloys to non-U.S. customers through exports, technology licensing, joint ventures and local distribution. Participants in the copper and copper alloy sheet and strip industry include integrated mills, reroll mills and distributors, with many participants engaging in multiple roles. We believe that we are the largest U.S. participant in each of these categories. We believe that our status as the largest U.S. participant affords us a favorable industry position. We also believe we are one of the lowest cost producers, a quality and service leader and a specialty product innovator.

All of our copper and copper alloy sheet and strip mills are ISO 9001:2000 certified covering the design and manufacture of copper-based alloys in strip form. Our brass rod mill is ISO 9001:2000 certified.

We maintain advantages over our competition through our patent-protected technologies. We believe our high performance alloys provide superior strength, conductivity and formability to customers in the automotive, electrical, electronic and telecommunications industries. We currently hold 37 U.S. patents associated with high performance alloys and 40 other U.S. patents related to various proprietary processing and technical capabilities, many of which are also registered in foreign

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jurisdictions. To further our global presence, we established a joint venture with Yamaha Corporation in Japan to produce high performance alloys, formed a technical alliance with Wieland-Werke A.G. of Germany under which we jointly develop new high performance alloys and participate in an alloy licensing arrangement and formed a joint venture with Luoyang Copper (Group) Ltd. in China to operate a metals service center to supply the growing Chinese demand. These relationships provide us with greater global reach and enable us to provide high performance alloys in Asia and Europe.

In addition, through sales of our clad metal, produced by a proprietary cladding process, we believe we are a major supplier of coinage metal to the U.S. Mint. We also supply coinage metal to other world governments. Our Metals segment produces ammunition cartridge cups for use captively in the manufacture of our Winchester sporting ammunition, which constitutes a small portion of our total Metals segment output. We also sell cartridge brass to other ammunition makers. This relationship with Winchester, along with our fabrication business, provides us with a captive customer base.

Brass and other copper alloys are manufactured by melting copper together with various combinations of zinc, lead or other metals. The resulting product goes through a series of processes, including casting, hot rolling, milling, cold rolling, annealing, cleaning and slitting to produce sheet and strip. A similar process is followed for the production of rod. The principal end-uses for sheet and strip products include: automotive (connectors and radiators); electronics (lead frames, connectors, wiring and telecommunications applications); ammunition; coinage; and other applications such as builder s hardware, plumbing supplies and welded tube for utility condensers and industrial heat exchangers. Brass rod is used to produce a variety of products, such as faucets, plumbing fittings, heating and air conditioning components, industrial valves, automotive parts and numerous hardware components.

The major raw materials used in our metals business are brass scrap, copper, zinc, and other non-ferrous metals, purchased from merchants, dealers, and customers at market prices.

Historically, demand for copper and copper alloy sheet and strip and rod has exhibited growth consistent with the growth in the U.S. gross domestic product. In the late 1990 s and in 2000, demand expanded at a rapid pace principally due to the strength in the electronics segment and the introduction of the state quarter program by the U.S. Mint. From 1997 to 2000, sheet and strip demand grew at an annualized growth rate of 8%. Since 2001, strip and rod demand has been unchanged at levels approximately 10% and 20%, respectively, below that of the late 1990 s.

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The following table lists products and services of our Metals business, with principal products highlighted in bold face.

Products and Services	*Major End Uses*	*Plants & Facilities**	*Major Raw Materials & Components for Products/Services*
Copper & copper alloy sheet & strip (standard & high performance)	Electronic connectors, lead frames, electrical components, communications, automotive, builders hardware, coinage, ammunition	Bryan, OH East Alton, IL Seymour, CT** Waterbury, CT*** Iwata, Japan (Yamaha-Olin Metal Corporation)	copper, zinc & other nonferrous metals
Network of metals service centers	Electronic connectors, electrical components, communications, automotive, builders hardware, household products	Allentown, PA Alliance, OH Caguas, PR Carol Stream, IL Suwanee, GA Warwick, RI Watertown, CT Yorba Linda, CA Guangzhou, China Queretaro, Mexico	copper & copper alloy sheet, strip, rod, tube & steel & aluminum strip
Posit-bond® clad metal	Coinage strip & blanks	East Alton, IL	cupronickel, copper & aluminum
Rolled copper foil, Copperbond® foil, stainless steel strip	Printed circuit boards, electrical & electronic, automotive	Waterbury, CT	copper & copper alloy sheet, strip and foil and stainless steel strip
Copper alloy welded tube	Utility condensers, industrial heat exchangers, refrigeration & air conditioning, builders hardware, automotive	Cuba, MO	copper alloy strip

Fabricated products	Builders hardware, plumbing, automotive and ammunition components	East Alton, IL	copper and copper alloy, and stainless steel strip
Shaped brass rod	Plumbing, consumer durable goods, industrial machinery and equipment, and electrical and electronic parts	Montpelier, OH Los Angeles, CA (distribution center)	brass scrap

* If site is not operated by Olin or a majority-owned, direct or indirect subsidiary, name of joint venture, affiliate or operator is indicated.

** In November 2006, we announced our decision to close the New Haven Copper facility in Seymour, CT, which we expect to be completed in the second quarter of 2007. In conjunction with this action, we will consolidate these product activities into our other locations.

*** In June 2006, we substantially completed the closure of the Waterbury Rolling Mills facility in Waterbury, CT.

Strategies

Continue Profitable Growth Globally. Our goal is to be a leading worldwide supplier of specialty copper-based products and related engineered materials. We intend to achieve this goal by building our high performance alloys business on a global basis. In 2004 and continuing through 2006, we took a number of steps to continue to grow our global presence including the start-up of our joint venture service center in Guangzhou, China, the development of new business opportunities in Europe and the acquisition and integration of the aluminum strip distribution assets of Metal Foils LLC in the United States.

Maintain Premier Specialty Product Innovator Position. We believe that we manufacture more high performance alloys than any other competitor, and we continue to allocate resources to maximize this product line. Our specialty products include proprietary high performance alloys and materials that meet strength, gauge, formability, and conductivity requirements for applications in our customers industries.

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Increase Cost Efficiencies. We plan to continue to focus on achieving economies of scale, improved manufacturing processes, and innovation in pursuit of cost reductions. We strive for profit improvements primarily through yield improvements, increased equipment utilization and capacity enhancements.

Continue Our Quality Leadership. We maintain ISO 9000, QS 9000, and ISO 14001 certifications. For example, our East Alton, IL mill carries the distinctive certifications of ISO 9001, due to its extensive design work, and ISO 14001, a prominent environmental standard. We believe that these certifications demonstrate a quality advantage not possessed by our key U.S. competitors. We also continue to maintain preferred supplier positions with some of the largest or most respected companies in segments where quality is essential, such as automotive and electronics.

Leverage Our Service and Distribution Leadership for Growth. We believe that we are a service and distribution leader in the copper-based metals industry. Our A.J. Oster distribution system extends throughout the United States and also includes facilities in Puerto Rico and Mexico. We sell directly from the mill to large volume customers, and to small and medium size customers through A.J. Oster and other licensed distributors. We intend to leverage our service leadership and our distribution network to improve our just-in-time delivery services and our customized order capabilities.

Winchester

Products and Services

Winchester is in its 140th year of operation and its 76th year as part of Olin. Winchester is a premier developer and manufacturer of small caliber ammunition for sale to domestic and international retailers, law enforcement agencies and domestic and international militaries. We believe we are a leading U.S. producer of ammunition for recreational shooters, hunters, law enforcement agencies and the U.S. Armed Forces. Our legendary Winchester product line includes all major gauges and calibers of shotgun shells, rimfire and centerfire ammunition for pistols and rifles, canister powder, reloading components and industrial cartridges. We believe we are the leading U.S. supplier of small caliber commercial ammunition. As part of our continuous improvement initiatives, our manufacturing facilities located in East Alton, IL achieved ISO 9001:2000 certification in 2006.

Winchester has strong relationships throughout the sales and distribution chain and strong ties to traditional dealers and distributors. Winchester has built its business with key high volume mass merchants and specialty sporting goods retailers. We have consistently developed industry-leading ammunition. In 2006, Winchester s Supreme Elite XP3 cartridge and Supreme Elite Xtended Range® Hi-Density waterfowl loads were awarded 2006 Best of the Best awards from *Field and Stream* magazine. In addition, Winchester s WinLite® low recoil shotgun target and hunting loads won Best in Show at the 2006 Shot Show.

Winchester purchases raw materials such as lead from vendors at market prices as posted on exchanges such as the Commodity Exchange, or COMEX, and London Metals Exchange, or LME. Winchester also purchases copper-based strip and cups from our Metals segment. Winchester s other main raw material is propellant, which is purchased predominantly from one of the United States largest propellant suppliers.

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

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

Strategies

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

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

INTERNATIONAL OPERATIONS

We have sales offices and subsidiaries in various countries which support the worldwide export of products from the United States as well as overseas production facilities.

Yamaha-Olin Metal Corporation, of which we are a 50% owner, manufactures high-performance copper alloys in Japan for sale to the electronics industry throughout the Far East. Our subsidiary, Olin Australia Limited, loads and packs sporting and industrial ammunition in Australia. We entered into an agreement with Luoyang Copper (Group) Ltd. to jointly construct and operate a metals service center in Guangzhou, China, which became operational in the first quarter of 2004. See the Note Segment Information of the Notes to Consolidated Financial Statements in Item 8, for geographic segment data. We are incorporating our segment information from that Note into this section of our Form 10-K.

CUSTOMERS AND DISTRIBUTION

During 2006, no single customer accounted for more than 4% of consolidated sales. Sales to all U.S. government agencies and sales under U.S. government contracting activities in total accounted for approximately 9% of consolidated sales in 2006. Products we sell to industrial or commercial users or distributors for use in the production of other products constitute a major part of our total sales. We sell some of our products, such as caustic soda, sporting ammunition, and metals products, to a large number of users or distributors, while we sell others, such as chlorine, in substantial quantities to a relatively small number of industrial users. We discuss the customers for each of our three businesses in more detail above under Products and Services.

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

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

COMPETITION

We are in active competition with businesses producing the same or similar products, as well as, in some instances, with businesses producing different products designed for the same uses. We are among the largest manufacturers or distributors in the United States of ammunition, copper based strip, rod, and certain chlor alkali products based on data provided by the Sporting Arms and Ammunition Manufacturers   Institute (SAAMI), CDA and CMAI, respectively. Founded in 1926, SAAMI is an association of the nation   s leading manufacturers of sporting firearms, ammunition and components. Many factors influence our ability to compete successfully, including price, delivery, service, performance, product innovation and product recognition and quality, depending on the product involved.

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EMPLOYEES

As of December 31, 2006, we had approximately 6,000 employees, with 5,900 working in the United States and 100 working in foreign countries. Various labor unions represent a majority of our hourly-paid employees for collective bargaining purposes.

Our labor contract with 203 employees at our Metals facility in Montpelier, OH is scheduled to expire in June of 2007.

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

RESEARCH ACTIVITIES; PATENTS

Our research activities are conducted on a product-group basis at a number of facilities. Company-sponsored research expenditures were $4.5 million in 2006, $4.2 million in 2005, and $3.9 million in 2004.

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

RAW MATERIALS AND ENERGY

We purchase the major portion of our raw material requirements. The principal basic raw materials for our production of chlor alkali products are salt, electricity, sulfur dioxide, and hydrogen. The majority of the salt used in our Chlor Alkali Products segment is produced from internal resources. Copper, zinc, various other nonferrous metals and brass scrap are required for the Metals business. Lead, brass, and propellant are the principal raw materials used in the Winchester business. We typically purchase our electricity, salt, sulfur dioxide, and propellants pursuant to multi-year contracts. In the manufacture of ammunition, we use a substantial percentage of our own output of cartridge brass. We provide additional information with respect to specific raw materials in the tables above under Products and Services.

Electricity is the predominant energy source for our manufacturing facilities. Most of our facilities are served by utilities which generate electricity principally from coal, hydroelectric and nuclear power.

ENVIRONMENTAL AND TOXIC SUBSTANCES CONTROLS

The establishment and implementation of federal, state and local standards to regulate air, water and land quality have affected and will continue to affect substantially all of our manufacturing locations. Federal legislation providing for regulation of the manufacture, transportation, use and disposal of hazardous and toxic substances has imposed additional regulatory requirements on industry, particularly the chemicals industry. In addition, implementation of environmental laws, such as the Resource Conservation and Recovery Act and the Clean Air Act, has required and will continue to require new capital expenditures and will increase operating costs. We employ waste minimization and pollution prevention programs at our manufacturing sites and we are a party to various governmental and private environmental actions associated with waste disposal sites and manufacturing facilities. Charges or credits to income for investigatory and remedial efforts were material to operating results in the past three years and may be material to net income in future years.

See our discussion of our environmental matters in Item 3, Legal Proceedings below, the Note Environmental of the Notes to Consolidated Financial Statements contained in Item 8, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

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Item 1A. RISK FACTORS

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

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

The business of most of our customers, particularly our vinyl, urethanes, pulp and paper, automotive, coinage, electrical connectors, telecommunications and housing customers, are, to varying degrees, cyclical and have historically experienced periodic downturns. These economic and industry downturns have been characterized by diminished product demand, excess manufacturing capacity and, in some cases, lower average selling prices. Therefore, any significant downturn in our customers businesses or in global economic conditions could result in a reduction in demand for our products and could adversely affect our results of operations or financial condition. As a result of the depressed economic conditions beginning in the fourth quarter of 2000 and continuing through the first half of 2002, our vinyls, urethanes and pulp and paper customers had lower demand for our chlor alkali products. During the period 2000-2003, demand for Chlor Alkali Products was low enough to lead to plant shutdowns within the industry which resulted in about 12% of capacity being removed from North American production. When demand improved in early 2004, the operating rates increased to the mid to high 90% range, resulting in a tight supply/demand balance which resulted in increasing pricing. Lower demand in our Metals segment has adversely affected our business and results of operations since 2001. The rod industry has been negatively affected by customers migration to lower-cost, offshore locations and by continued reductions in capital spending in the industrial machinery segment and reduced demand for building and household products as a result of declines in commercial construction. In 2006, Metals U.S. demand was up approximately 3% from 2005. Metals demand in the automotive and building products segments was down in 2006, while ammunition, coinage, and electronics segment shipments all experienced increases over 2005.

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

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

Our historical operating results reflect the cyclical and sometimes volatile nature of the chemical, metals and ammunition industries. We experience cycles of fluctuating supply and demand in each of our business segments, particularly in Chlor Alkali Products, which results in changes in selling prices. Periods of high demand, tight supply and increasing operating margins tend to result in increases in capacity and production until supply exceeds demand, generally followed by periods of oversupply and declining prices. The industry build cycle, and its impact on industry pricing, has been most pronounced in our Chlor Alkali Products segment. For example, in 1995 and 1996, the chlor alkali industry was profitable due to a tight supply/demand balance, which resulted in both higher operating rates and higher ECU prices. Higher profits led to reinvestment to expand capacity. This new capacity became operational in 1998 and 1999, resulting in industry over-capacity. This imbalance was exacerbated by falling demand as a result of the Asian financial crisis. The supply/demand imbalance resulted in both lower operating rates and lower ECU prices, and in 1999, many chlor alkali producers had operating losses. The supply/demand balance improved due to improved economic conditions in 2000 compared to 1999, and ECU prices increased in 2000 compared to 1999. As the U.S.

and world economies deteriorated in 2001 and through the first half of 2002, the chlor alkali industry again experienced a period of oversupply because of lower industry demand for both chlorine and caustic. During the 2000-2003 timeframe about 12% of North American production capacity was shut down which caused operating rates to improve without much improvement in demand. In late 2003 and early 2004, chlorine demand began to strengthen and operating rates increased to the mid to high 90% range. Caustic demand began to strengthen by mid year 2004 and supplies of both products remained in balance through 2005; however, during the fourth quarter 2005 and first quarter 2006, supply and demand were impacted by Hurricane Katrina. Additionally, no new significant capacity became available during 2005/2006, and this, along with improved economic conditions, resulted in price increase initiatives. In October 2006, Dow closed its Fort Saskatchewan Chlor Alkali facility in Western Canada. It is believed the closure of this plant will have limited impact on Olin, and customers in this area will be served mainly from offshore, particularly Asia. Overall, this will serve as a logical destination for the excess capacity coming on-stream in Asia. New capacity is expected to come on line in the U.S. during the fourth quarter 2007, and it is expected this will have a negative effect on pricing for the North American Chlor Alkali industry. Another factor influencing demand for chlorine and caustic soda is the price of natural gas. Higher natural gas prices increase our customers manufacturing costs, and depending on the ratio of crude oil to gas prices, could make them less than competitive in world markets; and therefore, may result in reduced demand for our products. Continued expansion offshore, particularly in Asia, will continue to have an impact on the ECU values as imported caustic soda replaces some capacity in the U.S.

Price in the chlor alkali industry is a major supplier selection criterion. We have little or no ability to influence prices in this large commodity market. Decreases in the average selling prices of our products could have a material adverse effect on our profitability. For example, assuming all other costs remain constant and internal consumption remains approximately the same, a $10 per ECU selling price change equates to an approximate $11.0 million annual change in our revenues and pretax profit when we are operating at full capacity. While we strive to maintain or increase our profitability by reducing costs through improving production efficiency, emphasizing higher margin products, and by controlling transportation, selling, and administration expenses, we cannot assure you that these efforts will be sufficient to offset fully the effect of changes in pricing on operating results.

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

Our Metals and Winchester segments are also subject to changes in operating results as a result of cyclical pricing pressures, but to a lesser extent than the Chlor Alkali Products segment. We generally pass changes in prices for copper and other metals along to our customers as part of the negotiated price of the finished product in most of our Metals segment product lines. However, our Metals segment experiences pricing pressure with respect to its conversion charges, and we cannot assure you that adverse trends in pricing and margins will not affect operating results in the future. Changes in global supply/demand for copper and copper alloys may affect our ability to obtain raw materials under reasonable terms and conditions which may materially adversely affect our operating results. Similarly, selling prices of ammunition are affected by changes in raw material costs and availability and customer demand, and declines in average selling prices of our Winchester segment could adversely affect our profitability.

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

Chlorine and caustic soda are produced simultaneously and in a fixed ratio of 1.0 ton of chlorine to 1.1 tons of caustic soda. The loss of a substantial chlorine or caustic soda customer could cause an imbalance in demand for our chlorine and caustic soda products. An imbalance in demand may require us to reduce production of both chlorine and caustic soda or take other steps to correct the imbalance. Since we cannot store chlorine, we may not be able to respond to an imbalance in demand for these products as quickly or efficiently as some of our competitors. If a substantial imbalance occurred, we would need to reduce prices or take other actions that could have a negative impact on our results of operations and financial condition.

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Pension Plans The impact of declines in global equity markets on asset values and any declines in interest rates used to value the liabilities in our pension plan may result in higher pension costs and the need to fund the pension plan in future years in material amounts.

In September 2006, we made a voluntary pension plan contribution of $80.0 million. In accordance with Statement of Financial Accounting Standards (SFAS) No. 87, Employers Accounting for Pensions, we recorded an after-tax credit of $54.5 million ($89.2 million pretax) to Shareholders Equity as a result of a decrease in the accumulated pension benefit obligation, which primarily resulted from a 25-basis point increase in the plan discount rate, combined with an increase in the value of the plan assets from favorable plan performance and the contribution. In September 2005, we made a voluntary pension plan contribution of $6.1 million in order to maintain a 90% funded level under the Employee Retirement Income and Security Act (ERISA) criteria used to determine funding levels. In 2005, a 25-basis point decline in interest rates and the cost impact of contractual pension plan changes more than offset the increase in the value of the plan assets. Therefore, we recorded in December 2005 an after-tax charge of $29.2 million ($47.8 million pretax) as a result of an increase in the accumulated pension benefit obligation. In 2006, we adopted SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, which requires us to record a net liability or asset to report the funded status of our defined benefit pensions and postretirement plans on our balance sheet. As a result, we recorded an after-tax charge of $39.7 million and $33.6 million, respectively ($65.0 million and $55.0 million pretax, respectively). The non-cash charges to Shareholders Equity does not affect our ability to borrow under our revolving credit agreement.

The determinations of pension expense and pension funding are based on a variety of rules and regulations. Changes in these rules and regulations could impact the calculation of pension plan liabilities and the valuation of pension plan assets. They may also result in higher pension costs, additional financial statement disclosure, and accelerate and increase the need to fully fund the pension plan. During the third quarter of 2006, the Pension Protection Act of 2006 became law. Among the stated objectives of the law are the protection of both pension beneficiaries and the financial health of the Pension Benefit Guaranty Corporation (PBGC). To accomplish these objectives, the new law requires sponsors to fund defined benefit pension plans earlier than previous requirements and to pay increased PBGC premiums. The impact of the law cannot be fully assessed until all the implementation rules are published, but the law does require defined benefit plans to be fully funded in 2011. This will accelerate and potentially increase our pension plan funding requirements.

In addition, the impact of declines in global equity and bond markets on asset values may result in higher pension costs and may increase and accelerate the need to fund the pension in future years. For example, holding all other assumptions constant, a 100-basis point decrease or increase in the assumed rate of return on plan assets would have increased or decreased, respectively, the 2006 qualified pension plan cost by approximately $12.4 million.

Holding all other assumptions constant, a 50-basis point decrease in the discount rate used to calculate pension costs for 2006 and the projected benefit obligation as of December 31, 2006 would have increased pension costs by $5.0 million and the projected benefit obligation by $86.4 million. A 50-basis point increase in the discount rate used to calculate pension costs for 2006 and the projected benefit obligation as of December 31, 2006 would have decreased pension costs by $5.9 million and the projected benefit obligation by $87.3 million.

Environmental Costs We have ongoing environmental costs, which could have a material adverse effect on our financial position or results of operations.

The nature of our operations and products, including the raw materials we handle, exposes us to the risk of liabilities or claims with respect to environmental matters. We have incurred, and expect to incur, significant costs and capital expenditures in complying with environmental laws and regulations.

The ultimate costs and timing of environmental liabilities are difficult to predict. Liability under environmental laws relating to contaminated sites can be imposed retroactively and on a joint and several basis. One liable party could be held responsible for all costs at a site, regardless of fault, percentage of contribution to the site or the legality of the original disposal. We could incur significant costs, including cleanup costs, natural resources damages, civil or criminal fines and sanctions and third-party lawsuits claiming, for example, personal injury and/or property damage, as a result of past or future violations of, or liabilities under, environmental or other laws.

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In addition, future events, such as changes to or more rigorous enforcement of environmental laws, could require us to make additional expenditures, modify or curtail our operations and/or install pollution control equipment.

Accordingly, it is possible that some of the matters in which we are involved or may become involved may be resolved unfavorably to us, which could materially adversely affect our financial position or results of operations. See Management s Discussion and Analysis of Financial Condition and Results of Operations-Environmental Matters.

Cost Control Our profitability could be reduced if we experience higher-than-expected raw material, utility, transportation or logistics costs, or if we fail to achieve our targeted cost reductions.

Our operating results and profitability are dependent upon our continued ability to control, and in some cases further reduce, our costs. If we are unable to do so, or if costs outside of our control, particularly our costs of raw materials, utilities, transportation and similar costs, increase beyond anticipated levels, our profitability will decline.

Litigation and Claims We are subject to litigation and other claims, which could cause us to incur significant expenses.

We are a defendant in a number of pending legal proceedings relating to our present and former operations. These include proceedings alleging injurious exposure of plaintiffs to various chemicals and other substances (including proceedings based on alleged exposures to asbestos). Frequently, such proceedings involve claims made by numerous plaintiffs against many defendants. However, because of the inherent uncertainties of litigation, we are unable to predict the outcome of these proceedings and therefore cannot determine whether the financial impact, if any, will be material to our financial position or results of operations.

Production Hazards Our facilities are subject to operating hazards, which may disrupt our business.

We are dependent upon the continued safe operation of our production facilities. Our production facilities are subject to hazards associated with the manufacture, handling, storage and transportation of chemical materials and products and ammunition, including leaks and ruptures, explosions, fires, inclement weather and natural disasters, unexpected utility disruptions or outages, unscheduled downtime and environmental hazards. From time to time in the past, we have had incidents that have temporarily shut down or otherwise disrupted our manufacturing, causing production delays and resulting in liability for workplace injuries and fatalities. Some of our products involve the manufacture and/or handling of a variety of explosive and flammable materials. Use of these products by our customers could also result in liability if an explosion, fire, spill or other accident were to occur. We cannot assure you that we will not experience these types of incidents in the future or that these incidents will not result in production delays or otherwise have a material adverse effect on our business, financial condition or results of operations.

Security and Chemicals Transportation New regulations on the transportation of hazardous chemicals and/or the security of chemical manufacturing facilities and public policy changes related to transportation safety could result in significantly higher operating costs.

The chemical industry, including the chlor alkali industry, has proactively responded to the issues related to national security and environmental concerns by starting new initiatives relating to the security of chemicals industry facilities and the transportation of hazardous chemicals in the United States. Government at the local, state, and federal levels also has begun regulatory processes which could lead to new regulations that would impact the security of chemical plant locations and the transportation of hazardous chemicals. Our Chlor Alkali business could be adversely impacted by the cost of complying with any new regulations. Our business also could be adversely affected because of an incident at one of our facilities or while transporting product. The extent of the impact would depend on the requirements of future regulations and the nature of an incident, which are unknown at this time**.**

Indebtedness Our indebtedness could adversely affect our financial condition and limit our ability to grow and compete, which could prevent us from fulfilling our obligations under our indebtedness.

As of December 31, 2006, we had $253.9 million of indebtedness outstanding, including $3.6 million representing the fair value related to $101.6 million of interest rate swaps in effect at December 31, 2006 and excluding our guarantee of $67.0 million of indebtedness of our SunBelt joint venture. This does not include our

$160.0 million senior credit facility on which we had $120.2 million available on that date because we had issued $39.8 million of letters of credit. As of December 31, 2006, our indebtedness represented 32% of our total capitalization.

Our indebtedness could adversely affect our financial condition and limit our ability to grow and compete, which in turn could prevent us from fulfilling our obligations under our indebtedness. Despite our level of indebtedness, the terms of our senior credit facility and our existing indentures permit us to borrow additional money. If we borrow more money, the risks related to our indebtedness could increase significantly.

Debt Service We may not be able to generate sufficient cash to service our debt, which may require us to refinance our indebtedness or default on our scheduled debt payments.

Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt depends on a range of economic, competitive and business factors, many of which are outside our control. We cannot assure you that our business will generate sufficient cash flow from operations. If we are unable to meet our expenses and debt obligations, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets or raise equity. We cannot assure you that we would be able to refinance any of our indebtedness, sell assets or raise equity on commercially reasonable terms or at all, which could cause us to default on our obligations and impair our liquidity. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, would have an adverse effect on our business, financial condition and results of operations, as well as on our ability to satisfy our debt obligations. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

At December 31, 2006, we had interest rate swaps of $101.6 million, which convert a portion of our fixed rate debt to a variable rate. As a result, 42% of our indebtedness bears interest at variable rates that are linked to short-term interest rates. If interest rates rise, our costs relative to those obligations would also rise. See Item 7A Quantitative and Qualitative Disclosures about Market Risk and Liquidity and Other Financing Arrangements.

Labor Matters We cannot assure you that we can conclude future labor contracts or any other labor agreements without work stoppages.

Various labor unions represent a majority of our hourly-paid employees for collective bargaining purposes. Our labor contract with 203 employees at our Metals facility in Montpelier, OH is scheduled to expire in June of 2007.

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

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

We have manufacturing sites at 20 separate locations in 12 states and Puerto Rico, and two manufacturing sites and two metal service centers in four foreign countries, including the Yamaha-Olin Metal Corporation joint venture facility. The metals service center in China became operational in the first quarter of 2004. Most manufacturing sites are owned although a number of small sites are leased. We listed the locations at or from which our products and services are manufactured, distributed, or marketed in the tables set forth under the caption Products and Services.

We lease warehouses, terminals and distribution offices and space for executive and branch sales offices and service departments throughout the world.

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Item 3. LEGAL PROCEEDINGS

We have completed all work in connection with remediation of mercury contamination at the site of our former mercury cell chlor alkali plant in Saltville, VA required to date. In mid-2003, the Trustees for natural resources in the North Fork Holston River, the Main Stem Holston River, and associated floodplains, located in Smyth and Washington Counties in Virginia and in Sullivan and Hawkins Counties in Tennessee notified us of, and invited our participation in, an assessment of alleged injuries to natural resources resulting from the release of mercury. The Trustees also notified us that they have made a preliminary determination that we are potentially liable for natural resource damages in said rivers and floodplains. We have agreed to participate in the assessment. In light of the early stage, and inherent uncertainties, of the assessment, we cannot at this time determine whether the financial impact, if any, of this matter will be material to our financial position or results of operations. See Environmental Matters contained in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

As part of the continuing environmental investigation by federal, state and local governments of waste disposal sites, we have entered into a number of settlement agreements requiring us to participate in the investigation and cleanup of a number of sites. Under the terms of such settlements and related agreements, we may be required to manage or perform one or more elements of a site cleanup, or to manage the entire remediation activity for a number of parties, and subsequently seek recovery of some or all of such costs from other Potentially Responsible Parties (PRPs). In many cases, we do not know the ultimate costs of our settlement obligations at the time of entering into particular settlement agreements, and our liability accruals for our obligations under those agreements are often subject to significant management judgment on an ongoing basis. Those cost accruals are provided for in accordance with generally accepted accounting principles and our accounting policies set forth in the environmental matters section in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

We and our subsidiaries are defendants in various other legal actions (including proceedings based on alleged exposures to asbestos) incidental to our past and current business activities. While we believe that none of these legal actions will materially impact our financial position, in light of the inherent uncertainties of the litigation concerning alleged exposures, we cannot at this time determine whether the financial impact, if any, of these matters will be material to our results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matter to a vote of security holders during the three months ended December 31, 2006.

Executive Officers of the Registrant as of February 27, 2007

Name and Age	*Office*	*Served as an Olin Officer Since*
Joseph D. Rupp (56)	Chairman, President and Chief Executive Officer	1996
Stephen C. Curley (55)	Vice President and Treasurer	2005
John E. Fischer (51)	Vice President and Chief Financial Officer	2004
G. Bruce Greer, Jr. (46)	Vice President, Strategic Planning	2005
Jeffrey J. Haferkamp (52)	Vice President and President, Olin Brass	2005
Richard M. Hammett (60)	Vice President and President, Winchester Division	2005
Dennis R. McGough (58)	Vice President, Human Resources	2005
John L. McIntosh (52)	Vice President and President, Chlor Alkali Products Division	1999

George H. Pain (56)	Vice President, General Counsel and Secretary	2002
Todd A. Slater (43)	Vice President and Controller	2005

No family relationship exists between any of the above named executive officers or between any of them and any of our directors. Such officers were elected to serve, subject to the By-laws, until their respective successors are chosen.

J. D. Rupp, J. L. McIntosh, and G. H. Pain have served as executive officers for not less than the past five years.

Stephen C. Curley re-joined Olin on August 18, 2003 as Chief Tax Counsel. He was elected Vice President and Treasurer effective January 1, 2005. From 1997-2001, he served as Vice President and Treasurer of Primex Technologies, Inc., a manufacturer and provider of ordnance and aerospace products and services, which was spun off from Olin in 1996.

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John E. Fischer re-joined Olin on January 2, 2004 as Vice President, Finance. On June 24, 2004, he was elected Vice President, Finance and Controller, and effective May 27, 2005, he was elected Vice President and Chief Financial Officer. From 1997-2001, he served as Vice President and Chief Financial Officer of Primex Technologies, Inc. During 2002 and 2003, Mr. Fischer did independent consulting for several companies including Olin.

G. Bruce Greer, Jr. joined Olin on May 2, 2005 as Vice President, Strategic Planning. Prior to joining Olin and since 1997, Mr. Greer was employed by Solutia, Inc., an applied chemicals company. From 2003 to April 2005, he served as President of Pharma Services, a Division of Solutia and Chairman of Flexsys, an international rubber chemicals company which was a joint venture partially owned by Solutia and Akzo Nobel. Prior to that, Mr. Greer served as a Vice President of Corporate Development, Technology, and Information Technology for Solutia.

Jeffrey J. Haferkamp was elected Vice President and President, Olin Brass effective January 1, 2005. Prior to that time and since October 2002, he served as President, Rolled Products. From April 2001 to September 2002, he served as Vice President, International for the Brass Division (currently part of the Metals Group). Prior to April 2001, he served as Vice President, Business Planning for the Brass Division.

Richard M. Hammett was elected Vice President and President, Winchester Division effective January 1, 2005. Prior to that time and since September 2002, he served as President, Winchester Division. From November 1998 until September 2002, he served as Vice President, Marketing and Sales for the Winchester Division.

Dennis R. McGough was elected Vice President, Human Resources effective January 1, 2005. Prior to that time and since 1999, he served as Corporate Vice President, Human Resources.

Todd A. Slater was elected Vice President and Controller, effective May 27, 2005. From April 2004 until May 2005, he served as Operations Controller. From January 2003 until April 2004, he served as Vice President and Financial Officer for Olin s Metals Group. Prior to 2003, Mr. Slater served as Vice President, Chief Financial Officer and Secretary for Chase Industries Inc. (which was merged into Olin on September 27, 2002).

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

As of January 31, 2007, we had 5,673 record holders of our common stock.

Our common stock is traded on the New York Stock Exchange and Chicago Stock Exchange.

The high and low sales prices of our common stock during each quarterly period in 2006 and 2005 are listed below. A dividend of $0.20 per common share was paid during each of the four quarters in 2006 and 2005.

2006	***First Quarter***	***Second Quarter***	***Third Quarter***	***Fourth Quarter***
Market price of common stock per New York Stock Exchange composite transactions				
High	$ 22.00	22.65	18.32	17.70
Low	19.47	16.39	14.22	15.20
2005				
Market price of common stock per New York Stock Exchange composite transactions				
High	$ 25.35	23.79	20.00	20.15
Low	20.22	17.09	17.51	16.65

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Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1-31, 2006		N/A		
November 1-30, 2006		N/A		
December 1-31, 2006		N/A		
Total				154,076(1)

(1) On April 30, 1998, we announced a share repurchase program approved by our board of directors for the purchase of up to 5 million shares of common stock. Through December 31, 2006, 4,845,924 shares had been repurchased, and 154,076 shares remain available for purchase under that program, which has no termination date.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)
Equity compensation plans approved by security holders(2)	3,016,900(3)	$ 19.16(3)	3,725,548
Equity compensation plans not approved by security holders(4)	N/A(4)	N/A(4)	N/A(4)
Total	3,016,900	$ 19.16(3,4)	3,725,548

(1) Number of shares is subject to adjustment for changes in capitalization for stock splits and stock dividends and similar events.
(2) Consists of the 2000 Long Term Incentive Plan, the 2003 Long Term Incentive Plan, the 2006 Long Term Incentive Plan and the 1997 Stock Plan for Non-employee Directors. Does not include information about the equity compensation plans listed in the table below, which have expired. No additional awards may be granted under those expired plans. As of December 31, 2006:

Plan Name	Number of Securities	Weighted Average

	Expiration Date	Issuable Under Outstanding Options	Weighted Average Exercise Price	Remaining Term
1988 Stock Option Plan for Key Employees of Olin Corporation and Subsidiaries	4/30/98	18,400	$ 27.17	1.1 years
Olin 1991 Long Term Incentive Plan	4/30/01	689,490	$ 18.97	2.0 years
1996 Stock Option Plan for Key Employees of Olin Corporation and Subsidiaries	1/25/06	2,378,520	$ 21.03	2.5 years

(3) Includes:

2,471,696 shares issuable upon exercise of options with a weighted average exercise price of $19.16, and a weighted average remaining term of 7.4 years, (which include 854,000 shares subject to performance accelerated vesting options, that vest on the earlier of December 27, 2009, or the tenth day in any 30 calendar day period upon which the average of the high and low per share sales prices of Olin s common stock as reported on the consolidated transaction system for New York Stock Exchange issues is at or above $28.00),

77,100 shares issuable under restricted stock unit grants, with a weighted average remaining term of 1.3 years,

301,903 shares issuable in connection with outstanding performance share awards, with a weighted average term of 1.2 years remaining in the performance measurement period, and

150,268 shares under the 1997 Stock Plan for Non-employee Directors which represent stock grants for retainers, other board and committee fees, and dividends on deferred stock under the plan.

(4) Does not include information about equity compensation plans assumed in connection with the acquisition of Chase Industries Inc. in September 2002 by merger. No additional awards may be granted under those assumed plans. As of December 31, 2006, options for a total of 166,201 shares, with a weighted average exercise price of $21.91 per share, and a weighted average remaining term of 1.7 years, were outstanding under the various plans assumed in connection with that acquisition.

Does not include a total of 339,422 shares issuable upon the exercise of outstanding options under the Arch Chemicals, Inc. 1999 Long Term Incentive Plan, with a weighted average exercise price of $26.09, and a weighted average remaining term of 0.7 years. No additional options or other awards may be issued under that plan.

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Item 6. SELECTED FINANCIAL DATA

ELEVEN-YEAR SUMMARY

($ and shares in millions, except per share data)	*2006*	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*	*1996*
Operations											
Sales	$ 3,152	$ 2,357	$ 1,997	$ 1,557	$ 1,272	$ 1,232	$ 1,496	$ 1,395	$ 1,504	$ 1,572	$ 1,817
Cost of Goods Sold	2,797	1,999	1,765	1,382	1,155	1,091	1,240	1,215	1,239	1,276	1,455
Selling and Administration	177	176	141	127	112	111	121	122	123	132	155
Research and Development	4	4	4	5	5	5	5	7	10	8	20
Gain (Loss) on Sales and Restructuring of Businesses and Spin-off costs	(18)		(10)	(31)		(39)			(63)		179
Other Operating Income	7	9	6			6					7
Earnings (Loss) of Non-consolidated Affiliates	46	38	10	8	(7)	(8)	2	(11)		1	2
Interest Expense	20	20	20	20	26	17	16	16	17	24	27
Interest and Other Income	13	20	6	4	6	17	5	3	7	14	4
Income (Loss) before Taxes from Continuing Operations	202	225	79	4	(27)	(16)	121	27	59	147	352
Income Tax Provision (Benefit)	52	86	28	4	4	(5)	46	10	21	50	125
Income (Loss) from Continuing Operations	150	139	51		(31)	(11)	75	17	38	97	227
Discontinued Operations, Net			4	1		2	6	4	40	56	53
Cumulative Effect of Accounting Change, Net		(6)		(25)							
Net Income (Loss)	$ 150	$ 133	$ 55	$ (24)	$ (31)	$ (9)	$ 81	$ 21	$ 78	$ 153	$ 280
Financial Position											
Cash and Cash Equivalents and Short-Term Investments	$ 276	$ 304	$ 147	$ 190	$ 136	$ 202	$ 82	$ 46	$ 75	$ 185	$ 605
Working Capital, excluding Cash and Cash Equivalents and Short-Term Investments	235	203	244	174	240	68	161	206	150	88	(220)
Property, Plant and Equipment, Net	487	482	478	495	545	469	475	468	475	517	400
Total Assets	1,637	1,797	1,618	1,432	1,413	1,207	1,107	1,063	1,589	1,707	2,118
Capitalization:											
Short-Term Debt	2	1	52	27	2	102	1	1	1	8	137
Long-Term Debt	252	257	261	314	346	330	228	229	230	262	271
Shareholders Equity	543	427	356	176	231	271	329	309	790	879	946
Total Capitalization	$ 797	$ 685	$ 669	$ 517	$ 579	$ 703	$ 558	$ 539	$ 1,021	$ 1,149	$ 1,354
Per Share Data											
Net Income (Loss)											
Basic:											
Continuing Operations[1]	$ 2.06	$ 1.96	$ 0.74	$ 0.01	$ (0.63)	$ (0.26)	$ 1.66	$ 0.36	$ 0.79	$ 1.91	$ 4.30
Discontinued Operations, Net			0.06	0.01		0.04	0.14	0.09	0.85	1.11	1.04
Accounting Change, Net		(0.09)		(0.44)							
Net Income (Loss)	2.06	1.87	0.80	(0.42)	(0.63)	(0.22)	1.80	0.45	1.64	3.02	5.34

Diluted:											
Continuing Operations[1]	2.06	1.95	0.74	0.01	(0.63)	(0.26)	1.66	0.36	0.79	1.90	4.26
Discontinued Operations, Net			0.06	0.01		0.04	0.14	0.09	0.84	1.10	1.01
Accounting Change, Net		(0.09)		(0.44)							
Net Income (Loss)	2.06	1.86	0.80	(0.42)	(0.63)	(0.22)	1.80	0.45	1.63	3.00	5.27
Cash Dividends											
Common (historical)	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.90	1.20	1.20	1.20
Common (continuing operations)	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
ESOP Preferred (annual rate)											5.97
Market Price of Common Stock:											
High	22.65	25.35	22.99	20.53	22.60	22.75	23.19	19.88	49.31	51.38	48.00
Low	14.22	16.65	15.20	14.97	13.85	12.05	14.19	9.50	23.88	35.38	34.88
Year End	16.52	19.68	22.02	20.06	15.55	16.14	22.13	19.81	28.31	46.88	37.63
Other											
Capital Expenditures	$ 81	$ 81	$ 55	$ 54	$ 41	$ 64	$ 93	$ 73	$ 78	$ 76	$ 74
Depreciation	72	72	72	80	85	84	78	78	76	76	84
Common Dividends Paid	58	57	56	47	39	35	36	41	58	61	60
Purchases of Common Stock					3	14	20	11	112	163	
Current Ratio	2.3	2.4	2.2	2.2	2.5	1.8	1.9	2.0	1.8	1.8	1.6
Total Debt to Total Capitalization[2]	31.8%	37.7%	46.8%	65.9%	60.0%	61.5%	41.1%	42.7%	22.6%	23.5%	30.1%
Effective Tax Rate	25.7%	38.1%	35.8%	76.5%	n/a	30.9%	38.1%	37.0%	35.6%	34.0%	35.5%
Average Common Shares Outstanding	72.8	71.6	68.4	58.3	49.4	43.6	45.0	45.4	47.9	50.5	50.0
Shareholders	5,700	6,100	6,400	6,800	7,200	7,500	8,000	8,600	9,200	10,600	11,300
Employees[3]	6,000	5,900	5,800	5,500	5,900	5,600	6,300	6,700	6,400	6,600	6,200

Our Selected Financial Data reflects the following businesses as discontinued operations: Olin Aegis in 2004, the spin off of Arch Chemicals, Inc. (our specialty chemicals business) in 1999 and Primex Technologies, Inc. (our Ordnance and Aerospace businesses) in 1996.

(1) Includes gain of $2.20 on sale of the isocyanates business in 1996.
(2) Excluding reduction to equity for the Employee Stock Ownership Plan in 1996.
(3) Employee data exclude employees who worked at government-owned/contractor-operated facilities.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS BACKGROUND

Our manufacturing operations are concentrated in three business segments: Chlor Alkali Products, Metals, and Winchester. All three are capital intensive manufacturing businesses with operating rates 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 business is a commodity business 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 capacity in our Chlor Alkali Products business, can lead to very significant changes in our overall profitability. While a majority of Metals sales are of a commodity nature, this business has a significant volume of specialty engineered products targeted for specific end-uses. In these applications, technical capability and performance differentiate the product and play a role in product selection and thus price is not the only selection criterion. 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.

RECENT DEVELOPMENTS AND HIGHLIGHTS

2006 Year

On February 1, 2006, we announced that, in connection with the ongoing cost reduction efforts of our Metals business, we decided to close our Waterbury Rolling Mills brass manufacturing facility in Waterbury, CT (Waterbury facility) and consolidate those production activities into our East Alton, IL mill. In addition, on March 14, 2006, we decided to reduce the utilization of one of our Metals service center facilities by consolidating certain activities into another service center facility, and make overhead reductions in the Metals business affecting approximately 20 employees. We based our decision on our evaluation of the size, location, and capability of our facilities and staffing in light of anticipated business needs. We substantially completed these activities by June 30, 2006. As a result of these cost reduction efforts, we recorded a pretax restructuring charge of $15.7 million in the first quarter. In the fourth quarter, primarily as a result of realizing more proceeds from equipment sales than expected, we reduced our previously established restructuring reserve related to the Waterbury facility by $1.6 million. The net restructuring charge of $14.1 million primarily included lease and other contract termination costs ($8.0 million), write-off of equipment and facility costs ($2.8 million), and employee severance and related benefit costs ($3.3 million). We expect to incur cash expenditures of $10.3 million related to this restructuring charge. These actions are expected to generate $9.0 million to $10.0 million of annual pretax savings, and the implementation of these actions was cash neutral in 2006. The impact of this restructuring charge was substantially offset by a last-in, first-out (LIFO) inventory liquidation gain of $13.5 million realized related to the closure of our Waterbury facility.

On November 27, 2006, we announced that, in connection with the ongoing cost reduction efforts of our Metals business, we decided to close our New Haven Copper Company facility in Seymour, CT (Seymour facility) and consolidate some of those production activities into other Olin locations. We currently expect to complete the closing of the Seymour facility during the second quarter of 2007. We based our decision on our evaluation of the size, location, and capability of our facilities and staffing in light of anticipated business needs. We recorded a one-time pretax restructuring charge of $3.5 million in the fourth quarter. This restructuring charge included facility costs and equipment write-offs ($2.4 million), employee severance and related benefit costs ($0.9 million), and other contract termination costs ($0.2 million). We expect to incur cash expenditures of $1.6 million related to this restructuring. These actions are expected to generate $2.0 million of annual pretax savings. The impact of this restructuring charge was more than offset by a LIFO inventory liquidation gain of $10.4 million realized related to the closure of our Seymour facility.

Our total restructuring charge for 2006 was $17.6 million. It is expected that an additional restructuring charge of approximately $2.0 million will be recorded in 2007 associated with these Metals restructuring actions.

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In April 2006, we reached an agreement in principle and expected a settlement with the Internal Revenue Service (IRS) on certain outstanding federal tax exposures. On July 10, 2006, the settlement was finalized. This settlement, which includes the periods 1996 to 2002, relates primarily to the tax treatment of capital losses generated in 1997. We made payments of $46.7 million and expect to make additional payments of approximately $2.0 million in 2007 to the IRS and various state and local jurisdictions, which was less than the amount previously reserved. As a result, income tax expense in 2006 was reduced by $21.6 million associated with the settlement and other tax matters.

On June 26, 2006, we commenced an offer to exchange a new series of notes due in 2016 and cash for up to $125.0 million of the $200.0 million 9.125% senior notes due in 2011 (2011 Notes). On July 11, 2006, we announced that approximately $160.0 million aggregate principal amount of the 2011 Notes had been validly tendered for exchange. Since more than $125.0 million of the 2011 Notes had been tendered, the new notes were issued on a pro rata basis in accordance with the terms of the exchange offer. On July 28, 2006, we issued $125.0 million of 6.75% senior notes due in 2016 (2016 Notes) and paid a premium of $18.8 million to the existing note holders in exchange for $125.0 million of 2011 Notes. We expensed $1.2 million of third party fees associated with the exchange.

During the fourth quarter of 2006, we recorded a $6.0 million insurance recovery for Hurricane Katrina business interruption experienced in our Chlor Alkali Products operations in 2005 and early 2006. In the second quarter of 2006, we recorded a $2.3 million gain from the settlement of an insurance claim related to the 2004 fire that occurred in the electrical control room at the hot mill located in East Alton, IL.

2005 Year

During 2005, we received a total of $9.4 million from real estate dispositions, including interest of $0.3 million. The first disposition in March represented the settlement of a condemnation award relating to land associated with a former warehousing facility. The other two transactions represented the disposition of land associated with former manufacturing plants.

During 2005, we recovered environmental costs incurred and expensed in prior periods and related interest of $49.9 million from third parties, which relate primarily to remedial and investigatory activities associated with former waste sites and past operations. The first recovery in April was for $1.5 million. The second occurred in September and was for $18.0 million. The last occurred in November and was for $30.4 million, which included $11.4 million in interest.

During the third quarter of 2005, both supply and demand in the Chlor Alkali industry were interrupted by three hurricanes, which caused customer outages and disruptions to the transportation system. Although none of our facilities were damaged, these factors reduced our operating rate during the third and fourth quarters of 2005.

On December 31, 2005, we recorded an after-tax charge of $6.4 million ($10.5 million pretax) in connection with the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN No. 47), an interpretation of SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). FIN No. 47 clarifies when sufficient information is available to estimate an asset retirement obligation. In conjunction with this adoption, $6.4 million was recorded as a cumulative effect of an accounting change. This charge is principally related to asset retirement obligations for production technology and building materials.

2004 Year

On January 29, 2004, we announced that our board of directors approved plans to relocate our corporate offices for organizational, strategic and economic reasons. By the end of 2004, we had completed the relocation of a portion of our corporate services personnel from Norwalk, CT to our Main Office Building in East Alton, IL. We also established our new corporate headquarters in Clayton, which is in St. Louis County, MO, for logistical and other reasons. The relocation of the corporate offices was accompanied by a downsized corporate structure more appropriate for us in today s competitive business environment. The headquarters relocation was completed by the end of 2004. The majority of the corporate personnel have been co-located with the Brass and Winchester businesses resulting in

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corporate headcount being reduced by approximately forty percent, generating total projected annual savings of approximately $6.0 million in 2006. As a result of the relocation, we incurred costs of $10.1 million in 2004 and incurred an additional $0.3 million of costs in 2005. This restructuring charge included primarily employee severance and related benefit costs, relocation expense, pension curtailment expense and the incurred cost for outplacement services for all affected employees. The sale of the Indianapolis facility in November 2004 resulted in a reduction of a previously established reserve related to our Indianapolis restructuring of $0.5 million, which reduced the total 2004 restructuring charge to $9.6 million.

On February 3, 2004, we issued and sold 10 million shares of our common stock at a public offering price of $18.00 per share. Net proceeds from the sale were $177.8 million and were used to make a voluntary contribution of $125.0 million to our pension plan. In March 2004, we used $17.5 million from the proceeds of the stock offering to repay the Illinois Industrial Pollution Control Revenue Bond, which became due in March of 2004. The remaining balance ($35.3 million) of the proceeds was used in April 2004 to pay a portion of federal income taxes related to prior periods.

In 2003, we were accepted to participate in the IRS settlement initiative pertaining to tax issues related to our benefits liability management company. In addition, we settled with the IRS relative to our Company Owned Life Insurance (COLI) program. In the third quarter of 2004, a final settlement agreement was reached with the IRS on these and certain other outstanding issues related to tax audits covering the 1992 through 2000 tax years. In connection with these settlements we made payments in the second quarter of 2004 of $40.8 million. These payments resolved all open issues regarding our benefits liability management company and our COLI program. These tax issues had been recorded as a liability prior to 2002. In the third quarter of 2004, the income tax provision included a $2.3 million reduction in income tax expense associated with the finalization, in the third quarter of 2004, of the settlement of certain issues related to income tax audits for the years 1992 through 2000.

On April 29, 2004, a fire occurred in the electrical control room for the hot mill located in East Alton, IL. The hot mill was returned to full operation in mid-May. The full-year costs relative to the fire were incurred by the Metals segment in the second quarter and were $4.7 million pretax.

In June 2004, we sold our Olin Aegis business to HCC Industries Inc. Olin Aegis, headquartered in New Bedford, MA, is a manufacturer of high performance, high reliability, hermetic metal packages for the microelectronics industry. Olin Aegis employed 250 people. The sale of our Olin Aegis business resulted in a pretax gain of $5.8 million and generated proceeds of $17.1 million. For Olin Aegis, the financial data is classified in our financial statements as discontinued operations for the periods presented prior to 2005.

On July 30, 2004, we entered into a $160.0 million five-year senior revolving credit facility that replaced the $140.0 million senior revolving credit facility. This credit facility expires on July 30, 2009. Borrowing options, restrictive covenants and the letter of credit subfacility are similar to or better than those of the previous senior revolving credit facility.

In September 2004, we were impacted by equipment problems and a hurricane at our McIntosh, AL chlor alkali facility. We invoked the force majeure clause in the chlorine contracts with our customers due to equipment problems and invoked the force majeure clause in the chlorine, caustic soda, hydrogen, salt and sodium hypochlorite contracts with our customers due to the effects of the hurricane. The negative impact of these issues was several million dollars. The plant returned to full operation in late September.

In September 2004, Winchester announced that it would relocate its East Alton rimfire manufacturing operation to Oxford, MS to allow Winchester the ability to reduce costs, improve efficiencies, better utilize existing technology and achieve improved profitability in the product line. This move was completed in the second quarter 2005. This relocation impacted approximately 150 salaried and hourly employees, but did not impact the shotshell, centerfire rifle, and pistol manufacturing operations, which are located in East Alton, IL.

In November 2004, we purchased certain business assets of Metal Foils LLC for $3.2 million. Metal Foils LLC is a distributor of aluminum, stainless steel, and copper products located in Willoughby, OH. We relocated the purchased assets to our A.J. Oster facility in Alliance, OH in the fourth quarter of 2004.

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PENSION AND POSTRETIREMENT BENEFITS

Under SFAS No. 87, we recorded a $220.0 million after-tax charge ($360.0 million pretax) to Shareholders Equity as of December 31, 2002, reflecting an accumulated pension benefit obligation in excess of the year-end market value of assets of our pension plan. In 2003, the decline in interest rates more than offset a significant rebound in the value of the plan s assets, which necessitated the recording of an additional after-tax charge of $19.5 million ($32.2 million pretax). On February 6, 2004, we made a voluntary contribution of $125.0 million to the pension plan with the proceeds from the issuance of common stock. In September 2004, we made a second voluntary contribution of $43.0 million to the pension plan. These 2004 voluntary contributions improved the funded status of the pension plan. In addition, the 2004 contributions eliminated a PBGC variable rate premium of $3.0 million that would have otherwise become payable from the pension plan assets in 2004. In 2004, the decline in interest rates resulted in a 25-basis point discount rate reduction that more than offset the increases in the value of the plan s assets. Therefore, we recorded in December 2004 an additional after-tax charge of $23.7 million ($38.8 million pretax) as a result of an increase in the accumulated pension benefit obligation. In September 2005, we made a voluntary pension plan contribution of $6.1 million in order to maintain a 90% funded level under the Employee Retirement Income and Security Act (ERISA) criteria used to determine funding levels. In 2005, an additional 25-basis point decline in interest rates and the cost impact of contractual pension plan changes more than offset the increase in the value of the plan assets. Therefore, we recorded in December 2005 an additional after-tax charge of $29.2 million ($47.8 million pretax) as a result of an increase in the accumulated pension benefit obligation.

In September 2006, we made a voluntary pension plan contribution of $80.0 million. In 2006, we recorded an after-tax credit of $54.5 million ($89.2 million pretax) to Shareholders Equity as a result of a decrease in the accumulated pension benefit obligation, which primarily resulted from a 25-basis point increase in the plan discount rate, combined with an increase in the value of the plan assets from favorable plan performance and the contribution. In 2006 we adopted SFAS No. 158, which required us to record a net liability to report the funded status of our defined benefit pension and other postretirement plans on our balance sheet. As a result, we recorded after-tax charges to Shareholders Equity of $39.7 million and $33.6 million for the pension and other postretirement plans, respectively, ($65.0 million and $55.0 million pretax, respectively). The non-cash charges to Shareholders Equity do not affect our ability to borrow under our revolving credit agreement.

Based on revised assumptions and estimates, we believe no mandatory contributions will be required until 2009. We may elect to make selective voluntary contributions, when appropriate. During the third quarter of 2006, the Pension Protection Act of 2006 became law. Among the stated objectives of the law are the protection of both pension beneficiaries and the financial health of the PBGC. To accomplish these objectives, the new law requires sponsors to fund defined benefit pension plans earlier than previous requirements and to pay increased PBGC premiums. The impact of the law cannot be fully assessed until all the implementation rules are published but the law does require defined benefit plans to be fully funded in 2011. This will accelerate and potentially increase our pension plan funding requirements.

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CONSOLIDATED RESULTS OF OPERATIONS

	2006	2005	2004
	($ in millions, except per share amounts)		
Sales	$ 3,151.8	$ 2,357.7	$ 1,996.8
Cost of Goods Sold (exclusive of the LIFO inventory liquidation gains shown below)	2,823.0	1,999.7	1,765.2
LIFO Inventory Liquidation Gains	25.9	0.9	0.3
Gross Margin	354.7	358.9	231.9
Selling and Administration	176.9	176.3	141.0
Research and Development	4.5	4.2	3.9
Restructuring Charges	17.6	0.3	9.6
Other Operating Income	6.7	9.1	5.5
Operating Income	162.4	187.2	82.9
Earnings of Non-consolidated Affiliates	46.0	38.5	10.1
Interest Expense	20.3	19.9	20.2
Interest Income	11.8	18.3	1.9
Other Income	1.5	1.5	4.5
Income from Continuing Operations before Taxes and Cumulative Effect of Accounting Change	201.4	225.6	79.2
Income Tax Provision	51.7	85.9	28.5
Income from Continuing Operations before Cumulative Effect of Accounting Change	149.7	139.7	50.7
Discontinued Operations:			
Income from Discontinued Operations, Net			0.6
Gain on Disposal of Discontinued Operations, Net			3.5
Income before Cumulative Effect of Accounting Change	149.7	139.7	54.8
Cumulative Effect of Accounting Change, Net		(6.4)	
Net Income	$ 149.7	$ 133.3	$ 54.8
Basic Income per Common Share:			
Income from Continuing Operations before Cumulative Effect of Accounting Change	$ 2.06	$ 1.96	$ 0.74
Income from Discontinued Operations, Net			0.01
Gain on Disposal of Discontinued Operations, Net			0.05
Cumulative Effect of Accounting Change, Net		(0.09)	
Net Income	$ 2.06	$ 1.87	$ 0.80
Diluted Income per Common Share:			
Income from Continuing Operations before Cumulative Effect of Accounting Change	$ 2.06	$ 1.95	$ 0.74
Income from Discontinued Operations, Net			0.01
Gain on Disposal of Discontinued Operations, Net			0.05
Cumulative Effect of Accounting Change, Net		(0.09)	
Net Income	$ 2.06	$ 1.86	$ 0.80

2006 Compared to 2005

For 2006, total company sales were $3,151.8 million compared with $2,357.7 million last year, an increase of $794.1 million, or 34%. Chlor Alkali Products sales increased by $55.9 million, or 9%, from last year due to higher ECU prices, which increased approximately 8%. Chlor Alkali Products shipment volumes decreased slightly from the prior year. In the Metals segment, sales increased by $709.4 million, or 51%, over 2005. The increase in Metals segment sales was primarily the result of increased metal prices. Average copper and zinc prices increased 84% and 137%, respectively, during 2006. Winchester sales increased by $28.8 million, or 8%, from 2005 primarily due to increased selling prices and shipments to commercial customers.

Gross margin decreased $4.2 million, or 1%, from 2005, primarily as a result of higher pension costs and higher environmental costs offset by higher ECU selling prices for Chlor Alkali Products and $25.9 million of LIFO inventory liquidation gains primarily associated with the closure of the Waterbury and Seymour facilities as part of the 2006 Metals restructuring program. Gross margin was also impacted by recoveries from third parties of environmental costs incurred and expensed in prior periods of $1.2 million in 2006 compared to $38.5 million in 2005. Gross margin as a percentage of sales decreased to 11% in 2006 from 15% in 2005. This margin percentage decrease reflects higher Metals sales resulting from increased metal values, higher pension costs, which includes a $5.4 million pension curtailment charge resulting from the transition of a portion of the Metals and Winchester hourly workforce from a defined benefit pension plan to a defined contribution pension plan, higher environmental costs, offset in part by the higher ECU selling prices, and the LIFO inventory liquidation gains.

Selling and administration expenses as a percentage of sales were 6% in 2006 and 7% in 2005. Selling and administration expenses in 2006 were higher by $0.6 million than 2005 primarily due to increased pension expenses ($5.1 million), higher stock option compensation expense as a result of adopting SFAS No. 123R, which now requires share-based compensation to be expensed ($2.9 million), increased salary costs ($3.0 million) primarily resulting from normal escalation, third party fees associated with the July 2006 debt exchange ($1.2 million), higher consulting fees ($2.8 million), and increased incentive compensation ($0.8 million). These increases were substantially offset by a lower level of legal and legal-related settlement expenses ($11.4 million), which were higher in the prior year due to costs associated with legacy environmental issues, lower bad debt expense ($1.4 million), decreased rent charges ($1.2 million) primarily due to the relocation of our corporate office in Connecticut, and reduced insurance costs ($1.1 million).

Restructuring charges of $17.6 million for 2006 related to the closure of the Waterbury and Seymour facilities in the Metals segment, and primarily included lease and other contract termination costs, facility costs and equipment write-offs, and employee severance and related benefit costs. Restructuring charges of $0.3 million for 2005 were for the corporate office relocation, and included primarily employee severance and related benefit costs.

Other operating income for 2006 included a $6.0 million insurance recovery for Hurricane Katrina business interruption experienced in 2005 and early 2006 in our Chlor Alkali Products operations and a gain of $0.7 million on the disposition of a former manufacturing plant. Other operating income for 2005 included the gains on the disposition of three real estate properties. The first disposition represented the settlement of a contested condemnation award relating to land associated with a former warehousing facility. The other two transactions represented the disposition of land associated with former manufacturing plants.

The earnings of non-consolidated affiliates were $46.0 million for 2006, an increase of $7.5 million from 2005, primarily due to higher ECU selling prices and increased volumes at the SunBelt joint venture.

Interest expense increased by $0.4 million, or 2%, in 2006, due to the effect of higher short-term interest rates, offset in part by a lower level of outstanding debt.

Interest income for 2006 decreased by $6.5 million compared to 2005. The 2005 interest income included interest of $11.4 million associated with the recoveries from third parties of environmental costs incurred and expensed in prior periods and $0.3 million of interest received from the disposition of real estate. These items were partially offset in 2006 by increased interest income for investments on short-term marketable securities which improved returns, higher short-term interest rates, and higher average cash balances.

The effective tax rate for 2006 included a $21.6 million reduction in income tax expense associated with the settlement of certain audit issues related to the audits for the years 1996 to 2002, principally the tax treatment of capital losses generated in 1997 and other tax matters. The effective tax rate for 2006 of 36.4%, which was offset by the $21.6 million reduction, is higher than the 35% U.S. federal statutory rate primarily due to state income taxes offset in part by the domestic manufacturing deduction and utilization of certain state tax credits. The effective tax rate of 38.1% for 2005 included a $1.2 million reduction in income tax expense (0.6% reduction in effective tax rate) resulting from the refunds of interest paid in connection with the 2004 settlement of certain tax issues related to prior years. The effective tax rate for 2005 was higher than the 35% U.S. federal statutory rate primarily due to state income taxes and the accrual of interest on taxes which may become payable in the future.

2005 Compared to 2004

For 2005, total company sales were $2,357.7 million compared with $1,996.8 million in 2004, an increase of $360.9 million, or 18%. Chlor Alkali Products sales increased from 2004 by $162.0 million due to higher ECU

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selling prices, which increased by 52% from 2004 and were offset in part by 6% lower volumes. In the Metals segment, sales increased $172.6 million, or 14%, over 2004. The increase in the Metals segment sales was the result of higher metal prices offset in part by lower shipment volumes. Average copper prices increased 30% during 2005. Winchester sales increased by $26.3 million, or 8%, from 2004 due to increased demand from the U.S. military and law enforcement customers and a slight increase in domestic commercial sales due to higher selling prices.

Gross margin increased $127.0 million, or 55%, over 2004 primarily as a result of higher ECU selling prices for chlor alkali products. Gross margin as a percentage of sales increased to 15% in 2005 from 12% in 2004. The gross margin dollar increase of $127.0 million reflected the higher ECU prices. The resulting margin percentage increase also reflects the higher ECU selling prices and was offset in part by higher metals sales resulting from increased metal values and by lower gross margins in the Metals and Winchester segments. Gross margin and gross margin as a percentage of sales were also positively impacted by recoveries from third parties of $38.5 million of environmental costs incurred and expensed in prior periods.

Selling and administration expenses as a percentage of sales were 7% in 2005 and 2004. Selling and administration expenses in 2005 were $35.3 million higher than in 2004 primarily due to a higher level of legal expenses primarily associated with legacy environmental matters, including recovery actions for environmental costs previously incurred and expensed ($16.5 million) and third-party legal-related settlement costs ($7.8 million), pension expense ($7.8 million), and bad debt expense ($2.3 million). These costs more than offset cost savings of $3.5 million generated from the corporate office relocation.

Restructuring charges for 2005 of $0.3 million compared to $9.6 million for 2004. These restructuring charges were for the corporate office relocation and included primarily employee severance and related benefit costs, relocation expense, pension curtailment expense and the incurred cost for outplacement services.

Other operating income of $9.1 million for 2005 included the gains on the disposition of three real estate properties. The first disposition represented the settlement of a contested condemnation award relating to land associated with a former warehousing facility. The other two transactions represented the disposition of land associated with former manufacturing plants. Other operating income for 2004 included a non-recurring gain of $5.5 million related to a settlement of a contract matter with an outside third party.

The earnings of non-consolidated affiliates were $38.5 million for 2005, an increase of $28.4 million from $10.1 million for 2004, primarily due to higher ECU selling prices at the SunBelt joint venture.

Interest expense decreased by $0.3 million, or 1%, in 2005 because of the favorable impact on interest expense from a lower level of outstanding net debt and was offset by higher short-term interest rates. During 2005, $52.0 million of debt was repaid.

Interest income for 2005 increased by $16.4 million from 2004. The 2005 interest income included interest of $11.4 million associated with the recoveries from third parties of environmental costs incurred and expensed in prior periods and $0.3 million of interest received from the disposition of real estate. Also, interest income increased as the result of higher average cash balances and increased short-term interest rates.

Other income decreased by $3.0 million from 2004 primarily due to a $2.0 million gain on the sale of our equity interest in an insurance investment in 2004.

The effective tax rate of 38.1% for 2005 included a $1.2 million reduction in income tax expense (0.6% reduction in effective tax rate) resulting from the refunds of interest paid in connection with the 2004 settlement of certain tax issues related to prior years. The 2005 effective tax rate is higher than the 35% U.S. federal statutory rate primarily due to state income taxes and the accrual of interest on taxes which may become payable in the future. The effective tax rate of 35.8% for 2004 included a $2.3 million reduction in income tax expense (2.9% reduction in effective tax rate) associated with the settlement of certain issues related to income tax audits for the years 1992 through 2000. The 2004 effective tax rate was higher than the 35% U.S. federal statutory rate primarily due to state income taxes and income in certain foreign jurisdictions being taxed at higher rates.

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On December 31, 2005, we adopted FIN No. 47 and recorded an after-tax charge of $6.4 million ($10.5 million pretax) as a cumulative effect of an accounting change. FIN No. 47 clarifies when sufficient information is available to estimate an asset retirement obligation. This charge is principally related to asset retirement obligations for production technology and building materials.

SEGMENT RESULTS

We define segment results as income (loss) before interest expense, interest income, other income, and income taxes and include the results of non-consolidated affiliates. Consistent with the guidance in SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, we have determined it is appropriate to include the operating results of non-consolidated affiliates in the relevant segment financial results. Our management considers the SunBelt Chlor Alkali Partnership to be an integral component of the Chlor Alkali Products segment and Yamaha-Olin Metal Corporation to be an integral component of the Metals segment. Each is engaged in the same business activity as the segment, including joint or overlapping marketing, management, manufacturing, and technology development functions. Inter-segment sales of $69.1 million, $47.7 million and $37.3 million for the years 2006, 2005 and 2004, respectively, representing the sale of ammunition cartridge cups to Winchester from Metals, at prices that approximate market, have been eliminated from Metals segment sales.

	2006	*2005*	*2004*
		($ in millions)	
Sales:			
Chlor Alkali Products	$ 666.1	$ 610.2	$ 448.2
Metals	2,112.1	1,402.7	1,230.1
Winchester	373.6	344.8	318.5
Total Sales	$ 3,151.8	$ 2,357.7	$ 1,996.8
Income from Continuing Operations before Taxes and Cumulative Effect of Accounting Change:			
Chlor Alkali Products(1)	$ 256.3	$ 237.0	$ 83.0
Metals(1)	58.2	34.0	50.5
Winchester	15.8	7.8	21.9
Corporate/Other:			
Pension (Expense) Income(2)	(19.2)	(2.0)	11.3
Environmental (Provision) Credit	(22.6)	15.8	(23.4)
Other Corporate and Unallocated Costs	(69.2)	(75.7)	(46.2)
Restructuring Charges	(17.6)	(0.3)	(9.6)
Other Operating Income	6.7	9.1	5.5
Interest Expense	(20.3)	(19.9)	(20.2)
Interest Income	11.8	18.3	1.9
Other Income	1.5	1.5	4.5
Income from Continuing Operations before Taxes and Cumulative Effect of Accounting Change	$ 201.4	$ 225.6	$ 79.2

(1) Earnings of non-consolidated affiliates are included in the segment results consistent with management s monitoring of the operating segments. The earnings from non-consolidated affiliates, by segment, are as follows:

	2006	*2005*	*2004*
Chlor Alkali Products	$ 45.3	$ 37.8	$ 9.0
Metals	0.7	0.7	1.1

Earnings of non-consolidated affiliates	$ 46.0	$ 38.5	$ 10.1

(2) The service cost and the amortization of prior service cost components of pension expense related to the employees of the operating segments are allocated to the operating segments based on their respective estimated census data. All other components of pension costs are included in Corporate/Other and include items such as the expected return on plan assets, interest cost and recognized actuarial gains and losses. The 2006 curtailment charge is included in Corporate/Other and represents the accelerated recognition of prior service costs. The summary of pension costs is allocated as follows:

	2006	*2005*	*2004*
Service cost and prior service cost	$ 24.9	$ 24.2	$ 22.0
Other components of pension costs	13.8	2.0	(11.3)
Subtotal	38.7	26.2	10.7
Curtailment charge	5.4		1.2
Net periodic benefit cost	$ 44.1	$ 26.2	$ 11.9

Chlor Alkali Products

2006 Compared to 2005

Chlor Alkali Products sales for 2006 were $666.1 million compared to $610.2 million for 2005, an increase of $55.9 million, or 9%. The sales increase was primarily due to higher ECU pricing, which increased 8% from 2005, and was partially offset by 1% lower volumes. Balanced demand for both chlorine and caustic soda in 2006 allowed operating rates and pricing to remain stable. Higher energy costs and lower chlorine values in derivatives for Asian producers were primarily responsible for limiting imports of caustic soda for much of 2006. Our ECU netbacks, excluding our SunBelt joint venture, were approximately $550 for 2006 compared to approximately $510 for 2005, an increase of 8%. Our operating rates for 2006 were 91% of capacity, compared to 92% in 2005.

Chlor Alkali Products posted segment income of $256.3 million for 2006, compared to $237.0 million for 2005, an increase of $19.3 million, or 8%. Segment income was higher in 2006 because of higher selling prices ($40.4 million) and favorable SunBelt operating results ($7.5 million) which were partially offset by higher operating costs ($22.9 million) and lower volumes ($5.5 million). Operating expenses increased primarily due to increases in distribution costs and manufacturing costs which includes electricity and increased maintenance expenses. The operating results from the SunBelt joint venture included interest expense of $5.3 million and $5.7 million in 2006 and 2005, respectively, on the SunBelt Notes.

2005 Compared to 2004

Chlor Alkali Products sales for 2005 were $610.2 million compared to $448.2 million for 2004, an increase of $162.0 million, or 36%. The sales increase was due to higher ECU pricing, which increased 52% in 2005 and more than offset 6% lower volumes. In 2005, ECU pricing increased each quarter as price increases were implemented and contract terms and price indexing continued to favorably impact our netbacks throughout the year. Our ECU netback, excluding our SunBelt joint venture, was approximately $510 for 2005 compared to approximately $335 for 2004. The fourth quarter 2005 ECU netback was approximately $545. The 2005 chlorine and caustic pricing was a result of a tight market, resulting primarily from a strong worldwide economy and the capacity rationalization that has occurred in the U.S. chlor alkali industry. The volumes in 2005 were lower due to the effects of three hurricanes during the third quarter, which caused customer outages and disruptions to the transportation system and a reduction in third party sales volumes. Although none of our facilities were damaged by these hurricanes, these factors reduced our operating rate during the second half of 2005 to 87% of capacity, compared to 94% during the second half of 2004. Our operating rates for 2005 were 92% compared to 94% in 2004.

Chlor Alkali Products posted segment income of $237.0 million, compared to $83.0 million for 2004. Segment income was higher in 2005 because of higher selling prices ($177.7 million) and favorable SunBelt operating results ($28.8 million), which were partially offset by higher operating costs ($28.1 million) and lower volumes ($24.3 million). The higher selling prices at SunBelt were partially offset by higher manufacturing costs and operating expenses. The higher operating costs were due to increased electricity costs primarily driven by natural gas and coal prices and increased maintenance expenses. Additionally, operating expenses increased due to higher administrative expenses primarily salaries, incentive compensation (resulting from increased segment income), and legal expenses. The operating results from the SunBelt joint venture included interest expense of $5.7 million and $6.2 million in 2005 and 2004, respectively, on the SunBelt Notes.

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Metals

2006 Compared to 2005

Sales for 2006 were $2,112.1 million compared to sales of $1,402.7 million for 2005, an increase of $709.4 million, or 51%. This increase reflects higher metal values as shipment volumes remained constant. The average COMEX copper price was $3.09 per pound in 2006 compared with $1.68 per pound in 2005, an increase of 84%. The average zinc price was $1.49 per pound in 2006 compared to $0.63 per pound in 2005, an increase of 137%. Estimated industry demand in 2006 increased by 2% from 2005 levels.

Shipments to the electronics segment increased by 26% in 2006, due primarily to increased demand as a result of an improved position with a key customer. Ammunition segment shipments increased 13% for 2006 due to higher demand for military ordnance while shipments to the building products and automotive segments declined by 6% and 15%, respectively, due to lower housing starts and decreased automotive production. Coinage shipments were 4% higher than last year.

The Metals segment reported income of $58.2 million in 2006 compared to $34.0 million in 2005, an increase of $24.2 million, or 71%. The increased segment income was due to $25.9 million of LIFO inventory liquidation gains primarily associated with the closure of our Waterbury and Seymour facilities. Metals segment income for 2006 also included a $2.3 million gain from the settlement of an insurance claim related to the 2004 fire that occurred in the electrical control room for the hot mill located in East Alton, IL. Metals earnings also increased due to improved product pricing ($25.7 million), and the cost benefit from the 2006 restructuring ($3.4 million), offset by higher operating costs ($31.2 million), which included higher metal melting loss costs ($15.6 million) caused by higher metal prices and higher energy costs ($6.0 million). The price of copper and zinc increased by 84% and 137%, respectively, from 2005. Natural gas and electricity prices increased 20% and 17%, respectively, from 2005.

2005 Compared to 2004

Sales for 2005 were $1,402.7 million compared to sales of $1,230.1 million for 2004, an increase of $172.6 million, or 14%. This increase reflects higher metal values offset in part by lower shipment volumes. The average COMEX copper price was $1.68 per pound in 2005 compared with $1.29 per pound in 2004, an increase of 30%. Total shipment volumes decreased by 3% from 2004, while estimated industry demand in 2005 was 8% below 2004 levels.

Overall shipments in 2005 were 3% lower than in 2004. Shipments to the automotive segment decreased in 2005 by 9% due to reduced production throughout the U.S. automotive supply chain. Coinage shipments were 17% higher than last year primarily due to increased demand from the U.S. Mint mainly resulting from the commemorative nickel program. Shipments to the ammunition segment increased 15% for 2005 compared to 2004 due to the higher demand for military ordnance. Shipments to our building products customers decreased by 8% from 2004.

The Metals segment reported income of $34.0 million in 2005 compared to $50.5 million in 2004, a decrease of $16.5 million, or 33%. Lower earnings were primarily a result of lower shipment volumes in 2005 ($4.8 million), higher energy costs ($4.6 million), higher metal melting loss costs caused by higher copper prices ($4.8 million), and higher medical and workers compensation costs ($4.8 million). In addition, Metals earnings were negatively impacted due to the lack of hydrogen availability due to Hurricane Katrina. The lack of hydrogen negatively impacted our plant efficiencies and product yields. The Metals 2004 earnings were affected by the costs relative to the fire in the electrical control room for the hot mill located at East Alton, IL of $4.7 million.

Winchester

2006 Compared to 2005

Sales were $373.6 million in 2006 compared to $344.8 million for 2005, an increase of $28.8 million, or 8%. Sales of ammunition to the domestic and international commercial customers increased $26.6 million due to higher selling prices and higher shipments. Shipments to law enforcement organizations also increased by $3.1 million in 2006. These increases were partially offset by lower shipments to industrial customers. Military sales remained constant from 2005.

Winchester reported segment income of $15.8 million for 2006 compared to $7.8 million in 2005, an increase of $8.0 million, or 103%. Higher selling prices and the benefits from increased sales volumes ($25.5 million) were partially offset by increased commodity and material costs and higher operating costs ($17.8 million).

2005 Compared to 2004

Sales were $344.8 million in 2005 compared to $318.5 million for 2004, an increase of $26.3 million, or 8%. Shipments of ammunition to the U.S. military increased by $18.9 million in 2005, while shipments to law enforcement organizations increased $6.4 million. Domestic commercial sales increased slightly in 2005 due to higher selling prices.

The Winchester segment reported income of $7.8 million in 2005 compared to $21.9 million in 2004, a decrease of $14.1 million, or 64%. The benefits from increased sales volumes and higher selling prices were more than offset by higher copper, lead, steel, and resin costs ($17.7 million), higher medical and workers compensation costs ($3.9 million), and start-up costs at the Oxford, MS facility.

Corporate/Other

2006 Compared to 2005

For 2006, pension expense included in Corporate/Other was $19.2 million compared to $2.0 million in 2005. The $17.2 million increase in corporate pension expense was due to the impact of a lower discount rate and the higher amortization of plan losses, primarily investment losses on plan assets from prior periods. The 2006 Corporate/Other pension expense also included a curtailment charge of $5.4 million resulting from the transition of a portion of the Metals and Winchester hourly workforces from a defined benefit pension plan to a defined contribution pension plan. On a total company basis, pension expense for 2006 was $44.1 million compared to $26.2 million in 2005.

Charges to income for environmental investigatory and remedial activities were $22.6 million for 2006, compared with credits to income of $15.8 million in 2005. These amounts included recoveries from third parties of environmental costs incurred and expensed in prior periods of $1.2 million and $38.5 million for 2006 and 2005, respectively. Charges to income for investigatory and remedial activities without these recoveries would have been $23.8 million in 2006 compared to $22.7 million in 2005. These charges relate primarily to expected future remedial and investigatory activities associated with past manufacturing operations and former waste disposal sites.

For 2006, other corporate and unallocated costs were $69.2 million compared to $75.7 million in 2005, a decrease of $6.5 million, or 9%. Legal and legal-related settlement expenses, which were higher in 2005 due to costs associated with legacy environmental issues, decreased by $12.7 million, rent charges decreased $1.4 million due to the relocation of our corporate office in Connecticut, incentive compensation decreased by $1.3 million, and insurance expense was $0.5 million lower. These decreases were partially offset by increased asset retirement obligation charges of $3.0 million, which was lower in 2005 due to a $2.5 million adjustment for certain hazardous waste units, stock option compensation expense of $2.9 million as a result of adopting SFAS No. 123R, which now requires share-based compensation to be expensed, higher consulting fees of $1.9 million, and third party fees of $1.2 million associated with the July 2006 debt exchange.

2005 Compared to 2004

In 2005, pension expense included in Corporate/Other was $2.0 million compared with pension income of $11.3 million in 2004. The $13.3 million increase in corporate pension expense was due to the cost impact of plan changes, the impact of a lower discount rate and the higher amortization of plan losses, primarily investment losses on plan assets from prior periods. On a total company basis, pension expense for 2005 was $26.2 million compared to $10.7 million in 2004. We made a voluntary pension contribution of $6.1 million in 2005 to maintain a 90% funded level as prescribed under ERISA.

Credits to income for investigatory and remedial activities were $15.8 million for 2005, which included $38.5 million in recoveries from third parties of environmental costs incurred and expensed in prior periods. Charges to income for investigatory and remedial activities, without these recoveries in 2005, would have been $22.7 million in 2005 compared with $23.4 million in 2004. These charges relate primarily to expected future remedial and investigatory activities associated with past manufacturing operations and former waste disposal sites.

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For 2005, other corporate and unallocated costs were $75.7 million compared with $46.2 million in 2004, an increase of $29.5 million, or 64%. This increase was primarily due to higher legal expenses related to a higher level of legal and legal-related settlement expenses associated with legacy environmental matters, including recovery actions for environmental costs previously incurred and expensed ($23.6 million), higher incentive compensation expense ($2.8 million) due to higher earnings, increased employee benefit expenses ($1.1 million) as a result of reinstating company matched Contributing Employee Ownership Plan (CEOP) contributions that had been suspended in 2003 and workers compensation costs, and increased consulting fees ($0.6 million). These increases more than offset the cost savings resulting from the corporate headquarters relocation ($3.5 million).

2007 OUTLOOK

Earnings in the first quarter of 2007 are projected to be in the 25 cents per diluted share range.

In Chlor Alkali Products, we expect both first quarter 2007 shipment volumes and pricing to be lower than the first quarter of 2006. We experienced a seasonal decline in chlorine demand during the fourth quarter which has continued into the first quarter of 2007. During the fourth quarter, a $40 per ton caustic soda price increase was announced, a portion of which we expect to implement during the first quarter. The reduced industry operating rates experienced in the fourth quarter and increased caustic exports have tightened domestic caustic supply. In the first quarter of 2007, we expect to see some decline in our ECU netbacks from the fourth quarter but expect ECU netbacks to be flat in the first half of 2007 and we anticipate some gradual, but not significant, decline in the second half of 2007.

In the Metals business, we expect lower volumes to be offset by higher pricing. We expect the first quarter 2007 Metals earnings to be comparable with the first quarter of 2006.

Winchester results are expected to improve from the first quarter of 2006 to the first quarter of 2007 primarily due to improved pricing and increased volumes partially offset by higher commodity costs. Winchester has announced eight price increases since the beginning of 2004. The last of these increases was effective December 1, 2006. Commodity material prices are likely to continue to challenge Winchester in 2007. The price of copper has moderated some during January, but the price of lead has continued to increase. The January 2007 spot price for lead has been 74 cents per pound, compared to a spot price in the first quarter of 2006 of 56 cents. Winchester consumes approximately four times as much lead as copper annually. We expect Winchester s 2007 military sales to increase from 2006 levels.

We expect 2007 pension expense to decrease to approximately $29.0 million from $44.1 million in 2006. This decline reflects the combination of a 25-basis point increase in the discount rate, the voluntary $80.0 million pension contribution made in 2006, favorable performance on plan assets in 2006, and the transition of a portion of the Metals and Winchester hourly workforce from a defined benefit pension plan to a defined contribution pension plan. The first quarter of 2007 pension expense is expected to decline approximately $1.0 million.

We expect to record $2.0 million of additional charges in 2007 associated with 2006 Metals restructuring actions.

During 2007, we will continue to address the cost structure in our Metals business. We have initiated an aggressive inventory reduction program, which has the objective of reducing inventory balances by 20% over the next two years. These reductions, which will be in addition to the 10% reductions realized in 2006, are expected to produce additional inventory liquidation gains, the exact amount of which will reflect market prices for copper and zinc.

We believe the 2007 effective tax rate will be in the 34% to 35% range. This reduced rate reflects an increase in the U.S. manufacturing credit contained in the Jobs Creation Act of 2004 from 3% to 6% in 2007.

We are currently forecasting 2007 capital spending to be in the $90.0 to $95.0 million range, approximately 65% of which will be directed at the Chlor Alkali business. The 2007 capital spending will include the completion of the bleach expansion projects and ongoing maintenance projects which are not expected to cause outages in our Chlor Alkali Products operations.

Finally, during the first quarter of 2007, we entered into a sale/leaseback transaction for chlorine railcars that we acquired in 2005 and 2006. This transaction reduced our fixed assets by approximately $16.0 million.

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ENVIRONMENTAL MATTERS

	2006	2005	2004
		($ in millions)	
Cash Outlays:			
Remedial and Investigatory Spending (Charged to Reserve)	$ 35.9	$ 19.6	$ 16.6
Recoveries from Third Parties	(1.2)	(38.5)	
Capital Spending	3.1	3.2	2.8
Plant Operations (Charged to Cost of Goods Sold)	17.2	17.1	16.8
Total Cash Outlays	$ 55.0	$ 1.4	$ 36.2
Reserve for Environmental Liabilities:			
Beginning Balance	$ 102.9	$ 99.8	$ 93.0
Charges to Income	23.8	22.7	23.4
Remedial and Investigatory Spending	(35.9)	(19.6)	(16.6)
Ending Balance	$ 90.8	$ 102.9	$ 99.8

Remedial and investigatory spending increased during 2006 due to an expansive investigation at a site and the implementation of remedial actions at five other sites. Total environmental-related cash outlays for 2007 are estimated to be approximately $56.0 million, of which $35.0 million is expected to be spent on investigatory and remedial efforts, $4.0 million on capital projects and $17.0 million on normal plant operations. Historically, we have funded our environmental capital expenditures through cash flow from operations and expect to do so in the future.

Cash outlays for remedial and investigatory activities associated with former waste sites and past operations were not charged to income but instead were charged to reserves established for such costs identified and expensed to income in prior years. Cash outlays for normal plant operations for the disposal of waste and the operation and maintenance of pollution control equipment and facilities to ensure compliance with mandated and voluntarily imposed environmental quality standards were charged to income.

The establishment and implementation of federal, state, and local standards to regulate air, water and land quality has affected and will continue to affect substantially all of our manufacturing locations. Federal legislation providing for regulation of the manufacture, transportation, use, and disposal of hazardous and toxic substances, and remediation of contaminated sites, has imposed additional regulatory requirements on industry, particularly the chemicals industry. In addition, implementation of environmental laws, such as the Resource Conservation and Recovery Act and the Clean Air Act, has required and will continue to require new capital expenditures and will increase plant operating costs. We employ waste minimization and pollution prevention programs at our manufacturing sites.

We are party to various governmental and private environmental actions associated with past manufacturing facilities and former waste disposal sites. Associated costs of investigatory and remedial activities are provided for in accordance with generally accepted accounting principles governing probability and the ability to reasonably estimate future costs. Our ability to estimate future costs depends on whether our investigatory and remedial activities are in preliminary or advanced stages. With respect to unasserted claims, we accrue liabilities for costs that, in our experience, we may incur to protect our interests against those unasserted claims. Our accrued liabilities for unasserted claims amounted to $5.7 million at December 31, 2006. With respect to asserted claims, we accrue liabilities based on remedial investigation, feasibility study, remedial action and Operation, Maintenance and Monitoring (OM&M) expenses that, in our experience, we may incur in connection with the asserted claims. Required site OM&M expenses are estimated and accrued in their entirety for required periods not exceeding 30 years, which reasonably approximates the typical duration of long-term site OM&M. Charges or credits to income for investigatory and remedial efforts were material to operating results in 2006, 2005, and 2004 and may be material to net income in future years.

Environmental provisions (credits) charged (credited) to income were as follows:

	2006	***2005***	***2004***
		($ in millions)	
Charges to Income	$ 23.8	$ 22.7	$ 23.4
Recoveries from Third Parties of Costs Incurred and Expensed in Prior Periods	(1.2)	(38.5)	
Total Provision (Credit)	$ 22.6	$ (15.8)	$ 23.4

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These charges relate primarily to remedial and investigatory activities associated with past manufacturing operations and former waste disposal sites.

Our estimated environmental liability at the end of 2006 was attributable to 75 sites, 16 of which were USEPA National Priority List (NPL) sites. Ten sites accounted for 72% of such liability and, of the remaining 65 sites, no one site accounted for more than 2% of our environmental liability. At two of these ten sites a remedial plan has been submitted by us and a Record of Decision (ROD) or its equivalent has not been issued. At three of the ten sites, part of the site is subject to a remedial investigation and another part is in the long-term OM&M stage. At two of the sites, part of the site is subject to remedial action and another part is in the long-term OM&M stage. One site is at the investigatory stage. The two remaining sites are in long-term OM&M. All ten sites are either associated with past manufacturing operations or former waste disposal sites. None of the ten largest sites represents more than 15% of the liabilities reserved on our consolidated balance sheet at December 31, 2006 for future environmental expenditures.

Our consolidated balance sheets included liabilities for future environmental expenditures to investigate and remediate known sites amounting to $90.8 million at December 31, 2006, and $102.9 million at December 31, 2005, of which $55.8 million and $74.9 million were classified as other noncurrent liabilities, respectively. Those amounts do not take into account any discounting of future expenditures or any consideration of insurance recoveries or advances in technology. Those liabilities are reassessed periodically to determine if environmental circumstances have changed and/or remediation efforts and our estimate of related costs have changed. As a result of these reassessments, future charges to income may be made for additional liabilities. Of the $90.8 million included on our consolidated balance sheet at December 31, 2006 for future environmental expenditures, we currently expect to utilize $55.9 million of the reserve for future environmental expenditures over the next 5 years, $13.8 million for expenditures 6 to 10 years in the future, and $21.1 million for expenditures beyond 10 years in the future. These estimates are subject to a number of risks and uncertainties, as described in Item 1A. Risk Factors Environmental Costs.

Annual environmental-related cash outlays for site investigation and remediation, capital projects, and normal plant operations are expected to range between $45.0 million to $55.0 million over the next several years, $20.0 million to $40.0 million of which is for investigatory and remedial efforts, which are expected to be charged against reserves recorded on our balance sheet. While we do not anticipate a material increase in the projected annual level of our environmental-related costs, there is always the possibility that such increases may occur in the future in view of the uncertainties associated with environmental exposures. 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), and 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. At December 31, 2006, we estimate we may have additional contingent environmental liabilities of $50.0 million in addition to the amounts for which we have already recorded as a reserve.

LEGAL MATTERS 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. We describe some of these matters in Item 3 Legal Proceedings. While we believe that none of these legal actions will materially adversely affect our financial position, in light of the inherent uncertainties of the litigation concerning alleged exposures, we cannot at this time determine whether the financial impact, if any, of these matters will be material to our 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 SFAS No. 5, Accounting for Contingencies, and therefore do not record gain contingencies and recognize income until it is earned and realizable.

LIQUIDITY, INVESTMENT ACTIVITY AND OTHER FINANCIAL DATA

Cash Flow Data

Provided By (Used For)	*2006*	*2005*	*2004*
		($ in millions)	
Qualified Pension Plan Contributions	$ (80.0)	$ (6.1)	$ (169.4)
Net Operating Activities	64.7	278.9	(136.4)
Capital Expenditures	(80.9)	(81.0)	(55.1)
Net Investing Activities	(112.2)	(38.1)	(26.5)
Net Financing Activities	(56.4)	(84.4)	120.4

In 2006, income exclusive of non-cash charges and cash and cash equivalents on hand were used to finance our working capital requirements, dividends, to make voluntary contributions to our qualified pension plans, and to invest in short-term securities.

Operating Activities

In 2006, cash provided by operating activities decreased by $214.2 million from 2005. In 2006, cash provided by operating activities included a contribution to our pension plan of $80.0 million, a $89.3 million increase in cash tax payments which included the $46.7 million payments to the IRS and state and local jurisdictions for the settlement of tax matters from 1996 to 2002, spending for environmental remedial and investigatory activities of $35.9 million, and an increase in working capital of $32.4 million, offset in part by $25.9 million of LIFO inventory liquidation gains. In 2006, accounts receivable increased $43.6 million, primarily due to higher ECU prices in Chlor Alkali Products and higher copper and zinc prices in Metals. Days sales outstanding decreased by approximately four days from the prior year. Accounts payable and accrued liabilities increased $58.7 million, primarily due to higher copper and zinc prices related to the metal purchases and the timing of invoice payments. The 84% and 137% increase in the 2006 average COMEX price of copper and the LME price of zinc, respectively, were major contributors to the increase in accounts payable.

In 2005, cash provided by operating activities increased over 2004. In 2005, cash provided by operating activities included a reduction in deferred taxes associated with the utilization of tax loss carryforwards, higher profits from operations, a contribution to our pension plan of $6.1 million, and a reduction in working capital of $41.2 million, primarily due to an increase in accounts payable. In 2004, cash utilized by operating activities included pension plan contributions of $169.4 million and tax payments of $43.0 million. In 2005, accounts receivable increased $52.1 million, primarily due to higher ECU prices in Chlor Alkali Products and higher copper prices in Metals. Days sales outstanding decreased by approximately two days as all business segments improved their days sales outstanding. Accounts payable and accrued liabilities increased by $73.4 million, primarily due to the higher copper prices related to the metal purchases and the timing of invoice payments. The 44% increase in the 2005 fourth quarter average COMEX price of copper was a major contributor to the increase in accounts payable.

Capital Expenditures

Capital spending was $80.9 million in 2006, $81.0 million in 2005, and $55.1 million in 2004. Capital spending in 2006 included increased spending for the expansion of our bleach manufacturing capabilities and for enhancements to our railcar fleet in our Chlor Alkali Products operations. These increases were offset by lower spending in Winchester which completed the relocation of a product line in 2005. Capital spending was 113% of depreciation in 2006 and 2005. Dispositions of property, plant, and equipment consisted primarily of the proceeds from real estate transactions.

In 2007, we expect our capital spending to be in the $90.0 million to $95.0 million range. The 2007 increase is primarily attributable to higher spending for the completion of the bleach expansion projects in our Chlor Alkali Products operations and ongoing major maintenance and replacement projects, which are not expected to cause outages at our Chlor Alkali Products facilities. During the first quarter of 2007, we entered into a sale/leaseback transaction for chlorine railcars that were acquired in 2005 and 2006. We reduced our fixed assets by approximately $16.0 million.

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Investing Activities

During 2006, we purchased $76.6 million of short-term investments to improve investment returns.

The 2006, 2005 and 2004 increase in distributions from affiliated companies, net, represents primarily our share of the SunBelt joint venture s improved operating results, net of cash payments to the affiliates.

In November 2004, we purchased certain business assets of Metal Foils LLC for $3.2 million. Metal Foils LLC is a distributor of aluminum, stainless steel, and copper products located in Willoughby, OH. We relocated the purchased assets to our A.J. Oster facility in Alliance, OH. The purchase price exceeded the fair value of the identifiable net assets acquired by $1.2 million. The acquisition has been accounted for using the purchase method of accounting.

In April 2004, we sold our equity interest in an insurance investment resulting in proceeds from the sale of $2.6 million. In June 2004, we sold our Aegis business to HCC Industries Inc. resulting in proceeds from the sale of $17.1 million.

Financing Activities

In July 2006, we issued $125.0 million of 2016 Notes and paid a premium of $18.8 million to the existing note holders in exchange for $125.0 million of 2011 Notes.

On July 30, 2004 we entered into a five-year senior revolving credit facility of $160.0 million, which will expire on July 30, 2009. At December 31, 2006, we had $120.2 million available under this senior revolving credit facility. At December 31, 2006, we had issued $39.8 million of letters of credit under an $80.0 million letter of credit subfacility for the purpose of supporting certain long-term debt, certain workers compensation insurance policies, and plant closure and post-closure obligations. We may select various floating rate borrowing options. It includes 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).

In connection with the relocation of Winchester s rimfire operations to Oxford, MS, in November 2005, we completed an industrial development revenue bond financing of $2.9 million to utilize certain state tax incentives.

In June 2005, we repaid the $50.0 million, 7.11% medium-term Series A notes, which became due. In March 2004, we used $17.5 million from the proceeds of our February 2004 stock offering to repay the Illinois Industrial Pollution Control Revenue Bond, which became due in March 2004. In June 2004, we repaid the $8.1 million Illinois Environmental Improvement Bond, which became due in June 2004.

On February 3, 2004, we issued and sold 10 million shares of our common stock at a public offering price of $18.00 per share. Net proceeds from the sale were $177.8 million.

During 2006, 2005 and 2004, we issued 1,135,948; 770,713; and 793,778 shares of common stock, respectively, with a total value of $19.7 million, $15.3 million and $14.3 million, respectively, to the Olin CEOP. These shares were issued to satisfy the investment in our common stock resulting from employee contributions, our matching contributions and re-invested dividends.

The percent of total debt to total capitalization decreased to 32% at December 31, 2006, from 38% at year-end 2005 and 47% at year-end 2004. The decrease from year-end 2005 was due primarily to the higher shareholders equity resulting from the net income for the year 2006. The 2005 decrease from year-end 2004 was due primarily to the higher shareholders equity resulting from the net income for the year 2005 and the repayment of the $50.0 million, 7.11% medium-term Series A notes in June 2005.

Dividends per common share were $0.80 in 2006, 2005 and 2004. Total dividends paid on common stock amounted to $58.1 million in 2006, $57.1 million in 2005, and $55.7 million in 2004.

The payment of cash dividends is subject to the discretion of our board of directors and will be determined in light of then-current conditions, including our earnings, our operations, our financial conditions, our capital requirements and other factors deemed relevant by our board of directors. In the future, our board of directors may change our dividend policy, including the frequency or amount of any dividend, in light of then-existing conditions.

LIQUIDITY AND OTHER FINANCING ARRANGEMENTS

Our principal sources of liquidity are from cash and cash equivalents, short-term investments, cash flow from operations and short-term borrowings under our senior revolving credit facility. We also have access to the debt and equity markets.

Cash flow from operations is variable as a result of the cyclical nature of our operating results, which have been affected recently by economic cycles in many of the industries we serve, such as vinyls, urethanes, pulp and paper, automotive, electronics, housing, and the telecommunications sectors. Cash flow from operations is affected by changes in ECU selling prices caused by the changes in the supply/demand balance of chlorine and caustic, resulting in the chlor alkali business having significant leverage on our earnings. For example, assuming all other costs remain constant and internal consumption remains approximately the same, a $10 per ECU selling price change equates to an approximate $11.0 million annual change in our revenues and pretax profit when we are operating at full capacity. In addition, cash flow from operating activities is affected by the prices of copper and zinc. For example, assuming Metals segment shipment volumes remain the same, a $0.10 per pound change in the metal prices results in an approximate $4.0 million change in our investment in working capital.

Our current debt structure is used to fund our business operations. As of December 31, 2006, we had long-term borrowings, including the current installment, of $253.9 million of which $2.9 million was at variable rates. We have entered into interest rate swaps on $101.6 million of our underlying fixed-rate debt obligations whereby we agree to pay variable rates to a counterparty who, in turn, pays us fixed rates. The counterparty to these agreements is a major financial institution. We have designated the swap agreements as fair value hedges of the risk of changes in the value of fixed rate debt due to changes in interest rates for a portion of our fixed rate borrowings. Accordingly, the swap agreements have been recorded at their fair market value of $3.6 million and are included in Other Assets on the accompanying Consolidated Balance Sheet, with a corresponding increase in the carrying amount of the related debt. No gain or loss has been recorded as the contracts met the criteria to qualify for hedge accounting treatment with no ineffectiveness. In July 2006, we received proceeds of $0.4 million for the termination of a $30.0 million interest rate swap that was a fair value hedge for a portion of the $125.0 million 2011 Notes that were part of the July 2006 debt exchange. Annual maturities of long-term debt are $1.7 million in 2007; $7.7 million in 2008, none in 2009 and 2010, $77.3 million in 2011, and a total of $167.2 million thereafter. Commitments from banks under our revolving credit facility are an additional source of liquidity.

We utilize a credit facility of $160.0 million and standby letters of credit. In July 2004, we entered into a five-year senior revolving credit facility with a group of banks**.** This credit facility is described above under the caption, Financing Activities. As of December 31, 2006, we did not have any outstanding borrowings under this credit facility. At December 31, 2006, we had outstanding standby letters of credit of $39.8 million. These letters of credit were used to support certain long-term debt, certain workers compensation insurance policies, and plant closure and post-closure obligations.

We use operating leases for certain properties, such as railroad cars, distribution, warehousing and office space, data processing and office equipment. Virtually none of our lease agreements contain escalation clauses or step rent provisions. Future minimum rent payments under operating leases having initial or remaining non-cancelable lease terms in excess of one year at December 31, 2006 are as follows: $23.8 million in 2007; $19.2 million in 2008; $16.1 million in 2009; $18.7 million in 2010; $9.1 million in 2011; and a total of $34.3 million thereafter. Assets under capital leases are not significant. During the first quarter of 2007, we entered into a $16.0 million sale/leaseback transaction for chlorine railcars that were acquired in 2005 and 2006.

On December 31, 1997, we entered into a long-term, sulfur dioxide supply agreement with Alliance Specialty Chemicals, Inc. (Alliance), formerly known as RFC SO_2, Inc. Alliance has the obligation to deliver annually 36,000 tons of sulfur dioxide. Alliance owns the sulfur dioxide plant, which is located at our Charleston, TN facility and is operated by us. The price for the sulfur dioxide is fixed over the life of the contract and, under the terms of the contract, we are obligated to make a monthly payment of $0.2 million regardless of the amount of sulfur dioxide purchased. Commitments related to this agreement are $2.4 million per year for 2007 through 2011 and $0.6 million in 2012. This supply agreement expires in 2012.

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On February 3, 2004, we issued and sold 10 million shares of our common stock at a public offering price of $18.00. Net proceeds from the sale were $177.8 million and were used to make a $125.0 million voluntary contribution to our pension plan. In March 2004, we used $17.5 million from the proceeds of the stock offering to repay the Illinois Industrial Pollution Control Revenue Bond, which became due in March of 2004. The remaining balance ($35.3 million) of the proceeds was used in April 2004 to pay a portion of federal income taxes related to prior periods.

At December 31, 2006, we had $220.0 million registered securities available for issuance with the SEC, whereby from time to time, we may issue debt securities, preferred stock and/or common stock, and associated warrants.

We and our partner, PolyOne Corporation (PolyOne) own equally the SunBelt joint venture. Oxy Vinyls (a joint venture between OxyChem and PolyOne) is required to purchase 250 thousand tons of chlorine based on a formula related to its market price. We market the excess chlorine and all of the caustic soda produced. The construction of this plant and equipment was financed by the issuance of $195.0 million of Guaranteed Senior Secured Notes due 2017. The SunBelt joint venture 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 semiannually in arrears on each June 22 and December 22.

We have guaranteed the Series O Notes, and PolyOne has guaranteed the Series G Notes, in both cases pursuant to customary guaranty agreements. Our guarantee and PolyOne s guarantee are several, rather than joint. Therefore, we are not required to make any payments to satisfy the Series G Notes guaranteed by PolyOne. An insolvency or bankruptcy of PolyOne will not automatically trigger acceleration of the SunBelt Notes or cause us to be required to make payments under our guarantee, even if PolyOne is required to make payments under its guarantee. However, if the SunBelt joint venture 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 the SunBelt joint venture for repayment. If we were to make debt service payments under our guarantee, we would have a right to recover such payments from the SunBelt joint venture.

Beginning on December 22, 2002 and each year through 2017, our SunBelt joint venture is required to repay $12.2 million of the SunBelt Notes, of which $6.1 million is attributable to the Series O Notes. After the payment of $6.1 million on the Series O Notes in December 2006, our guarantee of these notes was $67.0 million. In the event our SunBelt joint venture cannot make any of these payments, we would be required to fund our half of such payment. In certain other circumstances, we may also be required to repay the SunBelt Notes prior to their maturity. We and PolyOne have agreed that, if we or PolyOne intend to transfer our respective interests in the SunBelt joint venture and the transferring party is unable to obtain consent from holders of 80% of the aggregate principal amount of the indebtedness related to the guarantee being transferred after good faith negotiations, then we and PolyOne will be required to repay our respective portions of the SunBelt Notes. In such event, any make whole or similar penalties or costs will be paid by the transferring party.

Excluding our guarantee of the SunBelt Notes described above, our long-term contractual commitments, including the on and off-balance sheet arrangements, consisted of the following:

	Payments Due by Period				
Contractual Obligations	*Total*	*Less than 1 Year*	*1-3 Years*	*3-5 Years*	*More than 5 Years*
			($ in millions)		
Debt obligations	$ 253.9	$ 1.7	$ 7.7	$ 77.3	$ 167.2
Interest payments under debt obligations and interest rate swap agreements [(a)]	134.2	17.8	34.6	34.3	47.5

Qualified pension plan contributions [b]					
Non-qualified pension plan payments	55.1	3.5	6.5	6.1	39.0
Postretirement benefit payments [b]	87.8	10.3	18.3	17.8	41.4
Off-Balance Sheet Commitments:					
Noncancelable operating leases	121.2	23.8	35.3	27.8	34.3
Purchasing commitments:					
Raw materials	149.0	129.1	14.1	5.2	0.6
Utilities	12.3	11.5	0.4	0.4	
Total	$ 813.5	$ 197.7	$ 116.9	$ 168.9	$ 330.0

(a) For the purposes of this table, we have assumed for all periods presented that there are no changes in the principal amount of any variable rate debt from the amounts outstanding on December 31, 2006 and that there are no changes in the rates from those in effect at December 31, 2006 which ranged from 4.3% to 9.125%.
(b) These amounts are only estimated payments assuming the continuation of postretirement benefits, a growth rate of 9% for 2007 and 8.25% for 2008 for estimated healthcare cost inflation, an annual expected rate of return on pension plan assets of 9%, and a discount rate on pension plan obligations of 6%. These estimated payments are subject to significant variation and the actual payments may be more or less than the amounts estimated. Given the inherent uncertainty as to actual minimum funding requirements for qualified pension plans, no amounts are included in this table for any period beyond one year in the case of pensions. It is likely we will make cash payments in future periods. See discussion on Pension Protection Act of 2006 in Pension Plans and Retirement Benefits in the Notes to the Consolidated Financial Statements.

Non-cancelable operating leases and purchasing commitments are utilized in our normal course of business for our projected needs. For losses that we believe are probable and which are estimable we have accrued for such amounts in our consolidated balance sheets. In addition to the table above, we have various commitments and contingencies including: defined benefit and postretirement healthcare plans (as described below), environmental matters (see Environmental Matters included in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations), and litigation claims (see Item 3 Legal Proceedings).

We have several defined benefit and defined contribution pension plans, as described in the Pension Plans and Retirement Benefits note in the Notes to Consolidated Financial Statements. We fund these plans based on the minimum amounts required by law plus such amounts we deem appropriate. We have postretirement healthcare plans that provide health and life insurance benefits to certain retired employees and their beneficiaries, as described in the Pension Plans and Retirement Benefits note in the Notes to Consolidated Financial Statements. These plans are generally not pre-funded and expenses are paid by us as incurred.

We also have standby letters of credit of $43.0 million of which $39.8 million have been issued through our senior revolving credit facility. At December 31, 2006, we had $120.2 million available under our senior revolving credit facility.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. Significant estimates in our consolidated financial statements include goodwill recoverability, environmental, restructuring and other unusual items, litigation, income tax reserves including deferred tax asset valuation allowances, pension, postretirement and other benefits and allowance for doubtful accounts. We base our estimates on prior experience, facts and circumstances and other assumptions. Actual results may differ from these estimates.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the financial statements.

Goodwill

Goodwill and other intangibles are reviewed annually in the fourth quarter and/or when circumstances or other events indicate that impairment may have occurred. The annual impairment test involves the comparison of the estimated fair value of a reporting unit to its carrying amount.

The fair value is determined based on a variety of assumptions including estimated future cash flows of the reporting unit, discount rates, and comparable company trading multiples. Based on our evaluation prepared in the fourth quarter of 2006, no impairment charge was recorded.

Environmental

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based upon current law and existing technologies. These amounts, which are not discounted and are exclusive of claims against third parties, are adjusted periodically as assessments and remediation efforts progress or additional technical or legal information becomes available.

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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 and 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.

Pension and Postretirement Plans

We account for our defined benefit pension plans and non-pension postretirement benefit plans using actuarial models required by SFAS No. 87, Employers Accounting for Pensions, and SFAS No. 106, Employers Accounting for Postretirement Benefits Other than Pension, respectively. These models use an attribution approach that generally spreads the financial impact of changes to the plan and actuarial assumptions over the average remaining service lives of the employees in the plan. Changes in liability due to changes in actuarial assumptions such as discount rate, rate of compensation increases and mortality, as well as annual deviations between what was assumed and what was experienced by the plan are treated as gains or losses. Additionally, gains and losses are amortized over the group s service lifetime, to the extent they fall outside of a corridor designed to dampen annual volatility. The average remaining service lives of the employee plan is 11.7 years. The principle underlying the required attribution approach is that employees render service over their average remaining service lives on a relatively smooth basis and, therefore, the accounting for benefits earned under the pension or non-pension postretirement benefits plans should follow the same relatively smooth pattern.

One of the key assumptions for the net periodic pension calculation is the expected long-term rate of return on plan assets, used to determine the market-related value of assets. (The market-related value of assets recognizes differences between the plan s actual return and expected return over a five year period). The required use of an expected long-term rate of return on the market-related value of plan assets may result in recognized pension income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns and, therefore, result in a pattern of income and expense recognition that more closely matches the pattern of the services provided by the employees. As differences between actual and expected returns are recognized over five years, they generate gains and losses that are subject to amortization over the average remaining service life of the group, as described in the preceding paragraph.

We use long-term historical actual return information, the mix of investments that comprise plan assets, and future estimates of long-term investment returns by reference to external sources to develop the expected return on plan assets as of December 31.

The discount rate assumptions used for pension and non-pension postretirement benefit plan accounting reflect the rates available on high-quality fixed-income debt instruments on December 31 of each year. The rate of compensation increase is based upon our long-term plans for such increases. For retiree medical plan accounting, we review external data and our own historical trends for healthcare costs to determine the healthcare cost trend rates.

Changes in pension costs may occur in the future due to changes in these assumptions resulting from economic events. For example, holding all other assumptions constant, a 100-basis point decrease or increase in the assumed rate of return on plan assets would have increased or decreased, respectively, the 2006 pension cost by approximately $12.4 million. Holding all other assumptions constant, a 50-basis point decrease in the discount rate used to calculate pension costs for 2006 and the projected benefit obligation as of December 31, 2006 would have increased pension costs by $5.0 million and the projected benefit obligation by $86.4 million. A 50-basis point increase in the discount rate used to calculate pension costs for 2006 and the projected benefit obligation as of December 31, 2006 would have decreased pension costs by $5.9 million and the projected benefit obligation by $87.3 million. For additional information on long-term rates of return, discount rates and projected healthcare costs projections, see Pension Plans and Retirement Benefits in the Notes to the Consolidated Financial Statements.

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NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 158, an amendment of FASB Statements No. 87, 88, 106, and 132R. This statement requires that a company recognize a net liability or asset to report the funded status of their defined benefit pensions and other postretirement plans on its balance sheet and measure benefit plan assets and benefit obligations as of the company s balance sheet date. The portion of this statement related to recognizing a net liability for the funded status became effective for fiscal years ending after December 15, 2006. At December 31, 2006, we recorded an after-tax charge to accumulated other comprehensive income of $73.3 million ($120.0 million pretax). The measurement date of the assets and benefit obligations requirements will be effective for fiscal years ending after December 15, 2008. We currently use our year-end balance sheet date as our measurement date and, as a result, the new measurement requirement will not have a material effect on our financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. The changes to current practice resulting from the application of this statement relates to the definition of fair value, the methods used to estimate fair value, and the requirement for expanded disclosures about estimates of fair value. This statement becomes effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. It is expected that this statement will not have a material effect on our financial statements.

In September 2006, the FASB issues FASB Staff Position (FSP) No. AUG AIR-1, Accounting for Planned Major Maintenance Activities, which amends certain provisions in the AICPA Industry Audit Guide, Audits of Airlines and APB Opinion No. 28, Interim Financial Reporting. This position prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. This position becomes effective for fiscal years beginning after December 15, 2006 and should be applied retrospectively for all financial statements presented. It is expected that this statement will not have a material effect on our financial statements.

In September 2006, the staff of the SEC issued Staff Accounting Bulletin SAB No. 108, Considering the Effects of Prior Year Misstatement when Quantifying Misstatements in Current Year Financial Statements (SAB No. 108). The bulletin provides guidance on assessing the effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year s financial statements are materially misstated. SAB No. 108 requires that public companies utilize a dual approach to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB No. 108 did not have a material impact on our financial statements.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48). This interpretation clarified the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a recognition threshold and measurement for a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. This interpretation is effective for fiscal years beginning after December 15, 2006. The implementation of FIN No. 48 will not have a material effect on our financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, 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. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. The accounting treatment of changes in fair value is dependent upon whether or not a derivative instrument is designated as a hedge and, if so, the type of hedge. For derivatives designated as a fair value hedge, the changes in the fair value of both the derivative and the hedged item are recognized in earnings. For derivatives designated as a cash flow hedge, the change in fair value of the derivative is recognized in other comprehensive income until the hedged item is recognized in earnings. Ineffective portions are recognized currently in earnings. Unrealized gains and losses on derivatives not qualifying for hedge accounting are recognized currently in earnings.

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We enter into forward sales and purchase contracts to manage currency risk resulting from purchase and sale commitments denominated in foreign currencies (principally Australian dollar and Canadian dollar). All of the currency derivatives expire within one year and are for United States dollar equivalents. At December 31, 2006, we had no forward contracts to buy or to sell foreign currencies. At December 31, 2005 we had forward contracts to buy foreign currencies with a face value of $3.9 million and no forward contracts to sell foreign currencies. The fair market value of the forward contracts to buy at December 31, 2005, approximated the carrying value. The counterparty to the forward contracts was a large financial institution. The risk of loss to us in the event of nonperformance by a counterparty would not be significant to our financial position or results of operations. Foreign currency exchange gains, net of taxes, were $0.5 million in 2006, $0.2 million in 2005, and $0.4 million in 2004.

We use cash flow hedges of certain raw material and energy costs such as copper, zinc, lead, and natural gas to provide a measure of stability in managing our exposure to price fluctuations. We use interest rate swaps as a means of managing interest rates on our outstanding fixed-rate debt obligations. 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 consolidated financial statements will depend on the hedge designation and whether the hedge is effective in achieving offsetting changes in fair value of cash flows of the asset or liability being hedged. Gains (losses) on settled futures contracts, net of taxes, were $(10.1) million in 2006, $5.7 million in 2005, and $8.5 million in 2004. At December 31, 2006, we had open positions in futures contracts totaling $64.7 million (2005 $23.7 million). If all open futures contracts had been settled on December 31, 2006, we would have recognized a gain of $6.5 million.

At December 31, 2006 and 2005, Accumulated Other Comprehensive Loss included a pretax gain in fair value of $3.5 million and $0.4 million, respectively. In addition, the ineffective portion of changes in fair value resulted in $0.7 million, $0.2 million and $(0.1) million charge (credit) to earnings for the years ended December 31, 2006, 2005 and 2004, respectively. Offsetting the above, there were in 2006 assets totaling $13.3 million (2005 $10.7 million) and liabilities of $7.4 million (2005 $7.7 million).

Our foreign currency forward contracts and certain commodity derivatives did not meet the criteria to qualify for hedge accounting. The effect on operating results of items not qualifying for hedge accounting for the years 2006, 2005, and 2004 was not material to earnings.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

Energy costs including electricity used in our Chlor Alkali Products segment, and certain raw materials and energy costs, namely copper, lead, zinc, electricity, and natural gas used primarily in our Metals and Winchester segments products 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 metal price fluctuations. As of December 31, 2006, we maintained open positions on futures contracts totaling $64.7 million ($23.7 million at December 31, 2005). Assuming a hypothetical 10% increase in commodity prices, which are currently hedged, we would experience a $6.5 million ($2.4 million at December 31, 2005) increase in our cost of inventory purchased, which would be offset by a corresponding increase in the value of related hedging instruments.

We are exposed to changes in interest rates primarily as a result of our investing and financing activities. Investing activity is not material to our consolidated financial position, results of operations, or cash flows. Our existing debt structure is used to fund business operations and commitments from banks under our revolving credit facility are a source of liquidity. As of December 31, 2006, we had long-term borrowings of $253.9 million ($258.3 million at December 31, 2005) of which $2.9 million ($2.9 million at December 31, 2005) was issued at variable rates. As a result of our fixed-rate financings, we entered into floating interest rate swaps in order to manage interest expense and floating interest rate exposure to optimal levels. We have entered into $101.6 million of such swaps, whereby we agree to pay variable rates to a counterparty who, in turn, pays us fixed rates. In all cases the underlying index for the variable rates is six-month London InterBank Offered Rate (LIBOR). Accordingly, payments are settled every six months and the term of the swap is the same as the underlying debt instrument.

Assuming no changes in the $101.6 million of variable-rate debt levels from December 31, 2006, we estimate that a hypothetical change of 100-basis points in the LIBOR interest rates from 2006 would impact interest expense by $1.0 million on an annualized pretax basis.

The following table reflects the swap activity related to certain debt obligations as of December 31, 2006:

Underlying Debt Instrument	*Swap Amount*	*Date of Swap*	*December 31, 2006 Floating Rate*
	($ in millions)		
9.125%, due 2011	$ 50.0	December 2001	8.819%
9.125%, due 2011	$ 25.0	March 2002	7.5 - 8.5%(a)
Industrial development and environmental improvement obligations at fixed interest rates of 6.0% to 6.75%, due 2007-2017	$ 21.1	March 2002	5.63%
	$ 5.5	March 2002	5.77%

(a) Actual rate is set in arrears. We project the rate will fall within the range shown.

These interest rate swaps reduced interest expense, resulting in an increase in pretax profit of $1.3 million, $2.9 million and $5.4 million in 2006, 2005, and 2004, respectively.

In July 2006, we received proceeds of $0.4 million for the termination of a $30.0 million interest rate swap that was a fair value hedge for a portion of the $125.0 million 2011 Notes that were part of the July 2006 debt exchange.

If the actual change in interest or commodities pricing is substantially different than expected, the net impact of interest rate risk or commodity risk on our cash flow may be materially different than that disclosed above.

We do not enter into any derivative financial instruments for speculative purposes.

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS:

This report includes forward-looking statements. These statements relate to analyses and other information that are based on management s beliefs, certain assumptions made by management, forecasts of future results and current expectations, estimates and projections about the markets and economy in which we and our various segments operate. The statements contained in this report that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties.

We have used the words anticipate, intend, may, expect, believe, should, plan, estimate, project, and variations of such words an expressions in this report to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. Therefore, actual outcomes and results may differ materially from those matters expressed or implied in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise.

The risks, uncertainties, and assumptions involved in our forward-looking statements include those discussed under Item 1A. Risk Factors. You should consider all of our forward-looking statements in light of these factors. In addition, other risks and uncertainties not presently known to us or that we consider immaterial could affect the accuracy of our forward-looking statements.

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Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Olin Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Olin s internal control system was designed to provide reasonable assurance to the company s management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation, and may not prevent or detect all misstatements.

The management of Olin Corporation has assessed the effectiveness of the company s internal control over financial reporting as of December 31, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework* to guide our analysis and assessment. Based on our assessment as of December 31, 2006, the company s internal control over financial reporting was effective at the reasonable assurance level under this framework.

Olin s independent auditors have issued an attestation report on our assessment of the company s internal control over financial reporting. This report appears on page 44.

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Joseph D. Rupp

Chairman, President and Chief Executive Officer

John E. Fischer

Vice President and Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Olin Corporation:

We have audited the accompanying consolidated balance sheets of Olin Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Olin Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Olin Corporation and subsidiaries internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2007 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting.

As discussed in note Accounting Policies to the consolidated financial statements, Olin Corporation adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), Share-Based Payment in 2006, adopted the provisions of SFAS No. 158, Employers Accounting For Defined Benefit Pension and Other Postretirement Plans in 2006, and adopted the provisions of Financial Accounting Standards Board s Interpretation No. 47, Accounting For Conditional Asset Retirement Obligations in 2005.

St. Louis, MO

February 27, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Olin Corporation:

We have audited management s assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that Olin Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Olin Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Olin Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Olin Corporation and subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of operations, shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated February 27, 2007 expressed an unqualified opinion on those consolidated financial statements.

St. Louis, MO

February 27, 2007

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CONSOLIDATED BALANCE SHEETS

December 31

($ in millions, except share data)

	2006	2005
Assets		
Current Assets:		
Cash and Cash Equivalents	$ 199.8	$ 303.7
Short-Term Investments	76.6	
Receivables, Net:		
Trade	304.0	270.5
Other	34.6	24.5
Inventories	263.3	262.6
Current Deferred Income Taxes	8.9	
Other Current Assets	32.0	12.1
Total Current Assets	919.2	873.4
Property, Plant and Equipment, Net	486.9	482.2
Prepaid Pension Costs		248.3
Deferred Income Taxes	117.3	86.3
Other Assets	37.2	31.9
Goodwill	75.9	75.1
Total Assets	$ 1,636.5	$ 1,797.2
Liabilities and Shareholders Equity		
Current Liabilities:		
Current Installments of Long-Term Debt	$ 1.7	$ 1.1
Accounts Payable	200.3	177.2
Income Taxes Payable	4.8	23.4
Accrued Liabilities	201.0	165.4
Total Current Liabilities	407.8	367.1
Long-Term Debt	252.2	257.2
Accrued Pension Liability	234.4	556.8
Other Liabilities	198.8	189.5
Total Liabilities	1,093.2	1,370.6
Commitments and Contingencies		
Shareholders Equity:		
Common Stock, Par Value $1 Per Share:		
Authorized, 120,000,000 Shares;		
Issued and Outstanding 73,322,590 Shares (71,875,375 in 2005)	73.3	71.9
Additional Paid-In Capital	721.6	683.8
Accumulated Other Comprehensive Loss	(318.5)	(304.4)
Retained Earnings (Accumulated Deficit)	66.9	(24.7)

Total Shareholders Equity	543.3	426.6
Total Liabilities and Shareholders Equity	$ 1,636.5	$ 1,797.2

The accompanying Notes to Consolidated Financial Statements are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31

($ in millions, except per share data)

	2006	*2005*	*2004*
Sales	$ 3,151.8	$ 2,357.7	$ 1,996.8
Operating Expenses:			
Cost of Goods Sold (exclusive of the LIFO inventory liquidation gains shown below)	2,823.0	1,999.7	1,765.2
LIFO Inventory Liquidation Gains	25.9	0.9	0.3
Selling and Administration	176.9	176.3	141.0
Research and Development	4.5	4.2	3.9
Restructuring Charges	17.6	0.3	9.6
Other Operating Income	6.7	9.1	5.5
Operating Income	162.4	187.2	82.9
Earnings of Non-consolidated Affiliates	46.0	38.5	10.1
Interest Expense	20.3	19.9	20.2
Interest Income	11.8	18.3	1.9
Other Income	1.5	1.5	4.5
Income from Continuing Operations before Taxes and Cumulative Effect of Accounting Change	201.4	225.6	79.2
Income Tax Provision	51.7	85.9	28.5
Income from Continuing Operations before Cumulative Effect of Accounting Change	149.7	139.7	50.7
Discontinued Operations:			
Income from Discontinued Operations, Net			0.6
Gain on Disposal of Discontinued Operations, Net			3.5
Income before Cumulative Effect of Accounting Change	149.7	139.7	54.8
Cumulative Effect of Accounting Change, Net		(6.4)	
Net Income	$ 149.7	$ 133.3	$ 54.8
Basic Income per Common Share:			
Income from Continuing Operations before Cumulative Effect of Accounting Change	$ 2.06	$ 1.96	$ 0.74
Income from Discontinued Operations, Net			0.01
Gain on Disposal of Discontinued Operations, Net			0.05
Cumulative Effect of Accounting Change, Net		(0.09)	
Net Income	$ 2.06	$ 1.87	$ 0.80
Diluted Income per Common Share:			
Income from Continuing Operations before Cumulative Effect of Accounting Change	$ 2.06	$ 1.95	$ 0.74
Income from Discontinued Operations, Net			0.01
Gain on Disposal of Discontinued Operations, Net			0.05
Cumulative Effect of Accounting Change, Net		(0.09)	
Net Income	$ 2.06	$ 1.86	$ 0.80

The accompanying Notes to Consolidated Financial Statements are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

($ in millions, except per share data)

	Common Stock			*Accumulated*	*Retained*	
			Additional	*Other*	*Earnings*	*Total*
	Shares	*Par*	*Paid-In*	*Comprehensive*	*(Accumulated*	*Shareholders*
	Issued	*Value*	*Capital*	*Loss*	*Deficit)*	*Equity*
Balance at January 1, 2004	59,015,087	$ 59.0	$ 464.2	$ (246.8)	$ (100.0)	$ 176.4
Comprehensive Income:						
Net Income					54.8	54.8
Translation Adjustment				(1.3)		(1.3)
Net Unrealized Losses				(1.5)		(1.5)
Minimum Pension Liability Adjustment, Net				(23.7)		&nb