

STEPAN COMPANY

Moderator: James Hurlbutt

July 19, 2006

1:00 pm CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Stepan Company Second Quarter Earnings Results Conference Call.

During the Presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question and answer session. At that time, if you have a question, please press the 1 followed by the 4 on your telephone.

If at any time during the conference you need to reach an operator, please press star-0.

As a reminder, this conference is being recorded, Wednesday, July 19, 2006.

I would now like to turn the conference over to Jim Hurlbutt, Vice President, Finance, for Stepan Company.

Please go ahead, sir.

James Hurlbutt: Good afternoon and thank you for joining us.

Before I begin, please note that information in this conference call contains forward-looking statements, which are not historical facts. These statements involve risks and uncertainties that could cause actual results to differ materially including, but not limited to, prospects for our foreign operations, global and regional economic conditions, and factors contained in the company's Securities and Exchange Commission filings.

I will now take a few minutes to review our second quarter operating results.

Net sales for the second quarter of 2006 increased 5% to \$292 million from \$278 million for the same period in 2005. Higher selling prices resulted in an 11% increase in sales that was partially offset by a 6% decline in sales due to lower sales volume.

The net income for the second quarter was \$3.1 million, or 31 cents per diluted share, compared with net income of \$6.2 million, or 64 cents per diluted share, a year ago.

Gross profit declined by \$1.5 million, or 4%, to \$33.2 million due to a decline in polymer earnings that more than offset improvement in surfactant earnings.

Operating income decreased 34% to \$6.9 million for the second quarter of 2006 from \$10.5 million for the same period a year ago.

Operating expenses rose by \$2.0 million, or 8%, due to higher deferred compensation expense and legal expenses.

Now, I would like to highlight the performance in each of our three segments.

We begin with surfactants, which accounted for approximately 75% of the company's sales for the second quarter. Surfactant earnings rose for the quarter on a favorable mix of higher-margin products and improved biodiesel sales volume that more than offset an overall decline in volume brought about by lower commodity laundry products volume in North America.

Biodiesel sales reached \$10.9 million compared to \$6.5 million in the year-ago quarter.

European earnings remained unchanged as improved profitability in the United Kingdom was offset by weaker results in France.

Latin America posted higher earnings due to continued growth in fabric softener sales volume.

Turning to our polymer segment, which represented 22% of our revenue in the second quarter, polymer earnings declined on flat volume. The nonrecurring polyurethane system order fulfilled in the year-ago quarter was largely responsible for the decline in polymer earnings. Polyurethane polyol earnings improved in North America but were lower in Europe due to a decline in margins.

The new Chinese polyol joint venture recorded a loss for the first six months, but passed the breakeven point late in the quarter and is expected to achieve modest profitability in the second half of 2006.

Phthalic anhydride earnings declined due to higher plant repair and maintenance costs while volume remained comparable to a year ago.

And finally, specialty products, which accounted for 3% of the company's sales in the second quarter, decreased slightly on lower food ingredient margins. Sales volume of pharmaceutical products improved.

Turning back to operating expenses, operating expenses rose \$2.0 million, or 8% for the quarter, and \$5.3 million, or 11%, for the year. Deferred compensation expense represented \$1.3 million and \$3.3 million of the quarter and year-to-date increase, respectively. The accounting requirement for the company's fully funded deferred compensation plan results in expense when the price of Stepan Company stock, or mutual funds held in the plan, rise and income when they decline.

General administrative expense increased \$1.2 million and \$2.1 million for the quarter and year-to-date due primarily to higher legal and consulting costs related to the recent pension plan changes coupled with higher environmental and regulatory compliance costs.

Marketing costs declined 2% on lower bad debt expense.

Looking at other income, interest expense increased by 9% during the second quarter and 11% for the year due to higher than average debt levels and interest rates.

The Philippine joint venture has recorded losses for the quarter and year-to-date periods. The new fabric softener plant at our Philippine operation was completed during the second quarter and commercial operations are scaling up. We expect the joint venture to achieve profitability later this year.

Turning to the balance sheet, total debt as of June 30 was \$132.4 million, up from \$125.7 million at the end of 2005. Our total debt-to-total capitalization at the quarter end was 43.0%, down from 44.1% at the same time last year.

Capital expenditures were \$11.8 million for the second quarter and \$21.0 million for the first six months. Full year capital expenditures are projected to be in the range of \$45 million to \$50 million.

Looking ahead, we expect continued improvement in surfactant earnings due to more favorable product mix and increased biodiesel volume. However, we expect commodity laundry product volumes in North America to fall short of last year. Biodiesel earnings will improve over the balance of the year and we continue to evaluate alternatives for greater participation in the biodiesel market.

The polymer group also expects improved volume and earnings in the second half. Volume growth is primarily coming from sales of polyurethane polyol into the rigid foam insulation market.

This concludes my prepared remarks. At this time, I would like to turn the call over for questions.

Operator, please read the instructions for the question portion of today's call.

Operator: Thank you.

Ladies and gentlemen, if you would like to register a question, please press the 1 followed by the 4 on your telephone. You will hear a three-tone prompt to acknowledge your request.

If your question has been answered and you would like to withdraw your registration, please enter 1 followed by the 3.

If you're using a speakerphone, please lift your handset before entering your request.

One moment please for the first question.

Once again, ladies and gentlemen, to register a question, please press the 1 followed by the 4.

Our first question comes from the line of Beverly Machtinger of Grace & White.

Please go ahead.

Beverly Machtinger: Hi, Jim.

James Hurlbutt: Hi, Beverly.

Beverly Machtinger: How are you?

I was wondering if you could talk a little bit more about biodiesel. One of the things we keep reading about now is the ethanol market and, you know, the demand for corn and things like that.

Can you talk a little bit about what your feed sources are and, perhaps, the competitive issues that go on in that market? And also, is it cheaper to use this versus diesel because we know that ethanol kind of increases the cost of gas right now?

And I guess if you could just talk a little bit of what's happening in the biodiesel market?

James Hurlbutt: Right. Well, first, let me make sure everyone understands the distinction of what we're producing. We're producing biodiesel. So we take a soybean feedstock today and process it into a bio-fuel, which is then blended into diesel, typically at least at a 10% ratio of our biodiesel from soybeans with traditional diesels from crude oil.

The ethanol is going into gasoline and that is traditionally, as far as I know, almost all of the ethanol in the United States is produced from corn. Brazil does it from sugar cane. So that's a distinction in the two markets.

Our biodiesel feedstock gives us a cost position that would be equal to or slightly above or below the price of diesel. However, there's \$1 a gallon credit from the IRS for recovering the excise tax. So, the tax incentives are what have driven the biodiesel market. Those tax incentives are legislated through 2008.

Most people feel that there are two directions the United States will go. Either further extensions of those tax credits and/or mandatory use percentages. Europe has evolved much further in biodiesel. Most countries there have a mandatory use percentage, which are ranging anywhere from 2% to 5% or 6% as a way of reducing their dependence on crude oil.

So, the direction seems to be that this market is probably going to have some longevity to it, barring crude oil plummeting any time soon. Certainly, with crude at the prices it's at, it makes the biodiesel market even more attractive than it was when we first got into it.

Beverly Machtinger: So, if I understand you correctly, it's just really reducing the amount of crude in the diesel fuel, it's not really lowering the cost? You're saying it costs about as much to make it?

James Hurlbutt: Net of the tax, it's less.

Beverly Machtinger: Okay.

James Hurlbutt: If you didn't get the dollar-a-gallon tax credit, you'd probably be, at today's prices, about equivalent to diesel. So, with the dollar-a-gallon credit, it makes it cheaper. And obviously, it's the government's desire to encourage the development of renewable resources. If crude gets high enough, then, conceivably you could compete with alternative feedstocks without tax subsidies, which is the area we're interested in. People are

currently already substituting soybean oil feedstock with tallow feedstocks. And as we explore expansion opportunities, we want to make sure we can operate our plant with alternative feedstocks.

Tallow is slightly more difficult to process than soybean oil, but it's a much lower-cost feedstock. If you start from tallow, you are at an advantage to the soybean-produced biodiesel

Beverly Machtinger: And when you talk about expansion opportunities, can you give us some idea just what you're talking about? What are those opportunities?

James Hurlbutt: Well, our production of biodiesel is occurring entirely at our plant near Joliet, Illinois, which is our largest plant. We were able to use a fair amount of existing assets that we previously used to process coconut oil into detergent-type products. The same assets were capable of manufacturing biodiesel. We're up to 140 millions pounds a year of capacity.

The next step we'd like to look at is how do we expand that capacity and be capable of processing multiple feedstocks and be able to handle the larger infrastructure. We would have to consider, possibly, some rail siding modifications and larger storage tank facilities, which kind of ups the ante on the cost of the capital. And we got in fairly inexpensively.

The expansions we're looking at might be fairly sizable, but we'd want to make sure we have the infrastructure in place to support it, and be able to handle multiple feedstocks.

So, we have not agreed on the process, the equipment we would want. There's alternative processing equipment. We're looking at distillation units. We want to make sure, before we spend any money, we're satisfied that we've got the appropriate design that we're going to construct.

So, we've not reached a consensus yet, but we're very seriously studying the options for a much more significant biodiesel production capability.

Beverly Machtinger: Okay. And I have a question on the North American commodity market here for detergents. Can you just give us an idea of what's going on in the marketplace, that volumes are lower? Or is there more in-house processing going on? What's demand? What's seems to be driving this market right now?

James Hurlbutt: Yes. Our understanding, it's a combination of several of those components. There's a little bit more in-house production going on at one company. We believe another company has lost market share to the private label, and therefore their demand for feedstocks from us has gone

down. And we believe there are also some product reformulations going on, where they're substituting other feedstocks into their products, presumably to lower cost on some traditional feedstock, reducing what we call the actives in the detergent product. So, it's really a combination of both.

We also heard there was a significant Wal-Mart inventory reduction initiative in the first half. But, we're not seeing the volume picking back up in this area so we're more inclined to believe that it's that the latter factors, the competition of private labels and the internal capacities of some of our customers to take in more of the product than what they buy from us.

Beverly Machtinger: Is there anything that the company can do to compensate or compete better or...

James Hurlbutt: Well, we've certainly been pushing to take any of our excess capacity towards the private label market by working with other potential customers who service the private label markets. So, we do have a few new customers, relatively smaller volumes, in the private label market that we've actively engaged in trying to gain market share in the private label market.

And then, our manufacturing equipment for detergents is primarily a sulfonation technology and the primary feedstocks are alcohol and linear alkylbenzene. And there's renewed interest in methyl esters as a feedstock for detergents. And methyl esters is really the chemistry that I alluded to before relating to processing coconut oil.

The biodiesel market is effectively a methyl ester chemistry. And it's a lower-cost potential feedstock for detergent producers. So, we're very interested in continuing to pursue a sulfonated methyl ester formulation for the laundry and cleaning market.

Beverly Machtinger: Okay. And lastly, you're pretty optimistic about the polymer market recovering a little bit. Particularly, you mentioned just in your opening statement about the polyurethane polyol market. Now, my understanding - is that not used in home insulation?

James Hurlbutt: Well, fortunately, for us, no. The majority of our rigid insulation foam goes into flat roof commercial. It's the large slab stock foam panels that go on the top of a flat warehouse-type building or commercial building.

So, in actuality, we're seeing a pickup, not a decline, in volume. But we do sell some into the siding of the residential construction market which is clearly the area where people are concerned about housing starts and

what's likely to happen in the next six months now that real estate appears to have cooled off a little bit. But fortunately for us, with the majority going into commercial, we're not seeing that slowdown in commercial. There is residual repair work going on because of the hurricane seasons in the last few years.

And people have deferred maintenance on roofs and you can't defer it indefinitely. And there was a spike in costs last year that made people, apparently, defer replacing roofs, but you can't defer it indefinitely. So, we're seeing a pick up in volume.

Beverly Machtinger: Okay. Can you tell us a little bit about the natural gas market? It seems prices certainly, in the Northeast, have come down somewhat and it would be down compared to last winter.

But I was wondering if there's any hedging going on by you to get you through next winter? Because, I mean, one good hurricane could send those prices right through the roof again, so...

James Hurlbutt: Yes, we learned our lesson. You know, we bought out two years ago very well, and then we went a little lean on buying out last year and it cost us. So, this year, I think we're pretty well covered through December of this year.

And then, we have - I don't know the exact percentage, but - we're buying next winter's gas as we speak in increments so that we will be, hopefully, fully covered by the time the hurricane season really gets in full force.

Beverly Machtinger: Okay.

James Hurlbutt: So we've greatly reduced our exposure. Now, the downside to that is, obviously, we're buying forward pricing that's higher than today's \$6 a therm, but it's the insurance policy. We could afford \$8 or \$9 natural gas. We can't afford \$14 natural gas.

Beverly Machtinger: Yes. Yes, definitely. Okay, great. Thank you, Jim.

James Hurlbutt: Okay. Thanks, Beverly.

Operator: Our next question comes from the line of George Gaspar of Robert W. Baird.
Please go ahead.

George Gaspar: Yes. Good afternoon, Jim.

James Hurlbutt: Hi, George.

George Gaspar: A quick question on - a little follow up on the biodiesel area.

You mentioned in the last conference call that your company was doing some R&D that could possibly extend biodiesel for year-round use. Can you report anything on that?

James Hurlbutt: Yes. When I alluded to an expansion opportunity, that, and knowing which technology we want to use for an expansion, is because we've been exploring the alternative technologies that give you a pure product. The fewer impurities you have in the final product, the less chance you have of that thickening or coagulation that occurs in winter, which occurs even in just diesel from crude in cold temperatures.

So, we've studied the different technologies, we've studied additives that can be added. And between the combination of the two, I think we're fairly confident that we're going to be okay in the winter months coming.

The other alternatives we're looking at is alternative customer base, electrical utilities, railroads and people who might have applications where they're less concerned about the cold weather use of biodiesel.

So, were pretty optimistic that that vulnerability of the market is probably going to be resolved or pretty well resolved.

George Gaspar: Okay. And then, in terms of the report that you put out here for the quarter on biodiesel sales, if I recall, you may not have had on, for the whole second quarter, the expansion program? Correct me on that if that's not right.

And I'm just wondering what we're looking at in terms of potential capacity on a quarterly basis, in terms of revenue stream from what you got on the basis of 140 million pounds of capacity per year.

James Hurlbutt: Well, yes, I mean, you're right. We did not hit the 140-million pound rate in the second quarter of this year. In fact, I can give you the actual volumes we were able to get out the door. It was just shy of 29 million pounds so that's not quite the 120-million pound annualized rate.

So, we do hope to get up to the 140-million pound rate. The plant can produce at that rate. It's more of the logistical issues of getting it out of the reactor and entering it into transportation or storage fast enough to keep the reactors turning over as fast that they possibly can. But we think we can probably get pretty close to that number.

And the other improvement is that the market has firmed up. We're sold out. We can sell every pound we can produce. So, as long as we can turn over those reactors, we can sell the product.

George Gaspar: Right. Now, there are other companies in the market on this biodiesel that are expanding their capacities. Is there possibility you're going to make a decision relatively soon to decide to extend yourself in this market to try to keep market or capture market share or is this still a distant decision?

James Hurlbutt: No, as I mentioned last quarter, we were very actively studying it and I can tell you that the flurry of activity has not abated at all. We're very serious, but we still think it's a viable opportunity.

The issues we're trying to make sure on now is – as I said, we got into this fairly inexpensively with existing equipment. When we go to a much larger-scale operation, we want to make sure we've got the right technology and the right logistical support to take the product away. And when you add - modifying or extending rail sidings, now, you're starting to add some more significant costs. So, we want to make sure we design a plant that is cost-effective.

And also, in the meantime, new market opportunities have been brought into consideration, as I said, in the electrical generation and some other markets. So, we want to make sure we've got the products for the customer base that we want to go after that will, be able sell out that capacity 12 months of the year.

George Gaspar: Okay.

James Hurlbutt: The timing, I can't commit to an exact timing of when we'll have a decision. We, certainly, in the next four to six weeks, hope to be trying to formalize what we want to do the engineering on and discuss it with the Board of Directors.

George Gaspar: Okay. And then, in the outlook comments that were in the release today, there was a discussion about increasing your sales prices to effect the increase in crude oil pricing. Does that suggest that your price, your increased pricing, is effectively taking into consideration this very recent blip that we've had in crude oil as opposed to, say, the average in the second quarter?

James Hurlbutt: Well, we had a lot of feedstock price increases announced by our suppliers effective for July 1st and, at that point in time, crude was already north of \$70.

So, the orthoxylene feedstock for the Phthalic anhydride and polyol business, we were well aware of and have tried to get that pushed through in July 1 price increases. And then, on the surfactant side, the linear alkylbenzene producers raised prices July 1 and we've got that on our price increase as well.

It's really a continuation of, really, the last 18 months of just constantly trying to maintain margins or make sure were recovering our higher raw material costs in the marketplace.

George Gaspar: Okay. And, then, just a general comment, at the last quarter conference call, there was an implication that earnings were going to be better going forward for the second quarter and this basically didn't materialize.

What about looking at giving some interim guidance as to company operations as opposed to waiting to disappoint at the time of the earnings release when something like that is going on?

James Hurlbutt: Well, the difficulty we have is that a large piece of the volatility was caused by deferred compensation. And, unfortunately, with that plan, it's entirely controlled by the marketplace. So, giving guidance on deferred compensation expense is nearly impossible given the uncertainties of the marketplace. And that's what really caught us this quarter - or at least of a big piece of the downturn - that we certainly, were not anticipating in the quarter coupled with the higher legal costs.

Some of the legal costs we were certainly aware of, but it was larger - some of them were certainly larger - than we anticipated. And then, we thought the downturn in the surfactant commodity volume, initially, we thought that it might be limited to the first quarter. We had preliminary indications it was inventory adjustments and other factors. It really wasn't until the full second quarter was well underway that it looked like the shortfall was going to continue, which we now would say we have reason to believe it will continue throughout the balance of the year.

George Gaspar: Okay. And then, one question on overall sales in the international area and your expansion programs, such as the fabric softener startup in the Philippines. And then, if you could comment on Brazil - on anything going on there? And then, you mentioned, about China getting up into potentially a profit mode in second half of the year.

What kind of sales volumes are we looking at in this Philippine situation and anything else that you're bringing about in either South America or China?

James Hurlbutt: Well, let's start in South America. We're adding a multipurpose reactor and the sales volumes initially were probably fairly small. What we're trying to do is penetrate some of the agricultural markets and specialty markets. We want to stay with higher-margin opportunities in those countries and not tie up a reactor or go after commodity-type products in that area.

So initially, today, with the base load business we have in Brazil, we've got roughly a breakeven operation that we would hope to certainly give us a profitable operation and then we could certainly add reactors thereafter. But the relative contribution to the company from Brazil would be relatively small, I think, in the near term.

In China, the whole idea was that we penetrate the polyol market. We would be capable of adding reactors down the road. So, the initial reactor, I believe, was a 20,000-ton reactor, which we would hope to have sold out within the next 12 to 18 months. But, again, it'd be a fairly modest profitability at that level, and then we would hope to be able to continue to grow with the Chinese markets. The strategy here is not an export product but to penetrate the Chinese and the Asian marketplace with polyols going into rigid insulation foams. But initially profitability will be fairly small to the total operation of the company but with the goal of building a more major market share in China.

And then, the Philippines. The fabric softener, the market in the Philippines, is an interesting dynamic. We got in primarily in commodity sulfonation and that was based on alcohol feedstocks. They were under pressure from the World Trade Organization to open up the market to linear alkylbenzene feedstocks. And once that happened, the market margins and prices plummeted dramatically. So, we went from making a nice profit in the Philippines to breaking even or having losses in the last six to eight months.

Fabric softener will be a totally different product line for the Philippines. Most of our sulfonation surfactants in the Philippines stayed in the Philippines. This is really going to be an export business. This supports Southeast Asia and we have commitment for the fabric softeners and we believe we'll be profitable next year in the Philippines with this product line.

George Gaspar: Okay. Is there a measure that you can give us of what your volume might be in terms of tonnage or poundage or whatever?

James Hurlbutt: For fabric softener in the Philippines?

George Gaspar: Yes.

James Hurlbutt: I don't remember. Let me get back on that, George, because I don't know the exact size of the reactor.

George Gaspar: Okay, thank you.

James Hurlbutt: Okay, thank you.

Operator: Our next question comes from of Sasha Kostadinov of Shaker Investments.

Please go ahead.

Sasha Kostadinov: Yes, hello. Thank you.

Can you comment on the 20-basis point improvement in gross margin during the quarter? Sequential.

James Hurlbutt: Pardon me?

Sasha Kostadinov: Sequential improvement.

James Hurlbutt: The major driver was the polymer group had two improvements. Their volumes started to improve over the first quarter and their profitability, or margins, have been in recovery mode of margin as they passed along higher raw material costs. So that certainly helped.

And surfactants has had a - the biodiesel contribution was minimal in the first quarter compared to the second quarter and that would probably be the biggest second factor - is the biodiesel volume contribution.

And really, our broader surfactant business has had a solid improvement in volume in the second quarter. It was the lower-margin commodity volume that declined. So the mix within surfactants has moved to a much more healthy mix.

Sasha Kostadinov: Okay. And do you expect kind of more similar sized improvements going forward in the gross margin in particular?

James Hurlbutt: I wouldn't expect the margin to improve significantly from this point. I think they would stay at this level based on this mix. We expect the commodity business to continue to be a little weak but be made up by the improved mix.

Sasha Kostadinov: Well, let me ask the question this way. Based on your natural gas hedging that you have in place now, what of kind of impact would that have on your margins if pricing, et cetera, nothing else changed?

James Hurlbutt: We'd be slightly better. We'll see some slight improvement.

Sasha Kostadinov: Can you give an order of magnitude? I mean, is it like a 20-basis point number?

James Hurlbutt: At the most. It probably wouldn't even be that large of an impact.

Sasha Kostadinov: Okay. And you mentioned that you're pretty close to presenting your Board with some engineering materials on your biodiesel expansion plans. Is it too early to give us a glimpse of, A, either the magnitude of the investment you're considering and/or the timing that it would take to realize such an investment?

James Hurlbutt: Well, the construction time for something like this would typically be at least a 12-month lead time from the time we give the green light to go. In terms of the magnitude, I guess I can share with you that most biodiesel facilities built by other parties are anywhere from \$20 million to \$50 million. We certainly would hope to do something for less than that kind of money, but we're certainly looking at alternatives that include fairly sizeable dollars.

Sasha Kostadinov: And one other question. The expenses that you refer to due to deferred compensation expenses that were tied to your share price, what expense line item does that fall in? Or does it get spread?

James Hurlbutt: It's in the administrative expense line.

Sasha Kostadinov: All in administrative expense?

James Hurlbutt: Yes.

Sasha Kostadinov: Okay.

James Hurlbutt: In the press release, we broke it out separately. We split admin just so that everybody could see what the composition was.

Sasha Kostadinov: Okay. All right, thanks.

James Hurlbutt: Sure. Thank you.

Operator: Our next question comes from the line of John Roberts of Buckingham please go ahead.

John Roberts: Good afternoon, Jim.

James Hurlbutt: Hi, John.

John Roberts: Jim, you were optimistic about volume in the second half for the polymers business. Are you optimistic about North America and Europe?

James Hurlbutt: Are you speaking to polymers or surfactants now?

John Roberts: Polymers.

James Hurlbutt: In polymers, yes, the volume in polymers we're feeling pretty good about for the second half of this year.

John Roberts: What gives you optimism in North American and Europe?

James Hurlbutt: Just the feedback from our customers. Again, not being tied to residential construction, but being primarily in commercial, there seems to be a pent-up demand for roof replacements and the improved energy efficiency of thicker insulation on the top of the flat roofs.

John Roberts: Okay. And, secondly, in the surfactants business in North America, do you know how much extra capacity that customers still have to take business back? Are they near full up or could this go on for quite a while?

James Hurlbutt: You know, we don't think there's significant excess capacity. There's capacity in the industry. But in the customers themselves it's probably not where most of the excess capacity is, it's probably out on the merchant producer market.

John Roberts: And the business that has been taken back by customers recently -- at least you pointed to some in-sourcing back into captive production. What's driving that? I mean, their cost of raw materials shouldn't be substantially different than yours.

James Hurlbutt: Well, assuming they do have excess capacity, it's an incremental decision to them. Obviously they are going to incur the variable cost and not incur the toll fee they incur with us. So, it'd be just a cash savings opportunity then to maximize the production in their own internal manufacturing facilities.

John Roberts: Okay. But they could have done that last year just because they're under more pressure overall?

James Hurlbutt: I can't speak to that because I don't know where their constraints were in their production facilities.

John Roberts: Okay. All right, thank you.

Operator: Our next question is a follow up question from the line of George Gaspar of Robert W. Baird.

Please just go ahead.

George Gaspar: Thank you.

Jim, just back on the earnings outlook guidance -- and maybe, you've touched on this -- are there any particular reductions in cost structure compared to what incurred in the second quarter that you could cite for us.

James Hurlbutt: We don't anticipate as much of a legal expense cost to continue in the second half. The pension plan changes we implemented -- I just remind you, we froze our pension plan June 30 -- incurred significant legal consulting costs to complete that process.

The upside to that, though, is that, longer-term, we won't see any near-term significant savings in pension costs as we replaced it with a defined contribution plan. But the volatility of that cost should smooth out and, over time, decline. But yes, we don't expect to incur the repeat legal consulting costs that we had in the first half. And we continue to look for cost savings opportunities throughout the system.

George Gaspar: Anything on the environmental side that can positively impact or negatively impact in the coming quarter?

James Hurlbutt: We don't have any significant new developments in any of our environmental sites. No, I can't identify anything specific that would give us an upside or a down side in the second half.

George Gaspar: Okay. All right, thank you.

James Hurlbutt: Thanks, George.

Operator: Ladies and gentlemen, as a reminder, to register a question, please press the 1 followed by the 4 on your telephone.

We seem to have no further questions at this moment, so I'll turn the call back to you, sir.

James Hurlbutt: Okay, I just wish to thank everybody for participating in our call today.

Thank you.

Operator:

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.

Thank you and have a great day.

END