WEST PHARMACEUTICAL SERVICES INC
Form 10-Q
August 06, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

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 1-8036

WEST PHARMACEUTICAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-1210010 (I.R.S. Employer Identification Number)
101 Gordon Drive, PO Box 645, Lionville, PA (Address of principal executive offices)	19341-0645 (Zip Code)

Registrant’s telephone number, including area code: 610-594-2900

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of July 31, 2012, there were 34,034,189 shares of the Registrant’s common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
West Pharmaceutical Services, Inc. and Subsidiaries
(In millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net sales	$ 324.8	$ 307.9	$ 641.1	$ 603.3
Cost of goods and services sold	226.1	223.3	441.3	430.7
Gross profit	98.7	84.6	199.8	172.6
Research and development	8.2	7.3	16.5	14.2
Selling, general and administrative expenses	54.4	46.4	105.7	97.1
Restructuring and other items (Note 2)	0.5	3.1	0.3	4.8
Operating profit	35.6	27.8	77.3	56.5
Loss on debt extinguishment	11.6	-	11.6	-
Interest expense	4.6	4.6	8.8	9.3
Interest income	0.6	0.3	1.0	0.5
Income before income taxes	20.0	23.5	57.9	47.7
Income tax expense	6.5	5.3	16.4	11.3
Equity in net income of affiliated companies	2.1	1.9	3.3	3.3
Net income	$ 15.6	$ 20.1	$ 44.8	$ 39.7
Net income per share:				
Basic	$ 0.46	$ 0.60	$ 1.32	$ 1.18
Diluted	$ 0.45	$ 0.57	$ 1.27	$ 1.13
Weighted average shares outstanding:				
Basic	34.0	33.6	33.9	33.5
Diluted	36.6	37.0	36.9	36.9
Dividends declared per share	$ 0.18	$ 0.17	$ 0.36	$ 0.34

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
West Pharmaceutical Services, Inc. and Subsidiaries
(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$ 15.6	$ 20.1	$ 44.8	$ 39.7
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(29.4)	10.2	(17.2)	31.5
Defined benefit pension and other postretirement plan adjustments, net of tax of $0.8, $0.3, $1.4 and $0.4, respectively	1.5	0.6	2.3	0.5
Net losses on derivatives, net of tax of $(1.5), $(0.4), $(1.5) and $(0.6), respectively	(2.4)	(0.5)	(2.4)	(1.3)
Other comprehensive (loss) income, net of tax	(30.3)	10.3	(17.3)	30.7
Comprehensive (loss) income	$ (14.7)	$ 30.4	$ 27.5	$ 70.4

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
West Pharmaceutical Services, Inc. and Subsidiaries
(In millions)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash, including cash equivalents	$ 107.0	$ 91.8
Short-term investments	25.5	26.5
Accounts receivable, net	185.0	147.2
Inventories	159.2	151.8
Deferred income taxes	7.4	7.9
Other current assets	32.9	46.8
Total current assets	517.0	472.0
Property, plant and equipment	1,185.4	1,136.8
Less accumulated depreciation and amortization	565.1	543.2
Property, plant and equipment, net	620.3	593.6
Investments in affiliated companies	57.5	56.2
Goodwill	110.0	111.5
Deferred income taxes	84.0	85.1
Intangible assets, net	49.5	52.0
Other noncurrent assets	24.5	28.7
Total Assets	$ 1,462.8	$ 1,399.1
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable and other current debt	$ 89.1	$ 50.1
Accounts payable	85.6	89.8
Pension and other postretirement benefits	2.3	2.3
Accrued salaries, wages and benefits	48.3	45.0
Income taxes payable	14.8	7.8
Taxes other than income	8.5	9.5
Other current liabilities	71.6	38.7
Total current liabilities	320.2	243.2
Long-term debt	296.4	299.3
Deferred income taxes	19.3	21.6
Pension and other postretirement benefits	112.3	126.0
Other long-term liabilities	35.1	54.1
Total Liabilities	783.3	744.2
Commitments and contingencies (Note 12)		
Total Equity	679.5	654.9
Total Liabilities and Equity	$ 1,462.8	$ 1,399.1

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)
West Pharmaceutical Services, Inc. and Subsidiaries
(In millions)

	Common Shares Issued	Common Stock	Capital in Excess of Par Value	Number of Treasury Shares	Treasury Stock	Retained earnings	Accumulated other comprehensive loss	Total
Balance, December 31, 2011	34.3	$ 8.6	$ 76.3	(0.6)	$ (23.0)	$ 664.5	$ (71.5)	$ 654.9
Net income						44.8		44.8
Stock-based compensation			4.8					4.8
Shares issued under stock plans			(7.6)	0.3	12.2			4.6
Shares repurchased for employee tax withholdings					(2.2)			(2.2)
Excess tax benefit from employee stock plans			2.1					2.1
Dividends declared						(12.2)		(12.2)
Other comprehensive loss, net of tax							(17.3)	(17.3)
Balance, June 30, 2012	34.3	$ 8.6	$ 75.6	(0.3)	$ (13.0)	$ 697.1	$ (88.8)	$ 679.5

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
West Pharmaceutical Services, Inc. and Subsidiaries
(In millions)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	$ 44.8	$ 39.7
Depreciation	35.2	36.5
Amortization	2.2	2.3
Loss on debt extinguishment	11.6	-
Asset impairment charges	3.8	0.7
Other non-cash items, net	4.7	2.7
Changes in assets and liabilities	(36.3)	(32.7)
Net cash provided by operating activities	66.0	49.2
Cash flows from investing activities:		
Capital expenditures	(69.4)	(37.8)
Acquisition of patents and other long-term assets	(0.1)	(0.4)
Sales (purchases) of short-term investments, net	1.3	(14.6)
Other, net	0.4	0.6
Net cash used in investing activities	(67.8)	(52.2)
Cash flows from financing activities:		
Borrowings under revolving credit agreements, net	198.6	6.0
Payment of long-term debt	(165.6)	-
Debt issuance costs	(6.2)	(0.3)
Changes in other debt	(0.1)	(0.5)
Dividend payments	(12.2)	(11.4)
Excess tax benefit from employee stock plans	2.1	3.1
Shares repurchased for employee tax withholdings	(2.2)	(3.5)
Issuance of common stock from treasury	4.0	3.9
Net cash provided by (used in) financing activities	18.4	(2.7)
Effect of exchange rates on cash	(1.4)	5.9
Net increase in cash and cash equivalents	15.2	0.2
Cash, including cash equivalents at beginning of period	91.8	110.2
Cash, including cash equivalents at end of period	$ 107.0	$ 110.4

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation: The condensed consolidated financial statements included in this report are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial reporting and Securities and Exchange Commission ("SEC") regulations. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. In the opinion of management, these financial statements include all adjustments, which are of a normal recurring nature, necessary for a fair statement of the financial position, results of operations, cash flows and the change in equity for the periods presented. The condensed consolidated financial statements for the three and six month periods ended June 30, 2012 should be read in conjunction with the consolidated financial statements and notes thereto of West Pharmaceutical Services, Inc. (which may be referred to as "West", "the Company", "we", "us" or "our"), appearing in our Annual Report on Form 10-K for the year ended December 31, 2011 ("2011 Annual Report"). The results of operations for any interim period are not necessarily indicative of results for the full year.

Reclassifications: Certain reclassifications were made to prior period financial statements to conform to the current year presentation.

Note 2: Restructuring and Other Items

Restructuring and other items consisted of:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2012	2011	2012	2011
Restructuring and related charges:				
Severance and post-employment benefits	$ (0.2)	$ 0.3	$ (0.2)	$ 1.7
Impairments and asset write-offs	0.3	0.4	0.4	0.7
Other restructuring charges	0.2	0.6	0.5	0.8
Total restructuring and related charges	0.3	1.3	0.7	3.2
Impairment charge	3.4	-	3.4	-
Development income	(3.8)	-	(3.8)	-
Acquisition-related contingencies	0.2	(0.7)	0.4	(0.7)
Special separation benefits	-	2.1	-	2.1
Foreign exchange and other	0.4	0.4	(0.4)	0.2
Total restructuring and other items	$ 0.5	$ 3.1	$ 0.3	$ 4.8

Restructuring and Related Charges

Total restructuring and related charges incurred during the three and six months ended June 30, 2012 and 2011 were associated with the restructuring plan announced in December 2010. These charges consist of costs associated with the 2011 closure of a plant in the United States and a reduction of operations at a manufacturing facility in England. We currently expect to incur additional charges related to the 2010 plan of approximately $1.2 million during the remainder of 2012, the majority of which represents cash expenditures for severance and other costs to complete the

planned actions.

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The following table presents activity related to our restructuring obligations during the six months ended June 30, 2012:

($ in millions)	Severance and benefits	Other Costs	Total
Balance, December 31, 2011	$ 6.2	$ 0.6	$ 6.8
Charges	(0.2)	0.9	0.7
Cash payments	(1.7)	(0.8)	(2.5)
Non-cash adjustment	-	(0.4)	(0.4)
Balance, June 30, 2012	$ 4.3	$ 0.3	$ 4.6

Other Items

During the second quarter of 2012, as a result of continuing delays and lower-than-expected demand, we updated the sales projections related to one of our product lines in our Pharmaceutical Delivery Systems segment ("Delivery Systems"). The revised projections triggered an impairment review of the associated assets. Our review concluded that the estimated fair value of the product no longer exceeded the carrying value of the related assembly equipment and intangible asset and, therefore, an impairment charge of $3.4 million was recorded during the second quarter of 2012. We estimated the fair value of the asset group using an income approach based on discounted cash flows.

Development income recorded in the second quarter of 2012 was attributable to services provided to, and the reimbursement of certain costs from, a Delivery Systems' customer.

The liability for contingent consideration related to our 2010 acquisition of technology used in our SmartDose™ electronic patch injector system ("SmartDose contingent consideration") increased by $0.2 million and $0.4 million during the three and six months ended June 30, 2012, respectively, due to accretion expense.

During the second quarter of 2011, we reduced the contingent consideration liability related to the July 2009 acquisition of the eris™ safety syringe system ("eris contingent consideration") by $0.8 million, bringing the liability to zero at June 30, 2011. Partially offsetting this reduction was accretion expense related to our SmartDose contingent consideration.

In addition, during the second quarter of 2011, we incurred $2.1 million in special separation benefits related to the retirement of our former President and Chief Operating Officer. These costs consisted primarily of stock-based compensation expense. The respective equity compensation arrangements were amended to allow certain of his awards to continue to vest over the original vesting period instead of being forfeited upon separation, resulting in a revaluation of the awards and acceleration of expense.

Note 3: Income Taxes

The tax provision for interim periods is determined using the estimated annual effective consolidated tax rate, based on the current estimate of full-year earnings before taxes, adjusted for the impact of discrete quarterly items. For the three and six months ended June 30, 2012, our effective tax rate was 32.7% and 28.4% respectively, compared with 22.5% and 23.7% for the same periods in 2011. The increase in the effective tax rate for both periods presented primarily reflects changes in our geographic mix of earnings and the nondeductibility of the purchase premium paid related to the extinguishment of our convertible debt. In addition, during the first quarter of 2012, we recorded a discrete tax charge of $0.3 million due to the reduction of deferred tax assets associated with the legal restructuring of the ownership of our Puerto Rico operations. During the six months ended June 30, 2011, we recorded a discrete tax

charge of $0.2 million, resulting from the impact of changes in tax laws in certain foreign tax jurisdictions on our deferred tax balances.

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Because we are a global organization, we and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. During 2011, the statute of limitations for the 2007 U.S. federal tax year lapsed, leaving tax years 2008 through 2011 open to examination. For U.S. state and local jurisdictions, tax years 2007 through 2011 are open to examination. We are also subject to examination in various foreign jurisdictions for tax years 2005 through 2011.

It is reasonably possible that, due to the expiration of statutes and the closing of tax audits, the liability for unrecognized tax benefits may be reduced by approximately $0.3 million during the next twelve months, which would favorably impact our effective tax rate. Accrued interest and penalties related to unrecognized tax benefits was $0.5 million and $0.4 million at June 30, 2012 and December 31, 2011, respectively.

Note 4: Derivative Financial Instruments

Our ongoing business operations expose us to various risks such as fluctuating interest rates, foreign exchange rates and increasing commodity prices. To manage these market risks, we periodically enter into derivative financial instruments such as interest rate swaps, options and foreign exchange contracts for periods consistent with and for notional amounts equal to or less than the related underlying exposures. We do not purchase or hold any derivative financial instruments for speculation or trading purposes. All derivatives are recorded on the balance sheet at fair value.

Interest Rate Risk

During the second quarter of 2012, we entered into two forward treasury lock agreements for a total notional amount of $160.0 million, to protect against changes in the benchmark 10-year Treasury rate during the 30-60 day period leading up to the issuance date of 10-year fixed-rate debt. We designated these treasury locks as cash flow hedges. On June 19, 2012, the pricing for our private placement debt (refer to Note 14, Subsequent Events) was finalized and accordingly, we terminated both treasury lock agreements, resulting in a $4.6 million settlement payment made by us. The amounts which are reflected in accumulated other comprehensive income will be expensed over the life of the fixed-rate debt.

In February 2011, we exercised an option to purchase our new corporate office and research building. In connection with this, we expect that, during the first quarter of 2013, we will borrow $43.0 million pursuant to a five-year term loan with a variable interest rate. In anticipation of this debt, we entered into a forward-start interest rate swap with the same notional amount in order to hedge the variability in cash flows due to changes in the applicable interest rate over the five-year period beginning January 2013. Under this swap, we will receive variable interest rate payments based on one-month London Interbank Offering Rates ("LIBOR") plus a margin in return for making monthly fixed interest payments at 5.41%. We designated the forward-start interest rate swap as a cash flow hedge.

In addition, we have two interest rate swap agreements outstanding as of June 30, 2012, that are designated as cash flow hedges to protect against volatility in the interest rates payable on our $50.0 million note that matured on July 28, 2012 ("Series A Note") and our $25.0 million note maturing on July 28, 2015 ("Series B Note"). Under both of these swaps, we receive variable interest rate payments based on three-month LIBOR in return for making quarterly fixed rate payments. Including the applicable margin, the interest rate swap agreements effectively fix the interest rates payable on the Series A and B notes at 5.32% and 5.51%, respectively.

Foreign Exchange Rate Risk

As described in more detail below, during the first six months of 2012, we entered into several foreign currency hedge contracts that were designated as cash flow hedges of forecasted transactions denominated in foreign currencies.

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We entered into a series of foreign currency contracts intended to hedge the currency risk associated with a portion of our forecasted Japanese Yen ("JPY") denominated purchases of inventory from Daikyo Seiko Ltd. ("Daikyo") made by West in the United States. As of June 30, 2012, there were six monthly contracts outstanding at ¥110.6 million ($1.4 million) each, for an aggregate notional amount of ¥663.6 million ($8.4 million).

We also entered into a series of foreign currency contracts to hedge the currency risk associated with a portion of our forecasted U.S. dollar ("USD") denominated inventory purchases made by certain European subsidiaries. As of June 30, 2012, there were six monthly contracts outstanding at approximately $1.0 million each, for an aggregate notional amount of $6.2 million.

In addition we entered into a series of foreign currency contracts to hedge the currency risk associated with a portion of our forecasted JPY denominated inventory purchases made by certain European subsidiaries. As of June 30, 2012, there were six monthly contracts outstanding at ¥52.7 million each (approximately $0.7 million), for an aggregate notional amount of ¥316.5 million ($4.0 million).

A portion of our debt consists of borrowings denominated in currencies other than the U.S. dollar. We designated our €81.5 million Euro-denominated notes as a hedge of our net investment in certain European subsidiaries. A cumulative foreign currency translation loss of $1.5 million pre-tax ($0.9 million after tax) on this debt was recorded within accumulated other comprehensive loss as of June 30, 2012. We have also designated our ¥500.0 million Yen-denominated note payable as a hedge of our net investment in a Japanese affiliate. At June 30, 2012, there was a cumulative foreign currency translation loss on this Yen-denominated debt of $0.9 million pre-tax ($0.5 million after tax) which was also included within accumulated other comprehensive loss.

Commodity Price Risk

Many of our Packaging Systems products are made from synthetic elastomers, which are derived from the petroleum refining process. We purchase the majority of our elastomers via long-term supply contracts, some of which contain clauses that provide for surcharges related to fluctuations in crude oil prices. The following economic hedges did not qualify for hedge accounting treatment since they did not meet the highly effective requirement at inception.

In May 2012, we purchased a series of call options for a total of 45,100 barrels of crude oil, intended to mitigate our exposure to such oil-based surcharges and protect operating cash flows with regard to a portion of our forecasted elastomer purchases during the months of July through October 2012. With these contracts we may benefit from a decline in crude oil prices, as there is no downward exposure other than the $0.1 million premium that we paid to purchase the contracts.

During the three and six month periods ended June 30, 2012, a loss of $0.1 million was recorded in cost of goods and services sold related to these outstanding call options. During the three and six month periods ended June 30, 2011, a loss of $0.2 million and a gain of $0.7 million, respectively, was recorded in cost of goods and services sold relating to 2011 crude-oil options.

Effects of Derivative Instruments on Financial Position and Results of Operations

Refer to Note 5, Fair Value Measurements, for the balance sheet location and fair values of our derivative instruments as of June 30, 2012 and December 31, 2011.

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The following tables summarize the effects of derivative instruments designated as hedges on other comprehensive income ("OCI") and earnings:

	Amount of Gain (Loss) Recognized in OCI for Three Months Ended June 30,		Amount of (Gain) Loss Reclassified from Accumulated OCI into Income for Three Months Ended June 30,		Location of Gain (Loss) Reclassified from Accumulated OCI into Income
($ in millions)	2012	2011	2012	2011	
Cash Flow Hedges:					
Foreign currency hedge contracts	$ -	$ (0.2)	$ -	$ 0.2	Net sales
Foreign currency hedge contracts	0.6	0.2	-	-	Cost of goods and services sold
Interest rate swap contracts	(1.0)	(1.5)	0.8	0.8	Interest expense
Forward treasury lock	(2.8)	-	-	-	Interest expense
Total	$ (3.2)	$ (1.5)	$ 0.8	$ 1.0	
Net Investment Hedges:					
Foreign currency-denominated debt	$ 4.1	$ (1.6)	$ -	$ -	Foreign exchange and other
Total	$ 4.1	$ (1.6)	$ -	$ -	

	Amount of Gain (Loss) Recognized in OCI for Six Months Ended June 30,		Amount of (Gain) Loss Reclassified from Accumulated OCI into Income for Six Months Ended June 30,		Location of Gain (Loss) Reclassified from Accumulated OCI into Income
($ in millions)	2012	2011	2012	2011	
Cash Flow Hedges:					
Foreign currency hedge contracts	$ -	$ (0.5)	$ -	$ 0.2	Net sales
Foreign currency hedge contracts	0.3	(0.6)	-	-	Cost of goods and services sold
Interest rate swap contracts	(1.4)	(2.0)	1.5	1.6	Interest expense
Forward treasury lock	(2.8)	-	-	-	Interest expense
Total	$ (3.9)	$ (3.1)	$ 1.5	$ 1.8	
Net Investment Hedges:					
Foreign currency-denominated debt	$ 2.4	$ (5.8)	$ -	$ -	Foreign exchange and other
Total	$ 2.4	$ (5.8)	$ -	$ -	

For the three and six month periods ended June 30, 2012 and 2011, there was no ineffectiveness related to our cash flow and net investment hedges.

Note 5: Fair Value Measurements

We define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The following fair value hierarchy classifies the inputs to valuation techniques used to measure fair value into one of three levels:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

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- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The following tables present, by level within the fair value hierarchy, certain of our financial assets and liabilities:

($ in millions)	Balance at June 30, 2012	Basis of Fair Value Measurements Level 1	Level 2	Level 3
Assets:				
Short-term investments	$25.5	$25.5	$-	$-
Deferred compensation assets	3.6	3.6	-	-
Foreign currency contracts	0.5	-	0.5	-
	$29.6	$29.1	$0.5	$-
Liabilities:				
Contingent consideration	$2.5	$-	$-	$2.5
Deferred compensation liabilities	6.0	6.0	-	-
Interest rate swap contracts	8.6	-	8.6	-
Long-term debt	299.3	-	299.3	-
	$316.4	$6.0	$307.9	$2.5

($ in millions)	Balance at December 31, 2011	Basis of Fair Value Measurements Level 1	Level 2	Level 3
Assets:				
Short-term investments	$26.5	$26.5	$-	$-
Deferred compensation assets	3.3	3.3	-	-
	$29.8	$29.8	$-	$-
Liabilities:				
Contingent consideration	$2.1	$-	$-	$2.1
Deferred compensation liabilities	4.6	4.6	-	-
Interest rate swap contracts	8.8	-	8.8	-
Long-term debt	279.2	-	279.2	-
	$294.7	$4.6	$288.0	$2.1

Short-term investments, which are comprised of certificates of deposit and mutual funds, are valued using a market approach based on quoted market prices in an active market. Deferred compensation assets are included within other current assets and are also valued using a market approach based on quoted market prices in an active market.

The fair value of deferred compensation liabilities is based on quoted prices of the underlying employees' investment selections and is included within other long-term liabilities. The fair value of our foreign currency contracts is included within other current assets is valued using an income approach based on quoted forward foreign exchange rates and spot rates at the reporting date. Interest rate swaps are valued using a discounted cash flow analysis based on the terms of the contract and observable market inputs (i.e. LIBOR, Eurodollar forward rates and swap spreads). Refer to Note 4, Derivative Financial Instruments, for further discussion of our derivatives.

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Quoted market prices are used to estimate the fair value of publicly traded long-term debt. The fair value of debt that is not quoted on an exchange is estimated using a discounted cash flow method based on interest rates that are currently available to us for debt issuances with similar terms and maturities. The carrying amount of long-term debt was $296.4 million and $299.3 million at June 30, 2012 and December 31, 2011, respectively.

Level 3 Fair Value Measurements

The fair value of the SmartDose contingent consideration was determined at the acquisition date using a probability-weighted income approach, and is revalued at each reporting date or more frequently if circumstances dictate. Changes in the fair value of this obligation are recorded as income or expense within restructuring and other items in our condensed consolidated statements of income. The significant unobservable inputs used in the fair value measurement of our contingent consideration are the sales projections, the discount rate and the actuarial adjustment factor used in the calculation. Significant increases or decreases in any of those inputs in isolation would result in a significantly lower or higher fair value measurement. As development and commercialization of our SmartDose electronic patch injector system progresses, we may need to update the sales projections and discount rate used. This could result in an increase to the contingent consideration liability.

The following table provides a summary of changes in our Level 3 fair value measurements:

	($ in millions)
Balance, December 31, 2011	$ 2.1
Increase in fair value recorded in earnings	0.4
Balance, June 30, 2012	$ 2.5

Refer to Note 2, Restructuring and Other Items, for further discussion of acquisition-related contingencies.

Other Financial Instruments

We believe that the carrying amounts of our cash and cash equivalents, accounts receivable and short-term borrowings approximate their fair values due to their near-term maturities.

Note 6: Inventories

Inventories are valued at the lower of standard cost (which approximates actual cost on a first-in-first-out basis) or market. Inventory balances were as follows:

($ in millions)	June 30, 2012	December 31, 2011
Finished goods	$ 65.3	$ 67.1
Work in process	25.3	19.6
Raw materials	68.6	65.1
	$ 159.2	$ 151.8

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Note 7: Debt

The following table summarizes our long-term debt obligations, net of current maturities:

($ in millions)	June 30, 2012	December 31, 2011
Revolving credit facility, due 2017	$ 204.9	$ -
Revolving credit facility, due 2014	-	6.4
Series A floating rate notes, due 2012	50.0	50.0
Series B floating rate notes, due 2015	25.0	25.0
Euro note A, due 2013	25.4	26.3
Euro note B, due 2016	76.2	79.0
Convertible debt, due 2047	3.1	161.5
Term loan, due 2014	0.2	0.2
Capital leases, due through 2016	0.7	1.0
	385.5	349.4
Less: current portion of long-term debt	89.1	50.1
	$ 296.4	$ 299.3

Please refer to Note 11, Debt, to the consolidated financial statements in our 2011 Annual Report for additional details regarding our debt agreements.

During the first quarter of 2012, we reclassified our €20.4 million Euro note A due February 2013 from long-term debt to notes payable and other current debt, as it is expected to be funded within twelve months.

On April 27, 2012, we entered into a senior unsecured, multi-currency revolving credit facility agreement (the "New Credit Agreement") that replaced our prior $225.0 million revolving credit facility, which was scheduled to expire in June 2014. The New Credit Agreement, which expires in April 2017, contains a $300.0 million committed credit facility and an accordion feature allowing the maximum to be increased through a term loan to $350.0 million upon approval by the banks. Up to $30.0 million of the credit facility is available for swing-line loans and up to $30.0 million is available for the issuance of letters of credit. Borrowings under the revolving credit facility bear interest at a rate equal to LIBOR plus a margin ranging from 1.25 to 2.25 percentage points, which is based on the ratio of our senior debt to modified earnings before interest, taxes, depreciation and amortization ("EBITDA"). Consistent with our previous revolving credit facility, the New Credit Agreement contains representations and covenants that require compliance with, among other restrictions, a maximum leverage ratio and a minimum interest coverage ratio. The New Credit Agreement also contains usual and customary default provisions, limitations on liens securing indebtedness, asset sales, distributions and acquisitions. In connection with this agreement, we incurred lender and other third party costs of $1.4 million which are recorded in other noncurrent assets and are being amortized as additional interest expense over the term of the facility. In accordance with U.S. GAAP, the remaining $0.8 million of unamortized debt issuance costs associated with the prior credit facility will continue to be amortized over the term of the new facility. At June 30, 2012, we had $204.9 million in outstanding borrowings under this facility, of which $13.6 million was classified as short-term based upon our intent to repay this portion within the next twelve months. Borrowings of $191.3 million were classified as long-term based upon our intent and ability to continue the loans beyond one year.

On June 11, 2012, we repurchased $158.4 million in aggregate principal amount of our 4.00% Convertible Junior Subordinated Debentures due 2047 (the "Convertible Debentures"), representing 98.06% of the aggregate outstanding

principal amount. The purchase price per $1,000 principal amount of the Convertible Debentures was $1,038.91. Following the repurchase, approximately $3.1 million principal amount of Convertible Debentures remained outstanding. During the three and six months ended June 30, 2012, we recognized a loss on debt extinguishment of $11.6 million related to this repurchase, which consisted of a $6.2 million premium over par value, $4.4 million write-off of unamortized debt issuance costs and $1.0 million in transaction costs.

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Note 8: Net Income Per Share

The following table reconciles net income and shares used in the calculation of basic net income per share to those used for diluted net income per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2012	2011	2012	2011
Net income, as reported, for basic net income per share	$ 15.6	$ 20.1	$ 44.8	$ 39.7
Plus: interest expense on convertible debt, net of tax	0.8	1.1	1.9	2.1
Net income for diluted net income per share	$ 16.4	$ 21.2	$ 46.7	$ 41.8
Weighted average common shares outstanding	34.0	33.6	33.9	33.5
Assumed stock options exercised and awards vested, based on the treasury stock method	0.5	0.5	0.5	0.5
Assumed conversion of convertible debt, based on the if-converted method	2.1	2.9	2.5	2.9
Weighted average shares assuming dilution	36.6	37.0	36.9	36.9

Options to purchase 0.6 million and 1.0 million shares of our common stock for the three months ended June 30, 2012 and 2011, respectively, were not included in the computation of diluted net income per share because their impact would be antidilutive. There were 1.7 million and 1.2 million antidilutive options outstanding during the six month periods ended June 30, 2012 and 2011, respectively.

Note 9: Stock-Based Compensation

At June 30, 2012, there were 3,995,034 shares remaining in the 2011 Omnibus Incentive Compensation Plan (the “2011 Plan”) for future grants. The 2011 Plan provides for the granting of stock options, stock appreciation rights, restricted stock awards and performance awards to employees and non-employee directors. The Compensation Committee of the Board of Directors determines the terms and conditions of awards to be granted. Vesting requirements vary by award.

In the first quarter of 2012, we granted 545,085 stock options at a weighted average exercise price of $42.44 per share based on the grant-date fair value of our stock to key employees under the 2011 Plan. Stock options granted to employees vest in equal annual increments over four years of continuous service. All awards expire ten years from the date of grant. The weighted average grant date fair value of options granted was $7.93 per share as determined by the Black-Scholes option valuation model using the following weighted average assumptions: a risk-free interest rate of 0.92%; expected life of 6 years based on prior experience; stock volatility of 23.3% based on historical data; and a dividend yield of 1.7%. Stock option expense is recognized over the vesting period, net of forfeitures.

In addition, during the first quarter of 2012, we granted 101,857 performance-vesting share (“PVS”) awards at a grant-date fair value of $42.44 per share to key employees under the 2011 Plan. Each PVS award entitles the holder to one share of our common stock if the annual growth rate of revenue and return on invested capital targets are achieved

over a three-year performance period. The actual payout may vary from 0% to 200% of an employee’s targeted award. The fair value of PVS awards was based on the market price of our stock at the grant date and is recognized as an expense over the performance period, adjusted for estimated target outcomes and net of forfeitures.

Total stock-based compensation expense was $4.3 million and $7.5 million for the three and six months ended June 30, 2012, respectively. For the three and six months ended June 30, 2011, total stock-based compensation expense was $3.2 million and $6.5 million, respectively, of which $2.1 million related to the retirement of our former President and Chief Operating Officer and was recorded within restructuring and other items for both periods. The remainder of the 2011 balances was recorded within selling, general and administrative expenses.

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Note 10: Benefit Plans

The components of net periodic benefit cost for the three months ended June 30 were as follows ($ in millions):

	Pension benefits		Other retirement benefits		Total	
	2012	2011	2012	2011	2012	2011
Service cost	$ 2.3	$ 2.4	$ 0.4	$ 0.3	$ 2.7	$ 2.7
Interest cost	3.8	4.4	0.2	0.2	4.0	4.6
Expected return on assets	(4.1)	(4.5)	-	-	(4.1)	(4.5)
Amortization of prior service credit	(0.4)	(0.4)	-	-	(0.4)	(0.4)
Recognized actuarial losses	2.2	1.4	-	-	2.2	1.4
Net periodic benefit cost	$ 3.8	$ 3.3	$ 0.6	$ 0.5	$ 4.4	$ 3.8

	Pension benefits		Other retirement benefits		Total	
	2012	2011	2012	2011	2012	2011
U.S. plans	$ 3.2	$ 2.7	$ 0.6	$ 0.5	$ 3.8	$ 3.2
International plans	0.6	0.6	-	-	0.6	0.6
Net periodic benefit cost	$ 3.8	$ 3.3	$ 0.6	$ 0.5	$ 4.4	$ 3.8

The components of net periodic benefit cost for the six months ended June 30 were as follows ($ in millions):

	Pension benefits		Other retirement benefits		Total	
	2012	2011	2012	2011	2012	2011
Service cost	$ 4.6	$ 4.8	$ 0.7	$ 0.6	$ 5.3	$ 5.4
Interest cost	7.7	7.9	0.5	0.5	8.2	8.4
Expected return on assets	(8.1)	(7.9)	-	-	(8.1)	(7.9)
Amortization of transition obligation	-	0.1	-	-	-	0.1
Amortization of prior service credit	(0.8)	(0.8)	-	-	(0.8)	(0.8)
Recognized actuarial losses	4.3	2.8	-	-	4.3	2.8
Net periodic benefit cost	$ 7.7	$ 6.9	$ 1.2	$ 1.1	$ 8.9	$ 8.0

	Pension benefits		Other retirement benefits		Total	
	2012	2011	2012	2011	2012	2011
U.S. plans	$ 6.4	$ 5.4	$ 1.2	$ 1.1	$ 7.6	$ 6.5

International plans	1.3	1.5	-	-	1.3	1.5
Net periodic benefit cost	$ 7.7	$ 6.9	$ 1.2	$ 1.1	$ 8.9	$ 8.0

During the first quarter of 2012, we contributed $17.2 million to the U.S. qualified pension plan.

Note 11: Segment Information

Our business operations are organized into two reportable segments, which are aligned with the underlying markets and customers they serve. Our reportable segments are the Pharmaceutical Packaging Systems segment ("Packaging Systems") and Delivery Systems. Packaging Systems develops, manufactures and sells primary packaging components and systems for injectable drug delivery, including stoppers and seals for vials, closures and other components used in syringe, intravenous and blood collection systems, and prefillable syringe components. Delivery Systems develops, manufactures and sells safety and administration systems, multi-component systems for drug administration, and a variety of custom contract-manufacturing solutions targeted to the healthcare and consumer-products industries. In addition, Delivery Systems is responsible for the continued development and commercialization of our line of proprietary, multi-component systems for injectable drug administration and other healthcare applications.

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Segment operating profit excludes general corporate costs, which include executive and director compensation, stock-based compensation, adjustments to annual incentive plan expense for over- or under-attainment, certain pension and other retirement benefit costs, and other corporate facilities and administrative expenses not allocated to the segments. Also excluded are items that management considers not representative of ongoing operations. Such items are referred to as other unallocated items and generally include restructuring and related charges, certain asset impairments and other specifically-identified income or expense items.

The following table presents information about our reportable segments, reconciled to consolidated totals:

($ in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net sales:				
Packaging Systems	$ 235.8	$ 222.2	$ 471.5	$ 438.0
Delivery Systems	89.2	86.4	169.9	166.9
Intersegment sales	(0.2)	(0.7)	(0.3)	(1.6)
Total net sales	$ 324.8	$ 307.9	$ 641.1	$ 603.3
Operating profit:				
Packaging Systems	$ 50.5	$ 38.1	$ 104.1	$ 80.1
Delivery Systems	5.5	2.4	7.8	4.2
Corporate	(16.5)	(10.0)	(30.1)	(23.2)
Other unallocated items	(3.9)	(2.7)	(4.5)	(4.6)
Total operating profit	$ 35.6	$ 27.8	$ 77.3	$ 56.5
Loss on debt extinguishment	11.6	-	11.6	-
Interest expense	4.6	4.6	8.8	9.3
Interest income	0.6	0.3	1.0	0.5
Income before income taxes	$ 20.0	$ 23.5	$ 57.9	$ 47.7

The intersegment sales elimination, which is required for the presentation of consolidated net sales, represents the elimination of components sold between our segments.

During the second quarter of 2012, in connection with our repurchase of 98.06% of our Convertible Debentures, we recognized a pre-tax loss on debt extinguishment of $11.6 million, which consisted of a $6.2 million premium over par value, $4.4 million write-off of unamortized debt issuance costs and $1.0 million in transaction costs. Refer to Note 7, Debt, for additional details.

Note 12: Commitments and Contingencies

From time to time, we are involved in product liability matters and other legal proceedings and claims generally incidental to our normal business activities. We accrue for loss contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. While the outcome of current proceedings cannot be accurately predicted, we believe their ultimate resolution should not have a material adverse effect on our business or financial position.

There have been no significant changes to the commitments and contingencies included in our 2011 Annual Report.

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Note 13: New Accounting Standards

Recently Adopted Standards

In September 2011, the Financial Accounting Standards Board ("FASB") issued guidance for the impairment testing of goodwill. The guidance permits an entity to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance was effective for us as of January 1, 2012 and will be considered when performing our annual goodwill impairment test. Management believes that the adoption of this guidance will not have a material impact on our financial statements.

In May 2011, the FASB issued guidance to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. It also changes certain fair value measurement principles and expands the disclosures for fair value measurements that are estimated using significant unobservable inputs. We adopted this guidance as of January 1, 2012, on a prospective basis. The adoption of this guidance did not have a material impact on our financial statements. Please refer to Note 5, Fair Value Measurements, for additional details.

Standards Issued Not Yet Adopted

In July 2012, the FASB issued guidance for the impairment testing of indefinite-lived intangible assets. The guidance permits an entity to first assess qualitative factors to determine whether it is more-likely-than-not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Management believes that the adoption will not have a material impact on our financial statements.

Note 14: Subsequent Events

On July 5, 2012, we concluded a private placement issuance of $168.0 million in senior unsecured notes. The total amount of the private placement issuance was divided into three tranches - $42.0 million 3.67% Series A Notes due July 5, 2022, $53.0 million 3.82% Series B Notes due July 5, 2024, and $73.0 million 4.02% Series C Notes due July 5, 2027 (the "Notes"). The Notes rank pari passu with our other senior unsecured debt. The proceeds from the issuance have reduced indebtedness under our revolving credit facility that was incurred to finance our repurchase of our Convertible Debentures discussed in Note 7, Debt. The weighted average of the coupon interest rates on the Notes is 3.87%. Related interest-rate hedging and transaction costs incurred increase the annual effective rate of interest on the Notes to an estimated 4.16%. Refer to Note 4, Derivative Financial Instruments, for additional discussion of the related interest rate hedge.

On July 30, 2012, we used a portion of our revolving credit facility to repay our $50.0 million Series A floating rate notes that matured on July 28, 2012.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS